
Analysing Accounting Information

SCQF: level 5 (6 SCQF credit points)

Unit code: J1Y0 75

Unit outline

The general aim of this Unit is to allow learners to develop the skills, knowledge and understanding relating to the interpretation and analysis of accounting information. The information will be used to assess an organisation's current financial position and performance and assist with decision making and planning.

Learners who complete this Unit will be able to:

- 1 Use accounting information to aid decision making
- 2 Interpret and evaluate business performance to aid planning

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 Unit 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 4 Business Course or relevant component Units
- ◆ National 4 Mathematics Course

Examples of other such 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 Use accounting information to aid decision making by:**
 - 1.1 Calculating and assessing the effect of a change in costs and selling price on break-even point and profit
 - 1.2 Calculating and assessing the impact that a limiting factor has on profit maximisation
 - 1.3 Interpreting a cash budget and outlining possible courses of action

Outcome 2

The learner will:

- 2 Interpret and evaluate business performance to aid planning by:**
 - 2.1 Calculating accounting ratios that assess the profitability, liquidity and efficiency of an organisation
 - 2.2 Comparing ratios based on given yardsticks of comparison to evaluate and report on the organisation's performance

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.

In Outcome 2, the range of ratios includes gross profit percentage, profit for the year (net profit) percentage, return on equity (capital) employed, current ratio, acid test ratio, rate of inventory (stock) turnover, expenses ratio, trade receivables (debtors') collections period and trade payables (creditors') payment period. The yardsticks of comparison include budget versus actual, past performance and industry average.

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.

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

Assessment standard thresholds

If a candidate successfully meets the requirements of the specified number of Assessment Standards they will be judged to have passed the Unit overall and no further re-assessment will be required.

The specific requirements for this Unit is as follows:

- ◆ 4 out of 5 Assessment Standards must be achieved.

It should be noted that there will still be the requirement for candidates to be given the opportunity to meet all Assessment Standards. The above threshold has been put in place to reduce the volume of re-assessment where that is required.

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 processes
- 2.2 Money, time and measurement
- 2.3 Information handling

4 Employability, enterprise and citizenship

- 4.1 Employability
- 4.2 Information and communication technology (ICT)

5 Thinking skills

- 5.2 Understanding
- 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 of 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 reminded that the sole trader is the only business structure covered in *Preparing Financial Accounting Information Unit* and teachers/lecturers should try to contextualise learning to this business structure.

Learning and teaching approaches should be learner-centred, participative and practical in nature. The 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.

Analysing Accounting Information

Topic	Skills, knowledge and understanding	Suggested experiences and activities
Decision making (this topic should articulate with the topic below)	<p>Calculation and interpretation of ratios:</p> <ul style="list-style-type: none"> ◆ profitability <ul style="list-style-type: none"> — gross profit percentage (GP%) — profit for the year (net profit) percentage (NP%) — return on equity (capital) employed (ROEE) (ROCE) ◆ liquidity — current ratio acid test ratio ◆ efficiency <ul style="list-style-type: none"> — rate of inventory (stock) turnover — expense ratio — trade receivables (debtors) period — trade payables (creditors) period — non-current (fixed) asset: turnover <p>Formulae to be provided for assessment</p>	<ul style="list-style-type: none"> ◆ Linking this section to the financial statements of the sole trader. This approach would support the learner's understanding of what these presentations demonstrate. ◆ Practising calculations and interpretation of ratios through given tasks. ◆ Discussing and/or reporting the implications for the performance of the sole trader. ◆ Using spreadsheet formulae in the calculation of financial ratios would reinforce the effect of changes and comparisons of performance of the sole trader.

Topic	Skills, knowledge and understanding	Suggested experiences and activities
	<p>Calculation of accounting information from pre-given ratios (working ratios back)</p> <p>Yardsticks of comparison — budget versus actual, past performance, industry average</p> <p>Limitations of ratio analysis</p> <p>See Appendix 2: ratio formulae</p>	
<p>Decision-making (this topic should articulate with Preparing Management Accounting Information)</p>	<p>Break-even:</p> <ul style="list-style-type: none"> ◆ analysis of impact on break-even point of changes to sales price/costs ◆ calculate changes required in selling price/contribution to maintain/improve existing profit levels <p>Budgeting:</p> <ul style="list-style-type: none"> ◆ cash management of shortfalls and surpluses ◆ knowledge and understanding of ways to improve short-term cash flow <p>Limiting factor:</p> <ul style="list-style-type: none"> ◆ profit maximisation under constraint of a limiting factor 	<ul style="list-style-type: none"> ◆ Linking this section to the break-even and cash budgets sections of the Preparing Management Accounting Information Unit would support understanding of these topics and the effects of changes in data. ◆ Using spreadsheet files containing formulae to illustrate the effects on break-even point of changes in selling price and costs. ◆ Practising manual calculations of the effect on break-even point of changes in selling price and costs through tasks. ◆ Using a short case study to calculate changes required to maintain/improve existing profit levels and margins of safety. ◆ Providing stimulus materials to identify cash management and trends in cash flow. ◆ Researching different sources of finance available to sole traders and producing an information leaflet or presentation aimed at new businesses.

The table above gives examples of learning and teaching activities that may be used when delivering the Unit. 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

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.

Ratio formulae (new terminology)

Ratio	Formula
Profitability ratios:	
Return on equity employed	$\frac{\text{Profit for the year}}{\text{Opening Equity}} \times 100 = \%$
Gross profit ratio	$\frac{\text{Gross profit}}{\text{Sales revenue}} \times 100 = \%$
Profit for the year ratio	$\frac{\text{Profit for the year}}{\text{Sales revenue}} \times 100 = \%$
Liquidity ratio:	
Current ratio	Current assets : current liabilities Answer should be expressed as 2.35:1
Acid test ratio	Current assets — closing inventory : current liabilities Answer should be expressed as 1.27:1
Efficiency ratios:	
Rate of inventory turnover	$\frac{\text{Cost of sales}}{\text{Average inventory}} = \text{times}$
Expense ratio	$\frac{\text{Expenses}}{\text{Sales revenue}} \times 100 = \%$ *This figure may be for the total expenses or for one individual expense, eg advertising
Trade payables period	$\frac{\text{Average trade payables}}{\text{Credit purchases}} \times 365 = \text{days (or } \times 52 = \text{weeks, or } \times 12 = \text{months)}$ NB — where only one figure is given for trade payables, this will be taken as the average.
Trade receivables period	$\frac{\text{Average trade receivables}}{\text{Credit sales revenue}} \times 365 = \text{days (or } \times 52 = \text{weeks, or } \times 12 = \text{months)}$ NB — where only one figure is given for trade receivables, this will be taken as the average.
Non-current asset turnover	$\frac{\text{Sales revenue}}{\text{Non-current assets at net book value}} \times 100 = \%$ Answers should be expressed as a ratio, eg 0.75:1

Administrative information

Published: July 2019 (version 2.0)

Superclass: AK

History of changes to Unit Specification

Version	Description of change	Authorised by	Date
1.1	Assessment standard threshold added Unit support notes added	Qualifications Manager	September 2018
2.0	Unit code updated	Qualifications Manager	July 2019

This specification may be reproduced in whole or in part for educational purposes provided that no profit is derived from reproduction and that, if reproduced in part, the source is acknowledged. Additional copies of this Unit can be downloaded from SQA's website at www.sqa.org.uk.

Note: readers are advised to check SQA's website: www.sqa.org.uk to ensure they are using the most up-to-date version of the Unit Specification.

© Scottish Qualifications Authority 2019