



Higher National Unit specification

General information for centres

Unit title: Financial Reporting and Analysis

Unit code: HC43 35

Unit purpose: This Unit is designed to enable candidates to develop their knowledge and understanding of the underlying concepts, principles and standards that are applied when preparing limited company financial statements for publication. For a limited company, candidates will prepare financial statements for publication, Consolidated Statements of Financial Position for groups of companies, and analyse financial statements by means of ratio analysis.

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

On completion of the Unit candidates should be able to:

- 1 Explain the underlying accounting concepts and the legal framework governing the preparation of financial statements of limited liability companies.
- 2 Prepare financial statements for a limited company for publication.
- 3 Prepare a Consolidated Statement of Financial Position for a group of companies.
- 4 Analyse company financial statements using accounting ratios and identify appropriate sources of long term finance.

Credit points and level: 2 HN credits at SCQF level 8: (16 SCQF credit points at SCQF level 8*)

**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 and skill in the preparation of financial statements for limited companies for internal use. This could be demonstrated by achievement of the HN Unit *F7JT 34: Preparing Financial Statements* or similar qualifications or experience.

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

- ◆ Critical Thinking at SCQF level 5

General information for centres (cont)

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 four separate assessments.

An exemplar instrument of assessment and marking guidelines have been produced to show the national standard of achievement required at SCQF level 8.

Since the Core Skills component of Critical Thinking 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 verification 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: Financial Reporting and Analysis

Unit code: HC43 35

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

Outcome 1

Explain the underlying accounting concepts and the legal framework governing the preparation of financial statements of limited liability companies.

Knowledge and/or Skills

- ◆ Accounting concepts and effects on financial statements
- ◆ Companies Acts and current UK accounting standards

Evidence Requirements

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

- ◆ Define, explain and illustrate the application of a minimum of **five** accounting concepts.
- ◆ Describe the main provisions of the **Companies Acts** and current UK accounting standards.

The evidence should be generated under open book supervised conditions.

Candidate responses must be accurate within a tolerance of four errors.

Assessment Guidelines

It is recommended that the assessment of this Outcome be completed within one hour. The assessment could be presented as a short case study providing background information about a company with candidates being required to answer a series of extended response questions.

It is recommended that candidates be required to define different accounting concepts each time the Outcome is assessed and the selection should be purely on a random basis.

For New UK Generally Accepted Accounting Practice (New UK GAAP), the requirements of the current Financial Reporting Standard (FRS 102) could be followed for this Outcome.

Higher National Unit specification: statement of standards (cont)

Unit title: Financial Reporting and Analysis

Outcome 2

Prepare financial statements for a limited company for publication.

Knowledge and/or Skills

- ◆ Financial statements in accordance with the Companies Acts and current UK accounting standards
- ◆ Disclosure Notes to the financial statements in accordance with the Companies Acts and current UK accounting standards
- ◆ Treatment of taxation

Evidence Requirements

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

- ◆ Prepare a Statement of Comprehensive Income, a Statement of Financial Position and a Statement of Changes in Equity for a limited company in accordance with the Companies Acts and current accounting standards from a trial balance, additional information supplied and a partially completed set of financial statements. A minimum of **eight** different year end adjustments should be incorporated into the financial statements by means of journal entries. The financial statements should include separate disclosure of continuing and discontinued operations.
- ◆ Prepare Disclosure Notes to accompany the above financial statements in accordance with the Companies Acts and current UK accounting standards. A minimum of **five** different notes to the financial statements should be produced, including accounting policies and a non-current asset note.
- ◆ Incorporate taxation items which should include corporation taxation for the year, deferred taxation transfers, an under or over provision from the previous year.

The evidence should be generated under supervised conditions with access restricted to a partially completed set of financial statements, including the layout for the Statement of Comprehensive Income, a Statement of Financial Position and a Statement of Changes in Equity, only.

Figures must be accurate within a tolerance of three arithmetic or computational errors, with a maximum of six errors of principle.

Assessment Guidelines

It is recommended that the assessment of this Outcome be completed within one and a half hours. The assessment could build on the candidates' broad knowledge of theoretical concepts, principles and standards covered in Outcome 1 and develop the application of practical procedures and techniques.

