

National Unit Specification: general information

UNIT Financial Accounting (Intermediate 1)

NUMBER DF47 10

COURSE Accounting (Intermediate 1)

SUMMARY

This Unit is designed to enable candidates to develop the skills and techniques which will allow them to record financial information in ledger accounts and petty cash statements; check records using trial balances and bank reconciliation statements; prepare (with adjustments) and analyse simple accounting statements for a sole trader, a partnership and a public limited company (plc) and use information technology. It will also develop a knowledge and understanding of the theory relating to financial accounting.

This Unit is ideal for candidates who:

- ◆ are undertaking the study of this subject for the first time
- ◆ wish to obtain a basic knowledge of Accounting as an interest subject
- ◆ are considering starting their own business and wish to develop a basic understanding of accounting principles and procedures

OUTCOMES

- 1 Complete business documents and describe when they are used in the buying, selling and payment process.
- 2 Record and verify entries in ledger accounts.
- 3 Prepare financial statements of a business organisation and list the main features of these organisations.
- 4 Calculate and comment on accounting ratios of a sole trader.

RECOMMENDED ENTRY

Entry is at the discretion of the centre. Candidates do not need any previous knowledge or experience of accounting, however it may be beneficial if candidates have achieved the following or equivalent:

- ◆ Standard Grade Accounting and Finance at Foundation level.

Administrative Information

Superclass: AK

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National Unit Specification: general information (cont)

UNIT Financial Accounting (Intermediate 1)

CREDIT VALUE

1.5 credits at Intermediate 1 (9 SCQF credit points at SCQF level 4*).

**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.*

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 (Intermediate 1)

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

Complete business documents and describe when they are used in the buying, selling and payment process.

Performance Criteria

- a) Explain when different business documents are used in the buying, selling and payment process.
- b) Complete business documents for a given purpose.

OUTCOME 2

Record and verify entries in ledger accounts.

Performance Criteria

- a) Prepare appropriate ledger accounts from completed business documents or lists of transactions using double entry book-keeping principles.
- b) Check the accuracy of ledger entries using methods which are consistent with double entry book-keeping principles.

OUTCOME 3

Prepare financial statements of business organisations and list the main features of these organisations.

Performance Criteria

- a) List the main features which distinguish different types of business organisations.
- b) Complete partially prepared final accounts of business organisations consistent with financial accounting practice.
- c) Complete a partially prepared balance sheet of a business organisation consistent with financial accounting practice.

OUTCOME 4

Calculate and comment on account ratios of a sole trader.

Performance Criteria

- a) Explain briefly the reasons for calculating accounting ratios.
- b) Calculate accounting ratios of a sole trader using formulae (specified in Appendix Two — Ratio Formulae).
- c) Comment on the performance of a sole trader for two consecutive financial periods.

National Unit Specification: statement of standards (cont)

UNIT Financial Accounting (Intermediate 1)

EVIDENCE REQUIREMENTS FOR THE UNIT

The contents for this Unit are specified in Appendix One, and Ratio Formulae Appendix Two.

Candidates are required to demonstrate knowledge and understanding of the Unit content by completion of short response questions drawn from all areas of the Unit.

Candidates are also required to demonstrate that they can apply knowledge and understanding of the Unit content by:

- ◆ completing business documents and making appropriate entries in ledger accounts
- ◆ verifying the accuracy of ledger accounts by completing a Trial Balance or Bank Reconciliation Statement
- ◆ completing final accounts and balance sheets of business organisations
- ◆ calculating and interpreted ratios*

Evidence will be produced by the candidate completing a number of computational and short answer knowledge and understanding questions in a closed book assessment covering all the Outcomes.

Calculators may be used throughout this assessment.

The maximum time allowed is 1 hour 30 minutes.

Assessment can be carried out in a single event, or broken down into two sessions of 45 minutes.

NB * The ratio formulae, which appear in Appendix Two, — Ratio Formulae **must not** be made available to candidates during the assessment.

Accounting software packages **must not** be used for assessment purposes.

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

Achievement can be decided 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 for this Unit, they should be of a comparable standard.

