

## Analysing Accounting Information

**SCQF:** level 6 (6 SCQF credit points)

**Unit code:** J21N 76

### Unit outline

The general aim of this Unit is to allow learners to develop the knowledge and understanding of the interpretation and analysis of accounting information, and the ability to interpret and analyse such information using a range of routine and complex techniques. They will carry out learning activities that allow them to investigate, analyse and report on an organisation's current financial position and performance, and to offer financial solutions that can assist in future planning and decision making. This will provide learners with an understanding of financial analysis.

Learners who complete this Unit will be able to:

- 1 Describe analysis techniques applied in accounting statements
- 2 Evaluate business performance, based on accounting analysis, to make business recommendations

This Unit is available as a free-standing Unit. The Unit Specification should be read in conjunction with the *Unit Support Notes*, which provide advice and guidance on delivery, assessment approaches and development of skills for learning, skills for life and skills for work. Exemplification of the standards in this Unit is given in *Unit Assessment Support*.

## **Recommended entry**

Entry to this Course is at the discretion of the centre. However, learners would normally be expected to have attained the skills, knowledge and understanding required by one or more of the following or equivalent qualifications and/or experience:

- ◆ National 5 Accounting Course
- ◆ National 5 Mathematics Course

Examples of other relevant prior learning and experiences would include the development of logical and analytical thinking skills and the ability to use ICT, particularly spreadsheets.

## **Equality and inclusion**

This Unit Specification has been designed to ensure that there are no unnecessary barriers to learning or assessment. The individual needs of learners should be taken into account when planning learning experiences, selecting assessment methods or considering alternative evidence. For further information, please refer to the *Unit Support Notes*.

# Standards

## Outcomes and assessment standards

### Outcome 1

The learner will:

- 1 Describe analysis techniques applied in accounting statements by:**
  - 1.1 Detailing the purpose and limitations of accounting ratios
  - 1.2 Describing the influence of financial and non-financial performance indicators

### Outcome 2

The learner will:

- 2 Evaluate business performance, based on accounting analysis, to make business recommendations by:**
  - 2.1 Using analytical techniques to perform calculations on accounting information and to evaluate the results
  - 2.2 Making appropriate recommendations based on the results of accounting analysis

## Evidence Requirements for the Unit

Assessors should use their professional judgement, subject knowledge and experience, and understanding of their learners, to determine the most appropriate ways to generate evidence and the conditions and contexts in which they are used.

Evidence for this Unit may be presented in a written response, as an ICT printout or by electronic means, and must use relevant accounting layouts and concepts.

Assessors should also use their professional judgement when giving learners credit for an appropriate degree of accuracy. This may mean giving credit for solutions which are numerically incorrect, but which show correct application of accounting concepts and methods.

Evidence may be presented for individual Outcomes or it may be gathered for the Unit as a whole through combining assessment in one single activity. If the latter approach is used, it must be clear how the evidence covers each Outcome.

For Outcome 2, analytical techniques should be selected from the following: ratio analysis, marginal costing and investment appraisal.

Exemplification of assessment is provided in *Unit Assessment Support*. Advice and guidance on possible approaches to assessment is provided in the *Unit Support Notes*.

# Development of skills for learning, skills for life and skills for work

It is expected that learners will develop broad, generic skills through this Unit. The skills that learners will be expected to improve on and develop through the Unit are based on SQA's *Skills Framework: Skills for Learning, Skills for Life and Skills for Work* and drawn from the main skills areas listed below. These must be built into the Unit where there are appropriate opportunities.

## **2 Numeracy**

- 2.1 Number process
- 2.2 Money, time and measurement
- 2.3 Information handling

## **4 Employability, enterprise and citizenship**

- 4.2 Information and communications technology (ICT)

## **5 Thinking skills**

- 5.3 Applying
- 5.4 Analysing and evaluating

Amplification of these is given in SQA's *Skills Framework: Skills for Learning, Skills for Life and Skills for Work*. The level of these skills should be at the same SCQF level as the Unit and be consistent with the SCQF level descriptor. Further information on building in skills for learning, skills for life and skills for work is given in the *Unit Support Notes*.

# Appendix: Unit support notes

## Introduction

These support notes are not mandatory. They provide advice and guidance on approaches to delivering and assessing this Unit. They are intended for teachers and lecturers who are delivering this Unit. They should be read in conjunction with:

- ◆ the *Unit Specification*
- ◆ the *Unit Assessment Support packs*

## Developing skills, knowledge and understanding

Teachers and lecturers are free to select the skills, knowledge, understanding and contexts which are most appropriate for delivery in their centres.

## Approaches to learning, teaching and assessment

Centres are advised that this Unit requires the prior completion of the *Preparing Financial Accounting Information* and *Preparing Management Accounting Information* Units.

