



## Higher National Unit specification

### General information for centres

**Unit title:** Preparing Financial Statements

**Unit code:** F7JT 34

**Unit purpose:** This Unit is designed to enable candidates to prepare financial statements for a range of business organisations — sole traders, partnerships and companies. These organisations can be either traders or manufacturing concerns. Candidates will also prepare statement of cash flows and analyse accounting statements using appropriate accounting ratios for a limited company.

This Unit is primarily intended for candidates who expect to take up a career or further study in accounting and/or financial administration. It is also relevant to those with appropriate work experience who wish to formalise their financial accounting skills.

On completion of the Unit candidates should be able to:

- 1 Prepare financial statements for business organisations
- 2 Prepare financial statements, for a sole trader, from incomplete records
- 3 Prepare a statement of cash flows for a limited company
- 4 Analyse the financial statements of a limited company using accounting ratios

**Credit points and level:** 2 HN Credits at SCQF level 7: (16 SCQF credit points at SCQF level 7\*)

*\*SCQF credit 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 credit points at an SCQF level. There are 12 SCQF levels, ranging from Access 1 to Doctorates.*

**Recommended prior knowledge and skills:** Access to this Unit is at the discretion of the centre. However, candidates would normally be expected to have some prior knowledge of book-keeping. This could be demonstrated by achievement of the HN Unit *F7JV 34: Recording Financial Information* or similar qualification at SCQF level 6/7 prior to undertaking this Unit.

**Core Skills:** Achievement of this Unit gives automatic certification of the following:

- ◆ Using Number at SCQF level 5

**Context for delivery:** If this Unit is delivered as part of a Group Award, it is recommended that it should be taught and assessed within the subject area of the Group Award to which it contributes.

## General information for centres (cont)

**Assessment:** This Unit could be assessed by four separate assessments. However, it is recommended that Outcomes 3 and 4 be assessed together.

An exemplar instrument of assessment and marking guidelines have been produced to show the national standard of achievement required at SCQF level 7.

Since the Using Number component of the *Numeracy* Core Skill at SCQF level 5 is embedded in this Unit, it is strongly recommended that you follow the assessment guidelines given. If you wish to use a different assessment model, you should seek prior moderation of the assessment instrument(s) you intend to use to ensure that the Core Skill is still covered.

## Higher National Unit specification: statement of standards

**Unit title:** Preparing Financial Statements

**Unit code:** F7JT 34

The sections of the Unit stating the Outcomes, Knowledge and/or Skills, and Evidence Requirements are mandatory.

### Outcome 1

Prepare financial statements for business organisations

#### Knowledge and/or Skills

- ◆ Business organisations
- ◆ Income statements
- ◆ Statement of financial position
- ◆ Adjustments to the financial statements

#### Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can:

- ◆ Prepare an income statement, a statement of financial position and a statement of changes in equity from a year end trial balance, for either a partnership or limited company operating as a trader or manufacturer.
- ◆ Incorporate a minimum of **eight** different year end adjustments (appropriate to the type of business) into the accounts, from the following: straight line depreciation, reducing balance depreciation, irrecoverable debts, allowance for irrecoverable debts, other payables, other receivables, closing inventory, dividends, debenture interest, corporation tax, transfer to reserve, drawings, interest on capital, interest on drawings, partnership salaries.

The evidence should be generated under supervised conditions with access restricted to a pro forma layout for the relevant set of financial statements only.

The figures must be accurate within a tolerance of three arithmetic or computational errors with a maximum of four errors of principle.

#### Assessment Guidelines

It is recommended that the assessment of this Outcome be completed within one and a half hours. The assessment should be presented as a trial balance, with a minimum of eight year end adjustments, for either a partnership or limited company (for internal use) operating as either a trader or manufacturer. From this information candidates should prepare an income statement and statement of financial position.

It is strongly recommended that a different type of business organisation be used each time the Outcome is assessed.

## **Higher National Unit specification: statement of standards (cont)**

**Unit title:** Preparing Financial Statements

### **Outcome 2**

Prepare financial statements, for a sole trader, from incomplete records

#### **Knowledge and/or skills**

- ◆ Opening statement of financial position
- ◆ Statement of affairs
- ◆ Receipts and payments
- ◆ Revenues and expenses
- ◆ Income statement and statement of financial position

#### **Evidence requirements**

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can:

- ◆ Prepare an opening statement of financial position/statement of affairs for a sole trader
- ◆ Prepare working notes which demonstrate the conversion of receipts and payments into revenue and expenses for a minimum of six items
- ◆ Deduce a minimum of one missing figure
- ◆ Prepare an income statement and statement of financial position for a sole trader

The evidence should be generated under supervised conditions with access restricted to a pro forma layout for financial statements only.