National Unit Specification: support notes

UNIT Financial Accounting (Intermediate 1)

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 financial accounting aspects of the Accounting Intermediate 1 Course, including:

- ◆ recording of book-keeping transactions in ledger accounts from business documents and preparing a trial balance
- ◆ preparation of petty cash statements and bank reconciliation statements
- ◆ preparation of trading accounts, profit and loss accounts, appropriation accounts and balance sheets of sole trader, partnerships public limited company (plc) from a trial balance or list of balances, including adjustment to the end of year figures
- ◆ analysis and interpretation of financial statements using the standard accounting ratio formulae provided in Appendix Two*
- ◆ theory relating to the above

NB * Ratio formulae which appear in Appendix Two **must not** be made available to candidates when taking the assessment.

The extent of the knowledge required for each Outcome in this Unit is detailed in Appendix One — Unit Content and Appendix Two — Ratio Formulae.

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 simultaneously throughout the Unit, particularly for those candidates undertaking this Unit as part of the Intermediate 1 Accounting Course.

National Unit Specification: support notes (cont)

UNIT Financial Accounting (Intermediate 1)

Although not mandatory, there are opportunities for candidates to develop their information technology skills, for example through the use of spreadsheets to complete practical exercises.

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

GUIDANCE ON APPROACHES TO ASSESSMENT FOR THIS UNIT

Assessment of this Unit should be carried at an appropriate time, although care should be taken to ensure that sufficient time is allowed for remediation and reassessment if required.

The nature of the holistic assessment is Accounting makes it difficult for candidates to be re-assessed solely on these Outcomes and Performance Criteria in which they did not demonstrate competence. If a re-assessment is required, it should contain a different sample from the range of content.

Achievement can be decided 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 for this Unit, they should be of a comparable standard.

Candidates will be required to:

- ◆ prepare a range of business documents
- ◆ prepare or complete and verify ledger accounts using double entry book-keeping principles
- ◆ prepare or finish partially completed financial statements of sole trader, partnership or public limited company
- ◆ analyse the performance of a business organisation for two consecutive periods using the ratios in Appendix Two — Ratio Formulae
- ◆ demonstrate their knowledge and understanding of all areas of this Unit by means of restricted responses

For the purposes of assessment, candidate errors refers to any mistakes involving:

- ◆ recording of accounting information
- ◆ arithmetical calculations
- ◆ application of financial accounting principles

SPECIAL NEEDS

This Unit Specification is intended to ensure that there are no artificial barriers to learning or assessment. Special needs of individual candidates should be taken into account when planning learning experiences, selecting assessment instruments or considering special alternative Outcomes for Units. For information on these, please refer to the SQA document *Guidance on Special Assessment Arrangements* (SQA, September, 2003).

National Unit Specification: statement of standards

UNIT — Financial Accounting

Appendix One — Unit Content

NB This appendix is within the statement of standards, ie the mandatory requirements of the Unit

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| Role of the Financial Accountant | Basic understanding of the role and scope of the Financial Accountant. |
| Knowledge of Business Documents | Candidates should be aware of the functions of various business documents used in buying, selling and paying process Orders, invoices, credit notes, statements, cheques, till roll, receipt, credit/debit card receipt, petty cash voucher, bank statement. |
| Business Documents of Trade | Candidates should be able to complete a range of business documents which include trade discount and calculate VAT and enter these documents in the appropriate ledger accounts. Note that the calculation of VAT will not be required where cash discount is allowed. |
| Recording entries in ledger accounts for business organisations | Candidates should be able to record in the ledger accounts of an organisation transactions relating to fixed assets, current assets, incomes, expenses, VAT, current liabilities, capital and drawings, long-term liabilities and partners' capital and current accounts. VAT transactions are restricted to the purchase and sale of goods and fixed assets. |
| Accuracy of Ledger | Candidates should be able to prepare a trial balance. |
| Petty Cash Statement | Candidates should be able to prepare a petty cash statement, including receipts, payments, VAT, imprest restored, and transfer of analysis column balances to appropriate ledger accounts. |
| Bank Reconciliation Statements | Candidates should be able to update the bank account and prepare a bank reconciliation statement, taking into account bank charges, bank interest, standing orders, direct debits, credit transfers, outstanding cheques and lodgements. |
| Features of ownership, funding, liability, management and control | Candidates should be able to describe accurately: <ul style="list-style-type: none"> ◆ features of ownership and liability, management and control of sole trader, partnership, public limited company ◆ state the advantages and disadvantages of each structure ◆ sources of finance available to business organisations: <ul style="list-style-type: none"> – capital; retained profits; ordinary share capital; loan capital; debentures; bank overdraft |

