

National Unit Specification: general information

UNIT Financial Accounting (Intermediate 2)

NUMBER DF47 11

COURSE Accounting (Intermediate 2)

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; check and correct any errors in records using trial balances and bank reconciliation statements and suspense accounts; prepare (with adjustments) and analyse accounting statements for a sole trader, a partnership, a public limited company (plc) and a private limited company (ltd), including manufacturing concerns; non-profit making organisation and use information technology. It will also develop a knowledge and understanding of the theory relating to financial accounting.

OUTCOMES

- 1 Complete business documents and explain their functions in the buying, selling and payment process.
- 2 Record and verify entries in ledger accounts.
- 3 Correct errors in ledger accounts and use a suspense account.
- 4 Prepare financial statements of an organisation and explain the key features of the different types of business organisation.
- 5 Calculate and interpret accounting ratios and comment on the performance of an organisation.

RECOMMENDED ENTRY

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

- ◆ Standard Grade Accounting and Finance at General level or Intermediate 1 Accounting
- ◆ The Unit — *Financial Accounting* (Intermediate 1)

Administrative Information

Superclass: AK

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CREDIT VALUE

1.5 credits at Intermediate 2 (9 SCQF credit points at SCQF level 5*).

**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 2)

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 explain their functions in the buying, selling and payment process.

Performance Criteria

- a) Explain the functions of the different business documents used in the buying, selling and payment processes.
- 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 a list 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

Correct errors in ledger accounts and use a suspense account.

Performance Criteria

- a) Identify correctly the type of error and the relevant ledger accounts affected.
- b) Using double entry book-keeping principles make entries in the appropriate ledger accounts and, where necessary, the suspense account to correct errors.

OUTCOME 4

Prepare financial statements of an organisation and explain the key features of the different types of business organisation.

Performance Criteria

- a) Explain the key features which distinguish different types of business organisations.
- b) Complete partially prepared final accounts of an organisation consistent with financial accounting practice.
- c) Complete a partially prepared balance sheet of an organisation consistent with financial accounting practice.
- d) Complete partially prepared manufacturing and trading accounts for an organisation consistent with financial accounting practice.

National Unit Specification: statement of standards (cont)

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OUTCOME 4

Calculate and interpret accounting ratios and comment on the performance of an organisation.

Performance Criteria

- a) Explain briefly the purpose of accounting ratios.
- b) Calculate accounting ratios using correct formulae (specified in Appendix Two — Ratio Formulae).
- c) Comment on the performance of a business organisation for two consecutive financial periods.

EVIDENCE REQUIREMENTS FOR THE UNIT

The contents for this Unit are specified in Appendix One, and Ratio Formulae in 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 a range of business documents and making entries in the appropriate ledger accounts
- ◆ verifying accuracy of ledger accounts by completing a Trial Balance or Bank Reconciliation Statement
- ◆ correcting errors in ledger accounts and use of suspense accounts
- ◆ completing final accounts and balance sheets of organisations
- ◆ calculating and interpreting ratios without reference to ratio formulae*

Evidence will be produced by the candidate answering 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 2)

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 2 Course, including:

- ◆ recording of book-keeping transactions in ledger accounts from business documents
- ◆ checking the accuracy of the ledger accounts
- ◆ correction of errors and use of a suspense account
- ◆ preparation of manufacturing accounts and the transfer of finished goods to trading accounts at factory cost
- ◆ preparation of trading accounts, profit and loss accounts, appropriation accounts and balance sheets of sole trader, partnership, limited (ltd) and public (plc) limited company, and non-profit making concerns 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 2 Accounting Course.

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

National Unit Specification: support notes (cont)

UNIT Financial Accounting (Intermediate 2)

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 out at an appropriate time, although care should be taken to ensure that sufficient time is allowed for remediation and re-assessment if required.