The figures must be accurate within a tolerance of two arithmetic or computational errors with a maximum of two errors of principle.

#### **Assessment guidelines**

It is recommended that the assessment of this Outcome be completed within one hour. The assessment could be presented as a case study, detailing incomplete accounting information, as well as a range of notes. From this information candidates should prepare an income statement and statement of financial position for a sole trader.

## **Higher National Unit specification: statement of standards (cont)**

**Unit title:** Preparing Financial Statements

### **Outcome 3**

Prepare a statement of cash flows for a limited company

#### **Knowledge and/or skills**

- ◆ Statement of cash flows
- ◆ Depreciation and disposal of non-current assets

#### **Evidence requirements**

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can:

- ◆ Prepare a statement of cash flows, from the financial statements for two consecutive years, of a limited company
- ◆ Show the correct treatment of depreciation and non-current asset disposal

The evidence should be generated under open book supervised conditions.

The figures must be accurate within a tolerance of two arithmetic or computational errors with a maximum of two errors of principle.

#### **Assessment guidelines**

It is recommended that the assessment of this Outcome be combined with Outcome 4 and be completed within three hours. Alternatively, if Outcome 3 is assessed separately, it is recommended that the assessment be completed within one hour. The assessment could be presented as a case study where the financial statements of two consecutive years of a limited company are presented along with two notes to the accounts (disposals of non-current assets). From this information candidates should produce a statement of cash flows.

## **Higher National Unit specification: statement of standards (cont)**

**Unit title:** Preparing Financial Statements

### **Outcome 4**

Analyse the financial statements of a limited company using accounting ratios.

#### **Knowledge and/or skills**

- ◆ Accounting ratios
- ◆ Analysis of financial statements

#### **Evidence requirements**

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can:

- ◆ Prepare working notes which demonstrate the calculation of the following accounting ratios: gross profit ratio; operating expenses to revenue ratio; operating profit ratio; return on capital employed; earnings per share; dividend cover; current ratio; acid test ratio; inventory turnover; trade receivables turnover; trade payables turnover; working assets turnover and gearing ratio, for a limited company.
- ◆ Analyse the results and explain the significance of each ratio calculated on the company's financial position.

The evidence should be generated under open book supervised conditions.

The ratio calculations must be accurate within a tolerance of two arithmetic or computational errors with a maximum of two errors of principle. The candidate should analyse the ratios and comment on the change in the ratio giving at least one reason for the change. The comments/narratives on the changes should be accurate within a tolerance of three errors.

#### **Assessment guidelines**

It is recommended that the assessment of this Outcome be combined with Outcome 3 and be completed within three hours. Alternatively, if Outcome 4 is assessed separately, it is recommended that the assessment be completed within two hours. The assessment could take the form of a case study where the financial statements, of a limited company, for two consecutive years, are presented. From this information the candidates could calculate the accounting ratios and, from the results, analyse the financial position of the organisation.

## Administrative Information

<b>Unit code:</b>	F7JT 34
<b>Unit title:</b>	Preparing Financial Statements
<b>Superclass category:</b>	AK
<b>Original date of publication:</b>	August 2010
<b>Version:</b>	03 (July 2014)

### History of changes:

<b>Version</b>	<b>Description of change</b>	<b>Date</b>
03	Terminology and reference to financial statements revised to reflect requirements of FRS 102.	02/02/15
02	Error tolerance for Outcomes 1, 3 and 4.	01/08/12

**Source:** SQA

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## Higher National Unit specification: support notes

### Unit title: Preparing Financial Statements

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 80 hours.

### Guidance on the content and context for this Unit

This Unit is primarily intended for candidates who expect to take up a career or further study in accounting and/or financial administration. It is designed to enable candidates to prepare financial statements for a range of business organisations as well as analyse the financial position of a limited company.

For those candidates who successfully achieve this Unit as part of the HNC/HND Accounting Group Award, there may be opportunities to gain exemptions from a number of professional accounting bodies. Centres should contact the relevant professional bodies to ascertain their current exemptions policies.

Outcome 1 introduces candidates to the preparation of financial statements for a range of business organisations.