It is recommended that candidates be required to complete different sections of a partially completed set of financial statements and different accompanying notes each time the Outcome is assessed and the selection should be purely on a random basis.

Higher National Unit specification: statement of standards (cont)

Unit title: Financial Reporting and Analysis

The use of New UK GAAP will be acceptable for the delivery and assessment of this Outcome. It is recommended that centres make candidates aware of current UK standards in presentation of financial statements and terminology.

For New UK GAAP, the requirements of the current Financial Reporting Standard (FRS 102) could be followed for this Outcome.

Outcome 3

Prepare a consolidated Statement of Financial Position for a group of companies.

Knowledge and/or Skills

- ◆ Acquisition method of accounting
- ◆ Inter-company transactions, inter-company indebtedness and unrealised profit in inventory
- ◆ Consolidated Statement of Financial Position

Evidence Requirements

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

- ◆ Describe the main characteristics of the acquisition method of accounting for groups of companies and the conditions covering its use.
- ◆ Prepare a Consolidated Statement of Financial Position (excluding notes) for a group of companies consisting of a parent company and one subsidiary. This should include pre-acquisition profits, goodwill on consolidation, non-controlling interests, fair value of assets on acquisition, inter-company transactions, inter-company indebtedness and unrealised profit in inventory.

The evidence should be generated under closed book supervised conditions.

Figures must be accurate within a tolerance of two arithmetic or computational errors, with a maximum of three errors of principle.

Assessment Guidelines

It is recommended that the assessment of this Outcome be completed within one hour.

For New UK GAAP, the requirements of the current Financial Reporting Standard (FRS 102) could be followed for this Outcome.

Higher National Unit specification: statement of standards (cont)

Unit title: Financial Reporting and Analysis

Outcome 4

Analyse company financial statements using accounting ratios and identify appropriate sources of long term finance.

Knowledge and/or Skills

- ◆ Accounting ratios
- ◆ Analysis of financial statements
- ◆ Sources of long-term finance

Evidence Requirements

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

- ◆ Calculate a minimum of two relevant accounting ratios from each category of profitability, liquidity, efficiency and capital structure/gearing and a minimum of four relevant ratios from investment.
- ◆ Analyse the financial statements of a limited company and make recommendations based on those findings.
- ◆ Identify and describe a minimum of **two** possible sources of long-term finance appropriate to the company's situation.

The evidence should be generated under open book conditions.

Candidate responses must be accurate within a tolerance of four errors.

Assessment Guidelines

It is recommended that the assessment of this Outcome be completed within two weeks.

The assessment could be provided as a case study including the financial statements of a limited company. Candidates could analyse financial statements by calculating ratios for either two continuous years for the same company or for a single year when compared to industry ratio standards. Appropriate recommendations could be made and suitable sources of long term finance could be identified and described.

Alternatively, centres could select recently published financial statements of UK limited companies as the basis for the assessment of this Outcome. Centres should select different financial statements each time this Outcome is assessed.

Administrative Information

Unit code: HC43 35

Unit title: Financial Reporting and Analysis

Superclass category: AK

Original date of publication: August 2016

Version: 02

History of changes:

Version	Description of change	Date
02	Core Skills Component Critical Thinking at SCQF level 5 embedded.	July 2017

Source: SQA

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Higher National Unit specification: support notes

Unit title: Financial Reporting and Analysis

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. It is also relevant to those with appropriate work experience and who wish to formalise their financial accounting skills.

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 exemption policies.

Company law recognises two financial reporting frameworks – IFRS and UK and Ireland GAAP (generally accepted accounting practice). Publicly listed companies are required to apply IFRS in the preparation of their group accounts but may choose between IFRS and New UK and Ireland GAAP for the preparation of their individual parent accounts. Other entities have a free choice between the two frameworks.

It is recommended that the requirements of the current Financial Reporting Standard (FRS 102) be followed for this Unit.

Outcome 1 covers the underlying accounting concepts and the legal framework governing the preparation of financial statements of limited liability companies.

- ◆ Accounting concepts
- ◆ Effects of accounting concepts
- ◆ Companies Acts
- ◆ Current UK Accounting Standards

Outcome 2 covers the preparation of financial statements for a limited company for publication.