The nature of holistic assessment in accounting makes it difficult for candidates to be reassessed solely on those 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
- ◆ identify and correct errors in ledger accounts with or without the use of suspense accounts
- ◆ prepare or finish partially completed financial statements of a sole trader, a partnership, a public limited company (plc) or a private limited (Ltd) company and manufacturing organisation, and non-profit making concerns
- ◆ analyse the performance of a business organisation for two consecutive periods using the ratios in Appendix Two — Ratio Formulae
- ◆ complete short answers to demonstrate their knowledge and understanding in the above areas

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 (Intermediate 2)

Appendix One — Unit Content

NB This Appendix is within the statement of standards, ie the mandatory requirement of the Unit.

Role of the Financial Accountant	Candidates should have an understanding of the role the Financial Accountant plays in an organisation.
Business Documents	Candidates should be aware of the functions of various business documents used in the buying, selling and paying process. Documents are to include: <ul style="list-style-type: none"> ◆ order, invoice, credit note, statement, cheque, till roll, receipt, credit/debit card receipt, petty cash voucher, bank statement.
Completion of Business Documents	Candidates should be able to complete a range of business documents, which include the preparation of multiple documents of trade, and includes the calculation of VAT where trade and cash discount are being allowed, and record these transactions in the appropriate ledger accounts.
Recording entries in ledger accounts for organisations	Candidates should be able to record in the ledger accounts of organisations: <ul style="list-style-type: none"> ◆ transactions relating to fixed assets, current assets, incomes, expenses, VAT, current liabilities, long term liabilities, capital, drawings, and partners' capital and current accounts.
Accuracy of Ledger	Candidates should be able to prepare a trial balance.
Correction of Errors	Candidates should be able to correct errors in ledger accounts for: <ul style="list-style-type: none"> ◆ errors of omission, commission, principle, original entry, compensating errors and complete reversal and use a suspense account where appropriate
Bank Reconciliation Statements	Candidates should be able to: <ul style="list-style-type: none"> ◆ update the bank account and prepare a bank reconciliation statement which includes correction of errors.
Features of ownership, funding, liability, management and control	Candidates should be able to describe accurately the features of ownership and liability, management and control of a sole trader, a partnership, a private limited company a public limited company and a non-profit making organisation. <p>Candidates should be able to describe the key documents required:</p> <ul style="list-style-type: none"> ◆ for the formation of a public limited company, restricted to main features of Memorandum of Association and the Articles of Association ◆ the formation of a partnership and be aware of the current partnership legislation.

National Unit Specification: statement of standards (cont)

UNIT — Financial Accounting (Intermediate 2)

(cont)	<p>Candidates should be able to identify and justify appropriate forms of ownership structure and finance for a business organisation.</p> <p>Sources of finance:</p> <ul style="list-style-type: none"> ◆ internal sources: capital; retained profits ◆ external sources: ordinary and preference share capital; loan capital; leasing, government loans and grants; bank overdraft, debentures <p>Sources of finance for a non-profit making organisation</p> <ul style="list-style-type: none"> ◆ accumulated fund, surplus, loans
Adjustment to final Accounts	<p>Candidates should be able to deal with:</p> <ul style="list-style-type: none"> ◆ accruals and prepayments at the end of the financial year and accurately deal with other adjustments for final account figures, including the calculation of depreciation using the straight line method; and the creation of the provision for doubtful debts where the existing and new provision figures are stated.
Final Accounts for all organisations	<p>Candidates should be able to prepare the following financial statements:</p> <p>Trading Account:</p> <ul style="list-style-type: none"> ◆ sales, sales returns, opening and closing stocks, purchases and purchase returns, carriage inwards, gross profit <p>Profit and Loss Accounts:</p> <ul style="list-style-type: none"> ◆ gross profit, income, expenses, accruals and prepayments at end, calculation of provision for straight line depreciation. Provision for doubtful debts calculation of net profit/loss <p>Balance Sheet:</p> <ul style="list-style-type: none"> ◆ fixed assets, aggregate depreciation, net book value (NBV); current assets; current liabilities including adjustments for accruals and prepayments at end; provision for doubtful debts; long-term liabilities. Financed by: to show capital structure and adjustments for year end figures <p>Candidates should be able to clearly demonstrate and explain the treatment of capital and revenue expenditure.</p>
Manufacturing Accounts	<p>Cost of direct materials consumed; factory direct costs; prime costs; factory indirect costs/overheads; work-in-progress valued at total cost; factory cost of finished goods produced; transfer of goods to the trading account at factory cost.</p>

