



Higher National Unit specification

General information for centres

Unit title: Using Financial Accounting Statements

Unit code: F93H 34

Unit purpose: This Unit is designed to provide candidates with an understanding of the way in which financial statements can be used by different groups to provide information for decision making purposes. It will enable candidates to explain the purpose of financial accounting statements and interpret the information contained within them.

On completion of the Unit the candidate should be able to:

- 1 Identify users of financial information and explain their particular requirements.
- 2 Identify and describe the sources of finance employed by a business.
- 3 Analyse the financial statements of a limited company using accounting ratios.

Credit points and level: 1 HN credit at SCQF level 7: (8 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, it would be beneficial if candidates had some knowledge in the preparation of basic financial statements. This could be demonstrated by achievement of the HN Unit *Financial Accounting Statements: An Introduction* or similar qualification at SCQF level 6/7 prior to undertaking this Unit.

Core Skills: There are opportunities to develop the Using Number component of the Core Skill *Numeracy* at SCQF level 5 and the Core Skill *Communication* at SCQF level 5 in this Unit, although there is no automatic certification of Core Skills or Core Skills components.

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.

Assessment: This Unit could be assessed by three separate assessments. However, it is recommended that Outcomes 1 and 2 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.

Higher National Unit specification: statement of standards

Unit title: Using Financial Accounting Statements

Unit code: F93H 34

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

Outcome 1

Identify users of financial information and explain their particular requirements

Knowledge and/or Skills

- ◆ Users of financial information — internal and external
- ◆ Purposes of financial information
- ◆ Sources of financial information

Evidence Requirements

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

- ◆ identify a minimum of **four** users – **two** internal and **two** external — of financial information.
 - the internal users should be identified from: management, employees and present shareholders.
 - the external users should be identified from: potential shareholders, short term creditors, long term creditors, competitors, authorities and financial analysts
- ◆ explain the purpose(s) for which they require this information
- ◆ identify the sources of the information for each user

The evidence should be generated under closed-book supervised conditions with a maximum of two errors or principle.

The candidate should identify the users of the financial statements, the sources and purpose of this information giving at least one reason for the use of this information and at least one specific source of this information.

Assessment Guidelines

It is recommended that the assessment of this Outcome be combined with Outcome 2 and be completed within two hours. Alternatively, if Outcome 1 is assessed separately, it is recommended that the assessment be completed within forty five minutes.

The assessment could be presented as a case study where financial statements of a limited company are presented. From this information candidates could identify the users of the information, the sources of that information and the purpose for which the users may use the information.

Higher National Unit specification: statement of standards (cont)

Unit title: Using Financial Accounting Statements

Outcome 2

Identify and describe the sources of finance employed by a business

Knowledge and/or Skills

- ◆ Sources of finance
- ◆ Short, medium and long term sources of finance
- ◆ Characteristics of sources of finance

Evidence Requirements

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

- ◆ identify and describe all of the sources of finance employed by a business from a study of its financial statements. The description should:
 - categorise the sources identified into short, medium and long term
 - outline the characteristics of each source of finance

The evidence should be generated under closed-book supervised conditions. The information must be accurate within a tolerance of two errors of principle.

Candidates should identify, from financial statements, the sources of finance employed by the business giving at least one reason why each of the sources is appropriate for the business's use.

Assessment Guidelines

The assessment of this Outcome may be combined with Outcome 1 and be completed within two hours. Alternatively, if Outcome 2 is assessed separately, it is recommended that the assessment be completed within one hour and fifteen minutes.

The assessment could be presented as a case study for a limited company. From this information candidates could identify the sources of finance employed by the business, the categories of the sources and the characteristics of those sources.

Higher National Unit specification: statement of standards (cont)

Unit title: Using Financial Accounting Statements

Outcome 3

Analyse the financial statements of a limited company using accounting ratios

Knowledge and/or Skills

- ◆ Accounting ratios
- ◆ Analysis of financial statements
- ◆ Statement of cash flows

Evidence Requirements

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

- ◆ calculate **six** key accounting ratios covering the areas of profitability, liquidity, efficiency and capital structure
- ◆ analyse the results and explain the significance of each ratio calculated on the company's financial position
- ◆ analyse the major cash inflows and outflows of the business from a given statement of cash flows
- ◆ provide conclusions and recommendations for the given business

The evidence should be generated under open-book supervised conditions using a pro forma of formulae for the calculation of the ratios.

The ratio calculations must be accurate within a tolerance of two arithmetic or computational errors with a maximum of one error of principle.

Candidates should analyse each of the ratios and comment on the change in the ratio giving at least one reason for the change. The candidate should analyse the inflows and outflows of cash to the business over the given period and comment on these giving at least two reasons why the business chose these sources and used the funds in this way.

Assessment Guidelines

It is recommended that the assessment for this Outcome be completed within one and a half 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 candidates could calculate the accounting ratios and from the results analyse the financial position of the organisation. Candidates could identify the main sources of finance from the statement of cash flows and the uses for those funds.