- ◆ Business organisations: sole traders, partnerships, private limited companies, public limited companies
- ◆ Financial statements: income statements, statement of financial position, statement of changes in equity
- ◆ Adjustments: accruals, prepayments, depreciation, (straight line, reducing balance), irrecoverable debts, allowance for irrecoverable debts, closing inventory, dividends, debenture interest, corporation tax, transfer to reserve, drawings, interest on capital, interest on drawings, partnership salaries
- ◆ Presentation and terminology used within financial statements accounts in line with current practice/legislation

Outcome 2 introduces candidates to the preparation of incomplete records for a sole trader.

- ◆ Opening statement of financial position
- ◆ Statement of affairs
- ◆ Receipts and payments; revenues and expenses
- ◆ Income statement and statement of financial position for a sole trader

Outcome 3 covers the preparation of statement of cash flows for limited companies.

- ◆ Statement of cash flows
- ◆ Disposal of non-current assets; depreciation of non-current assets
- ◆ Presentation and terminology used should be in line with current practice/legislation

Outcome 4 looks at the analysis of the financial statements of a limited company including the calculation of accounting ratios.

- ◆ Accounting ratios: profitability, liquidity, efficiency
- ◆ Analysis of ratios and significance on company's financial position



## **Higher National Unit specification: support notes (cont)**

**Unit title:** Preparing Financial Statements

### **Guidance on the delivery and assessment of this Unit**

This Unit is likely to form part of a Group Award designed to provide candidates with knowledge and skills for further study or employment within an accounting environment.

Where this Unit is being delivered as part of the HNC/D Accounting Group Award, it is recommended that the Unit be delivered towards the beginning of the Group Award either in tandem with, or following, the HN Unit *F7JV 34: Recording Financial Information*.

The assessment for Outcomes 1, 3 and 4 could be based around one case study, not necessarily given as a single assessment event. The assessment could take the format of a trial balance of a limited company, where the candidate would produce an income statement, a statement of financial position, a statement of changes in equity, a statement of cash flows and then undertake ratio analysis.

The assessment of Outcomes 1 and 2 could be undertaken separately although it is recommended that Outcomes 3 and 4 be assessed together.

Outcome 1 should be assessed under open book supervised conditions with access to a pro forma layout for the relevant set of accounts only. It is recommended a different type of business organisation should be used each time the Outcome is assessed. Outcome 2 should be assessed under open book supervised conditions with a pro forma issued for the income statement only. Outcomes 3 and 4 should be assessed under open book supervised conditions.

During the delivery of this Unit it is recommended that candidates be made aware of the existence of current accounting standards and legislation.

### **Opportunities for developing Core Skills**

The achievement of this Unit gives automatic certification of the Using Number component of the Core Skill *Numeracy* at SCQF level 5. Throughout the Unit the candidates apply a wide range of numerical skills to solve work related problems.

### **Open learning**

This Unit could be delivered by distance learning. However, it would require planning by the centre to ensure the authenticity of candidate evidence. Arrangements would have to be made to ensure that evidence is generated under the assessment conditions specified for each Outcome.

Further advice can be found on SQA's website [www.sqa.org.uk](http://www.sqa.org.uk).

### **Disabled candidates and/or those with additional support needs**

The additional support needs of individual candidates should be taken into account when planning learning experiences, selecting assessment instruments, or considering whether any reasonable adjustments may be required. Further advice can be found on our website [www.sqa.org.uk/assessmentarrangements](http://www.sqa.org.uk/assessmentarrangements).

## General information for candidates

### Unit title: Preparing Financial Statements

This Unit is designed to introduce you to the financial statements of sole traders (from incomplete records), partnerships and limited companies that operate as either traders or manufacturers. The financial statements comprise of income statements and statement of financial position and you will learn how to prepare and present these statements in accordance with current accounting standards.

As cash flow is important to businesses you will learn how to produce statement of cash flows for limited companies.

Business organisations need to analyse their financial position in terms of profitability, liquidity and efficiency and you will learn how to calculate and analyse accounting ratios to provide this information.

This Unit may be assessed by four tasks covering the final accounts of a range of business organisations requiring you to:

- ◆ Prepare financial statements for business organisations
- ◆ Prepare financial statements, for a sole trader, from incomplete records
- ◆ Prepare a statement of cash flows for a limited company
- ◆ Analyse the financial statements of a limited company using accounting ratios

The assessments will be carried out under supervised conditions.

You will have opportunities to develop the Using Number component within the Core Skill of *Numeracy* in this Unit. Achievement of this Unit gives automatic certification of Using Number at SCQF level 5.