



National Unit Specification: general information

UNIT Financial Accounting: An Introduction (SCQF level 6)

CODE F394 12

SUMMARY

This Unit is designed to introduce candidates to the basic skills and techniques of Financial Accounting. It also introduces fundamental knowledge and understanding of theory relating to financial accounting which will provide a platform for progression in this subject area. The Unit will give candidates the skills and techniques to prepare straightforward accounting statements for a limited company and knowledge and understanding to evaluate these statements and draw conclusions from them.

OUTCOMES

- 1 Prepare financial statements for internal use in a limited company.
- 2 Evaluate the performance of a limited company.

RECOMMENDED ENTRY

Entry is at the discretion of the centre.

CREDIT VALUE

1 credit at Higher (6 SCQF credit points at SCQF level 6*).

**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.*

Administrative Information

Superclass: AK

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CORE SKILLS

Achievement of this Unit gives automatic certification of the following:

Complete Core Skill	None
Core Skill component(s)	Using Number at SCQF level 5

National Unit Specification: statement of standards

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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 SQA.

OUTCOME 1

Prepare financial statements for internal use in a limited company.

Performance Criteria

- (a) Prepare a clear and accurate trading and Profit and Loss account for internal use in a limited company.
- (b) Prepare a clear and accurate Balance Sheet for internal use in a limited company.
- (c) Incorporate standard adjustments into a given year-end trial balance.

OUTCOME 2

Evaluate the performance of a limited company.

Performance Criteria

- (a) Calculate basic accounting ratios from a set of financial statements of a limited company.
- (b) Interpret the ratios calculated.
- (c) Draw basic conclusions on the profitability, efficiency and liquidity of the company.

EVIDENCE REQUIREMENTS FOR THIS UNIT

Evidence is required to demonstrate that candidates have achieved all Outcomes and Performance Criteria.

Written and/or recorded oral evidence is required which demonstrates that the candidate has achieved Outcome 1 to the standard specified in the Outcome and Performance Criteria. The evidence for this Outcome should be obtained under controlled, supervised conditions. The assessment will be closed-book and should last for no more than 60 minutes.

In the assessment candidates should be given a pro-forma with main headings for both the Profit and Loss Account and the Balance Sheet. They should be required to incorporate four different year-end adjustments appropriate to a limited company in the given year-end trial balance.

Written and/or recorded oral evidence is required which demonstrates that the candidate has achieved Outcome 2 to the standard specified in the Outcome and Performance Criteria. The evidence for this Outcome should be obtained under controlled, supervised conditions. The assessment will be closed-book and should last for no more than 60 minutes.

National Unit Specification: statement of standards (cont)

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In the assessment candidates should be given a simple Profit and Loss Account and Balance Sheet for a limited company, for two consecutive periods. The information should include ratios for the previous year. Candidates should have access to the necessary formulae to calculate the ratios for the current year. The ratios should be: Return on Capital Employed, Gross Profit Margin, Net Profit Margin, Current Ratio, Rate of Stock Turnover, Debtors' Collection Period, Creditors' Payment Period.

Calculations may be done manually, using a calculator or using an initially blank spreadsheet. Pre-programmed spreadsheets and accounting software packages may not be used.

For each assessment candidates should be asked to provide the evidence at an appropriate point when they have covered the appropriate material.

The use of a cut-off score may be appropriate for this assessment.

Assessments for this Unit may be conducted on one assessment occasion lasting 2 hours or on two separate occasions lasting 60 minutes each.

The Assessment Support Pack (ASP) for this Unit provides sample assessment materials and illustrates the standard to be applied and the breadth of coverage required. Centres wishing to develop their own assessments should refer to the Assessment Support Pack to ensure a comparable standard.

National Unit Specification: support notes

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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 an optional Unit in the National Certificate in Business at SCQF level 5 but can also be taken as a free-standing Unit.