- ◆ Statement of Comprehensive Income for publication
- ◆ Statement of Financial Position for publication
- ◆ Statement of Changes in Equity for publication
- ◆ Disclosure Notes to the financial statements for publication
- ◆ Taxation items

Outcome 3 covers the preparation of a Consolidated Statement of Financial Position for a group of companies.

- ◆ Acquisition method of accounting for groups of companies
- ◆ Elimination of inter-company items
- ◆ Consolidated Statement of Financial Position

Outcome 4 covers the analysis of financial statements using accounting ratios and identifying appropriate sources of long term finance.

- ◆ Accounting ratios – profitability, liquidity, efficiency, capital structure/gearing, investment
- ◆ Analysis of financial statements
- ◆ Sources of long-term finance

Higher National Unit specification: support notes (cont)

Unit title: Financial Reporting and Analysis

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 the 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 in the second year of the Group Award.

It is designed to enable candidates to develop a broad knowledge of the theoretical concepts, principles and standards that are applied in financial reporting, together with the application of practical procedures and techniques. It will also give candidates an introduction to the preparation of consolidated financial statements and the analysis of financial statements using accounting ratios.

The use of New UK Generally Accepted Accounting Practice (New UK GAAP) – FRS 102 - will be acceptable for the delivery and assessment of this Unit.

In Outcome 1, the impact of the main provisions of current UK accounting standards should be introduced so far as they relate to the presentation of financial statements and the terminology used therein.

For Outcome 2, the specifications of the current UK accounting standards should be followed as the disclosure required.

Within each Outcome, it is essential that candidates are aware that the same fundamental accounting principles underlie the practice of accounting. These principles should be brought to the candidates' attention throughout the teaching of the Unit.

Each Outcome could be assessed separately, although it is likely that the candidates would require the knowledge of accounting concepts, Current UK Accounting Standards and the Companies Acts from Outcome 1 as underpinning knowledge for Outcome 2.

The evidence for Outcome 1 should be produced under open book supervised conditions. The evidence for Outcome 2 should be generated under supervised conditions with access restricted to a partially completed set of financial statements, including the layout for Statement of Comprehensive Income, a Statement of Financial Position and Statement of Changes in Equity, only. The evidence for Outcome 3 should be generated under closed book supervised conditions. The evidence for Outcome 4 should be generated under open book conditions.

Higher National Unit specification: support notes (cont)

Unit title: Financial Reporting and Analysis

Opportunities for developing Core Skills

The achievement of this Unit gives automatic certification of the Critical Thinking component of the Core Skill *Problem Solving* at SCQF level 5. In particular, in Outcome 4 the candidates are analysing financial statements through ratio analysis. The case study will be unfamiliar to the candidates and they will identify the various figures in the financial statements and the relationship between them. Thereafter the candidates will evaluate the situation and draw conclusions and recommendations.

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: Financial Reporting and Analysis

This Unit is designed to enable you to develop your knowledge and understanding of the concepts, principles and standards that are applied when preparing limited company financial statements for annual reporting purposes.

In Outcome 1 you will look at the underlying accounting concepts and the legal framework governing the preparation of financial statements of limited liability companies. You will also be introduced to current UK accounting standards so far as they affect the presentation and terminology of financial statements.

In Outcome 2 you will use this knowledge, together with your knowledge about preparing financial statements, to prepare financial statements for a limited company for publication. These include a Statement of Comprehensive Income, a Statement of Financial Position and a Statement of Changes in Equity with associated notes to the accounts. These will be prepared following the requirements of current UK accounting standards and the Companies Acts.

In Outcome 3 you will look at the acquisition method of preparing consolidated financial statements and you will prepare a Consolidated Statement of Financial Position for a group of companies made up of one holding company and one subsidiary company.

Outcome 4 looks at the analysis of financial statements using accounting ratios. The ratios cover profitability, liquidity, efficiency, capital structure/gearing and investment. Based on your analysis, you will identify appropriate recommendations for the company and suitable sources of long term finance.

Each Outcome may be assessed separately. The assessments for Outcomes 1, 2 and 3 will be carried out under supervised conditions.

You will have opportunities to develop the Core Skills of *Numeracy* and *Problem Solving* in this Unit. Achievement of this Unit gives automatic certification of Critical Thinking at SCQF level 5.