Learning and teaching approaches should be learner-centred, participative and practical in nature. Underpinning knowledge should be integrated with practical activities and placed in the context of those activities. There should be an appropriate balance between whole-class teaching and activity-based learning.

The table below suggests some activities which could support the delivery of this Unit and which may suit the needs of learners with different learning styles.

Topic	Skills, knowledge and understanding	Suggested experiences and activities
<b>Decision making</b>	Decision making — where there are limiting factors. Profit maximisation within limiting factors. Make or buy, retain or close a factory or branch, accept or reject decisions. Investment appraisal — pay back, accounting rate of return methods. Costing: mark-ups/margins to set selling prices/profit levels.	<ul style="list-style-type: none"> <li>◆ linking this section to the appropriate sections of the <i>Preparing Management Accounting Information</i> Unit — this approach would support the learner’s understanding of these topics and the effects of changes in data</li> <li>◆ engaging in role play — management accountant and cost centre manager</li> <li>◆ estimated and actual data provided and variance from projected break-even calculated</li> <li>◆ using spreadsheet files containing formulae to illustrate the effects of changes in selling price and costs</li> <li>◆ downloading an annual report of a national PLC and discussing non-financial performance indicators</li> <li>◆ learners producing a report to facilitate decision making</li> <li>◆ practising manual calculations and creating costing statements</li> <li>◆ calculating changes required to maintain/improve existing profit levels and margins of safety through use of a case study</li> </ul> <p><b>This topic should articulate with <i>Preparing Management Accounting Information</i> Unit.</b></p>

Topic	Skills, knowledge and understanding	Suggested experiences and activities
<b>Business analysis</b>	Calculation and interpretation of investment ratios. Yardsticks of comparison — prior year, budget, competitors.  See <a href="#">Appendix 2: Ratio Formulae</a>  Non-financial performance indicators — market share, staff turnover, absentee rates, customer satisfaction, health and safety record, net carbon footprint, number of customers, new shops opened, new products developed.	<ul style="list-style-type: none"> <li>◆ linking this section to the period-end financial statements in the Preparing Financial Accounting Information Unit</li> <li>◆ calculating and interpreting ratios and assessing implications for the performance of the business entity through problem-solving tasks</li> <li>◆ using the formulae provided to ensure consistency</li> <li>◆ undertaking exploratory web and textbook research, eg Bloomberg, Financial Times, BBC News, Yahoo Finance</li> <li>◆ participating in business games of investment analysis eg stock market challenge</li> <li>◆ using spreadsheet formulae in the calculation of financial ratios to reinforce the effect of changes and comparisons of performance of the business entity</li> <li>◆ reviewing a company’s annual report to see the extent to which it make use of non-financial indicators to highlight performance</li> </ul> <p><b>This topic should articulate with <i>Preparing Financial Accounting Information</i>.</b></p>

The table above gives examples of learning and teaching activities that may be used when delivering the Course. This would be classified as naturally occurring evidence which could be used to demonstrate that the learner has met the Assessment Standards within the Unit Specification.

There are a number of assessment strategies that could be used in this Unit, including:

completing computer- or paper-based accounting tasks that include short answer theory questions  
 a portfolio of tasks could be submitted by learners

Information about assessment approaches in this Unit is given in the Higher Accounting *Course Support Notes*.

## Appendix 2: Ratio formulae

Capital gearing ratio	(Preference Shares + non-current (Long-term liabilities): Ordinary Shares)  <b>NB</b> Answers to be expressed as a ratio to 1, eg 2.5:1 or 0.67:1
Investment	
Dividend yield	$\frac{\text{Ordinary dividend per share}}{\text{Market price per share}} \times 100$
Dividend cover	$\frac{(\text{Profit for year (net profit) after tax} - \text{preference dividends})}{\text{Ordinary share dividend}}$
Earnings per share	$\frac{(\text{Profit for the year (Net profit) after tax} - \text{preference dividends})}{\text{Number of ordinary shares}}$
Price/earnings ratio	$\frac{\text{Market price per share}}{\text{Earnings per share}}$
Interest cover	$\frac{\text{Profit for the year (Net profit) before finance cost (interest) and tax}}{\text{Finance cost (Interest)}}$



## **Combining assessment within Units**

Assessment could be combined in this Unit by holistically assessing all the Outcomes of the Unit in a single assessment. When assessment within the Unit is holistic, teachers and lecturers should take particular care to track the evidence for each individual Outcome.

## Administrative information

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**Superclass:** AK

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### History of changes to National Unit Specification

Version	Description of change	Authorised by	Date
2.0	Level changed from Higher to SCQF level 6. Unit support notes added.	Qualifications Manager	September 2018
3.0	Unit code updated	Qualifications Manager	July 2019

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