It aims to provide candidates with an introduction to some of the basic concepts and ideas in Financial Accounting. As a result it is not necessary for candidates to have specific prior knowledge of Financial Accounting. Previous knowledge of basic accounting procedures such as recording financial transactions may be of help to candidates. Completion of the Unit, *Accounting: Recording of Cash Transactions (Intermediate 2)*, would represent a suitable foundation for candidates embarking on this Unit.

This Unit complements the Unit Management Accounting (SCQF Level 6) which is also an optional Unit in the National Certificate in Business at SCQF level 5. The two Units may be delivered in conjunction with each other.

Outcome 1

The following gives some indication of the aspects of financial statements with which candidates should be familiar.

- ◆ Trading Account
- ◆ Sales, sales returns, opening and closing stocks, purchases, purchases returns, gross profit
- ◆ Profit and Loss Account
- ◆ Gross profit, other income, expenses, accruals and prepayments of expenses, depreciation (straight-line where the figure for depreciation is given)
- ◆ Appropriation Section
- ◆ Net Profit before Taxation, Corporation tax given, ordinary and preference dividends (final only where figure is given), treatment of retained profits
- ◆ Balance Sheet
- ◆ Fixed Assets, aggregate depreciation, net book value, current assets, current liabilities, long-term liabilities
- ◆ Financed by: to show capital, ordinary shares and adjusted retained profit figure

Outcome 2

The following gives some indication of the material with which candidates should be familiar.

National Unit Specification: support notes (cont'd)

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Assessing the performance and financial position of a company by interpreting the financial statements. Using Profit and Loss Account and Balance Sheet for intra-firm comparisons. Candidates will be expected to calculate ratios, compare ratios and give reasons for any differences and provide a rudimentary evaluation of the performance of the business.

Ratios: Return on Capital Employed, Gross Profit Margin, Net Profit Margin, Current Ratio, Rate of Stock Turnover, Debtors' Collection Period, Creditors' Payment Period.

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 them to develop the necessary skills. Knowledge, understanding and computational skills can be developed simultaneously throughout the Unit.

The suggested order of delivery of the Unit is Outcome 1 followed by Outcome 2. This order will provide a natural progression for introduction to financial statements to interpretation of the financial statements.

For Outcome 1 candidates could be presented with a series of progressive exercises which provide the opportunity to prepare simple Profit and Loss Account and Balance Sheet. The use of pro forma with the main headings would be appropriate.

For Outcome 2 candidates could be presented with case studies providing simple company financial statements from which candidates will calculate ratios and interpret the results. Simplified versions of real companies of interest to the candidates could also be used.

Although not mandatory there are opportunities for candidates to use spreadsheets for practical exercises. Accounting software 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.

National Unit Specification: support notes (cont'd)

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GUIDANCE ON APPROACHES TO ASSESSMENT FOR THIS UNIT

Opportunities for the use of e-assessment

E-assessment may be appropriate for some assessments in this Unit. By e-assessment we mean assessment which is supported by information and communications technology (ICT), such as e-testing or the use of e-portfolios or e-checklists. Centres which wish to use e-assessment must ensure that the national standard is applied to all candidate evidence and that conditions of assessment as specified in the Evidence Requirements are met, regardless of the mode of gathering evidence. Further advice is available in *SQA Guidelines on Online Assessment for Further Education (AA1641, March 2003)*, *SQA Guidelines on e-assessment for Schools (BD2625, June 2005)*.

Assessment of this Unit should be carried out at an appropriate time although care should be taken to ensure that sufficient time is allowed for remediation of the re-assessment if required.

Candidates will be required to:

- ◆ prepare a profit and loss account and balance sheet for internal use for a limited company using a pro forma with main headings for both Profit and Loss Account and Balance Sheet
- ◆ calculate ratios for subsequent year from Profit and Loss Accounts and Balance Sheets with previous year ratios provided
- ◆ evaluate the performance of the company based on rudimentary interpretation of ratios calculated.

CANDIDATES WITH DISABILITIES AND/OR ADDITIONAL SUPPORT NEEDS

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. Further advice can be found in the SQA document *Guidance on Assessment Arrangements for Candidates with Disabilities and/or Additional Support Needs* (www.sqa.org.uk).