Administrative Information

Unit code: F93H 34
Unit title: Using Financial Accounting Statements
Superclass category: AK
Original date of publication: August 2010
Version: 02 Aug 2015

History of changes:

Version	Description of change	Date
02	Terminology and reference to financial statements revised to reflect requirements of FRS 102.	06/08/15

Source: SQA

© Scottish Qualifications Authority 2010, 2014,2015

This publication may be reproduced in whole or in part for educational purposes provided that no profit is derived from reproduction and that, if reproduced in part, the source is acknowledged.

SQA acknowledges the valuable contribution that Scotland's colleges have made to the development of Higher National qualifications.

Additional copies of this Unit specification can be purchased from the Scottish Qualifications Authority. Please contact the Customer Contact Centre for further details, telephone 0845 279 1000.

Higher National Unit specification: support notes

Unit title: Using Financial Accounting 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 40 hours.

Guidance on the content and context for this Unit

This Unit is likely to form part of a Group Award designed to provide candidates with a basic knowledge of the use of internal financial information for a limited company. It is not suitable for candidates who wish to pursue a specialist accounting course and may be offered as an optional Unit within a variety of frameworks.

This Unit provides candidates with an understanding of the interpretation of financial statements and it should be of value to those working in commerce, government or industry who may find that their work involves dealing with accounting data.

There is no requirement for candidates to have knowledge of double entry book-keeping and it should be possible to deliver this Unit to candidates who have no prior knowledge of accounting.

Outcome 1 introduces candidates to those parties who are interested in financial information

- ◆ Internal users — management, employees and present shareholders
- ◆ External users — potential shareholders, short term creditors, long term creditors, competitors, authorities and financial analysts
- ◆ Sources of information — income statement, statement of financial position, statement of cash flows, ratio interpretation
- ◆ Purpose for which the users require this information — to ascertain credit worthiness; to determine whether or not to buy shares; ability of business to pay dividends; ability to repay debts; adherence to regulatory standards; ability to pay wages and pensions; continuance of operations; economic use of resources; to analyse accounting concepts employed for inventories, depreciation, bad debts, etc

Outcome 2 introduces candidates to the sources of finance available to the business

- ◆ Short term sources
- ◆ Medium term sources
- ◆ Long term sources
- ◆ Equity capital
- ◆ Loan capital

Outcome 3 looks at the analysis of the financial statements of a limited company including the calculation of accounting ratios and the identification of inflows and outflows of cash.

- ◆ Accounting ratios: profitability, liquidity, efficiency and gearing. Ratio calculations could include: Gross Margin; Expenses to Turnover; Net Margin; Return on Capital Employed; Earnings per Share; Dividend Cover; Current Ratio; Acid Test Ratio; Inventory Turnover; Trade Payables Turnover; Trade Receivables Turnover; Non-current Asset Turnover; Gearing Ratio
- ◆ Analysis of ratios and significance on the company's financial position
- ◆ Statement of Cash Flows - cash inflows and outflows

Higher National Unit specification: support notes (cont)

Unit title: Using Financial Accounting Statements

Guidance on the delivery and assessment of this Unit

This Unit may be offered as an option within a variety of HN Group Awards and it is recommended that assessment be contextualised to take account of this. The Unit may be delivered at any time within the delivery and assessment schedule for the Group Award as it is unlikely to impact on other Units.

The assessment for Outcomes 1, 2 and 3 could be based around one case study, not necessarily given as a single assessment event. The assessment could take the format of two consecutive years of financial information from which candidates can identify users, sources of that information and the purpose of that information as well as the sources of finance employed by the business. Candidates could analyse the financial position using ratio analysis and provide recommendations on possible decisions to be made based on their findings. The formulae will be given to candidates in the assessment of Outcome 3 as the emphasis of this Outcome is on the candidate's ability to interpret their findings and provide advice on future decision making.

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 delivery and assessment of this Unit may contribute towards the Using Number component of the Core Skill *Numeracy* at SCQF level 5. In Outcome 3 candidates apply a range of numerical skills to solve work related problems.

The delivery and assessment of this Unit may contribute towards the development of the Core Skill of *Communication* at SCQF level 5. Throughout the Unit candidates read, interpret and analyse written and numerical information and draw conclusions into a coherent response. Candidates are expected to interpret figures and written information and compare conclusions with previous performance. Candidates will prepare an analysis of the financial statements of a business and interpret these statements.

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.

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

General information for candidates

Unit title: Using Financial Accounting Statements

This Unit is designed to provide you with an understanding of the uses of the primary financial statements produced by businesses.

In Outcome 1 you will be introduced to the key users of this financial information — both internal and external to the company.

Outcome 2 looks at the various sources of finance available to businesses. These sources of finance are categorised into short term (which include bank overdrafts and trade credit); medium term (leasing and hire purchase); and long term (share issue; retained profit, etc).

In Outcome 3 you will develop skills to enable you to analyse the performance and financial position of a business using accounting ratios, as well as make recommendations to support their future plans.

The Unit may be assessed using two assessments based around one case study. The assessment of Outcomes 1 and 2 may be combined.

You may have opportunities to develop the Core Skills of *Numeracy* and *Communication* in this Unit although there is no automatic certification of Core Skills or Core Skills components.