National Unit Specification: statement of standards

UNIT — Financial Accounting (Intermediate 1)

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| <p>Adjustment to Final Accounts</p> | <p>Candidates should be able to deal with accruals and prepayments at end of year, and accurately deal with other adjustments for final account figures including straight line depreciation where the figure for depreciation is given.</p> |
| <p>Final Accounts for all business organisations</p> | <p>Candidates should be able to prepare the following financial statements:</p> <ul style="list-style-type: none"> ◆ Trading Account: sales, sales returns, opening and closing stocks, purchases and purchase returns, gross profit ◆ Profit and Loss Account: gross profit, other incomes, expenses, accruals and prepayments at end, depreciation. calculation of net profit ◆ Balance Sheet: fixed assets, aggregate depreciation, net book value (NBV); current assets; current liabilities including adjustments for accruals and prepayments at end; long-term liabilities. Financed by: to show capital and adjustments for year end figures <p>Candidates should be able to distinguish between capital and revenue expenditure.</p> |
| <p>Final Accounts of Partnership</p> | <p>In addition to the range for the above financial statements for business organisation candidates should be able to prepare for a partnership:</p> <ul style="list-style-type: none"> ◆ Appropriation Account to include net profit, partners' salaries, share of residual profits ◆ preparation of current accounts of partners at end of year, treatment of drawings and transfers from appropriation account ◆ Balance Sheet to include fixed assets, aggregate depreciation, net book value; current assets; current liabilities including adjustments for accruals and prepayments at end; long-term liabilities. Financed by section: capital and updated current accounts |

National Unit Specification: statement of standards (cont)

UNIT — Financial Accounting (Intermediate 1)

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| <p>Final Accounts of public limited company (plc)</p> | <p>In addition to the above financial statements, candidates should be able to prepare for a public limited company the following financial statements for internal use:</p> <ul style="list-style-type: none"> ◆ Trading and Profit and Loss (as detailed in Financial Accounts for all business organisations above) ◆ Appropriation Account to include final dividends only, where ordinary dividend figures are given, and treatment of retained profit ◆ Balance Sheet (as detailed in Financial Accounts for all business organisations above) <p>Long-term financing restricted to ordinary shares (fully paid), and retained profits.</p> |
| <p>Ratio Analysis</p> | <p>Candidates should be able to calculate and comment on the following accounting ratios using the formulae given in Appendix Two — Ratio Formulae for a sole trader:</p> <p>Profitability Ratios</p> <ul style="list-style-type: none"> ◆ return on capital employed ◆ gross profit ratio ◆ net profit ratio <p>Liquidity ratios</p> <ul style="list-style-type: none"> ◆ current ratio <p>Efficiency ratios</p> <ul style="list-style-type: none"> ◆ rate of stock turnover ◆ expense ratio <p>Simple comparison of ratios and reasons for any differences. Inter-firm and intra-firm comparisons.</p> |

National Unit Specification: statement of standards

UNIT — Financial Accounting

Appendix Two — Ratio Formulae

NB This appendix is within the statement of standards, ie the mandatory requirements of the unit

There are alternative formulae which can be used to calculate certain 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 internal or external assessments.

| Ratio | Formula |
|------------------------------|--|
| Profitability Ratios: | |
| Return on Capital Employed | $\frac{\text{Net Profit}}{\text{Capital at start}} \times 100 = \%$ |
| Gross Profit Ratio | $\frac{\text{Gross Profit}}{\text{Turnover}} \times 100 = \%$ |
| Net Profit Ratio | $\frac{\text{Net Profit}}{\text{Turnover}} \times 100 = \%$ |
| Liquidity Ratio: | |
| Current Ratio | Current Assets:Current Liabilities Answer should be expressed as 2.35:1 |
| Efficiency Ratios: | |
| Rate of Stock Turnover | $\frac{\text{Cost of Sales}}{\text{Average Stock}} = \text{Times}$ |
| Average Stock | $\frac{\text{Opening Stock} + \text{Closing Stock}}{2} = \text{£}$ NB Rate of Stock Turnover may be expressed as an average stockholding in days, weeks or months simply by multiplying the number of times the average stock is sold by 365 for answers in days, 52 for answers in weeks and 12 for answers in months. |
| Expense Ratio | $\frac{\text{Expense}^*}{\text{Turnover}} \times 100 = \%$ * This figure may be for the total expenses or for one individual expense. eg advertising. |