National Unit Specification: statement of standards (cont)

UNIT — Financial Accounting (Intermediate 2)

<p>Final Accounts of Partnership</p>	<p>In addition to the range for the above financial statements for organisations, candidates should be able to prepare for a partnership:</p> <ul style="list-style-type: none"> ◆ Appropriation account which includes: net profit, interest on capital; partner’s salary, share of 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 <p>Financed by section: capital and updated current accounts</p>
<p>Final Accounts of private limited (ltd) and public limited (plc) companies</p>	<p>In addition to the above financial statements, candidates should be able to prepare for a private limited and public limited company the following financial statements for internal use:</p> <ul style="list-style-type: none"> ◆ trading and profit and loss (range as for business organisations above) ◆ treatment of corporation tax ◆ appropriation account to include calculation of final dividends and the treatment of retained profits at start and end of financial year ◆ balance sheet: to include long term financing restricted to ordinary and preference shares (fully paid), loans and retained profits <p>provision for corporation tax (figure given) and VAT (not detailed knowledge — understanding only)</p>

National Unit Specification: statement of standards (cont)

UNIT — Financial Accounting (Intermediate 2)

<p>Non profit-making organisations</p>	<p>Candidates should be able to calculate and prepare:</p> <ul style="list-style-type: none"> ◆ opening accumulated fund balance ◆ receipts and payments account ◆ profit statements from club-fund raising activities ◆ income and expenditure account including incomes and other transfers from fund-raising activities calculations, and expenses, depreciation of fixed assets using straight line method, accruals and prepayments at the end of the year ◆ balance sheet; fixed assets, current assets, current and long-term liabilities held by a non-profit making organisation, including subscription due and prepaid at end of year, expenses accruals and prepayments at end ◆ Financed by section: accumulated fund and adjustments for surplus/deficit at year end
<p>Ratio Analysis</p>	<p>Candidates should be able to:</p> <ul style="list-style-type: none"> ◆ identify the users and use made of accounting information ◆ calculate and interpret the following accounting ratios using the formulae given in Appendix Two <p>Profitability Ratios</p> <ul style="list-style-type: none"> ◆ return on capital employed; ◆ gross profit ratio ◆ net profit ratio <p>Liquidity</p> <ul style="list-style-type: none"> ◆ current ratio <p>Efficiency Ratios</p> <ul style="list-style-type: none"> ◆ average stock ◆ rate of stock turnover ◆ expense ratio (individual or total) ◆ debtors' collection period ◆ creditors' payment period ◆ fixed assets turnover <p>Inter-firm and intra-firm comparisons</p> <p>Prepare simple trading and profit and loss accounts using ratios.</p> <p>Candidates will be required to compare ratios and give reasons for any differences.</p>

National Unit Specification: statement of standards

UNIT — Financial Accounting (Intermediate 2)

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	$\frac{\text{Net Profit after Tax}}{(\text{Fixed Assets} + \text{Net Current Assets} - \text{Long Term Liabilities})} \times 100\%$
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.

National Unit Specification: statement of standards (cont)**UNIT — Financial Accounting (Intermediate 2)**

Ratio	Formula
Expense Ratio	$\frac{\text{Expense}^*}{\text{Turnover}} \times 100 = \%$ <p>* This figure may be for the total expenses or for one individual expense. eg advertising.</p>
Debtors' Collection period	$\frac{\text{Average Debtors}}{\text{Total Credit Sales}} \times 365 = \text{days (or } \times 52 = \text{weeks, or } \times 12 = \text{months)}$
Creditors' Payment period	$\frac{\text{Average Creditors}}{\text{Total Credit Purchases}} \times 365 = \text{days (or } \times 52 = \text{weeks, or } \times 12 = \text{months)}$ <p>NB Where only one figure is given for debtors or creditors this will be taken as the average.</p>
Fixed Asset Turnover	$\frac{\text{Net Turnover}}{\text{Fixed Assets at net book value}}$ <p>Answer should be expressed as a ratio, eg 0.75:1</p>