

Preparing Financial Accounting Information

SCQF: level 5 (6 SCQF credit points)

Unit code: J1XX 75

Unit outline

The aim of this Unit is to allow learners to develop the knowledge and understanding relating to the preparation of financial accounting information for external use, and to have the ability to apply the accounting concepts and techniques associated with the preparation of such financial accounting information.

Learners who complete this Unit will be able to:

- 1 Record straightforward financial accounting transactions to the trial balance stage
- 2 Apply knowledge and understanding of accounting concepts in the preparation of period-end adjustments
- 3 Prepare period-end financial accounting statements that show profit for the year (net profit) and net worth

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
- ♦ 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 Record straightforward financial accounting transactions to the trial balance stage by:**
 - 1.1 Collecting relevant accounting data from business documents that cover a range of transactions
 - 1.2 Recording transactions in ledger accounts using double entry
 - 1.3 Preparing a trial balance from available ledger account balances

Outcome 2

The learner will:

- 2 Apply knowledge and understanding of accounting concepts in the preparation of period-end adjustments by:**
 - 2.1 Explaining why businesses need to account for period-end adjustments
 - 2.2 Calculating period-end adjustments from accounting data provided
 - 2.3 Describing the effect of period-end adjustments on profit for the year (net profit) and the statement of financial position (balance sheet)

Outcome 3

The learner will:

- 3 Prepare period-end financial accounting statements that show net profit and net worth by:**
 - 3.1 Selecting relevant information from a trial balance and period-end adjustments
 - 3.2 Preparing an income statement (trading and profit and loss account) and a statement of financial position (balance sheet) in accordance with standard accounting layouts

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 1, the range of business documents includes invoices, copy invoices, credit notes, copy credit notes, cash receipts and bank accounts (including electronic funds transfer).

In Outcome 2, period-end adjustments include other receivables and payables (prepayments, accruals), bad debts and depreciation using the straight line method.

Evidence may be presented for individual Outcomes or 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:

- ◆ 6 out of 8 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

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 by this 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.

Preparing Financial Accounting Information

Topic	Skills, knowledge and understanding	Suggested experiences and activities
Sole trader	Definition and examples.	<ul style="list-style-type: none"> ◆ Defining and giving examples of sole traders may be used to set the scene of the Unit. ◆ Researching into local sole traders — online, field trips to look at local businesses. ◆ Inviting local sole traders to class to discuss their experiences — gives learners a better understanding of what a sole trader is.
Role of financial accountant	Describing the duties, scope and responsibilities of the financial accountant.	<ul style="list-style-type: none"> ◆ brainstorming ◆ researching the internet or text book ◆ visiting local organisations and/or visiting speakers to class ◆ presenting research findings to peers
Business documents (this topic should	Preparation of invoices, credit notes and statements. Preparation of business documents to	<ul style="list-style-type: none"> ◆ Using business documents in paper-based or electronic form.

Topic	Skills, knowledge and understanding	Suggested experiences and activities
articulate with the topic below)	<p>include VAT and calculations where trade and cash discount are being allowed.</p> <p>Extraction of information for use in ledger accounts from the following documents invoices, copy invoices, credit notes, copy credit notes, cash receipts and bank accounts (including electronic funds transfer).</p>	<ul style="list-style-type: none"> ◆ Visiting internal or external offices to view business documents used in a work environment. ◆ Manually and/or electronically completing each type of business document including the use of trade and cash discounts and VAT.
Recording entries in ledger accounts (this topic should articulate with the topic below)	<p>Relating to: Non-current/current assets (fixed/current assets), income/expenses, non-current/current liabilities (long term/ current liabilities), equity (capital), drawings.</p> <p>Expenses to be accounted for to include all general expenses, eg electricity, wages etc, bad debts, discount allowed and received, depreciation.</p>	<ul style="list-style-type: none"> ◆ Illustrating the double entry process — teacher-led activity. The use of presentation and/or screen-share software may be used to enhance the learning experience and to clearly illustrate the double entry process. ◆ Preparing ledger accounts using the double entry system arising from transactions from business documents.
Preparing trial balance (this topic should articulate with the topic below)	Trial balance preparation from ledger accounts.	<ul style="list-style-type: none"> ◆ Using skeleton electronic templates to illustrate and emphasise the purpose of the trial balance as a checking device. ◆ Individually practising, constructing and completing trial balances from given tasks.
Financial Statements (Final accounts) and Statement of Financial Position (balance sheet) of sole trader	Preparation of Statement of Financial Position (balance sheet) in line with current accounting practice.	<ul style="list-style-type: none"> ◆ Dynamically linking of sheets within a spreadsheet file to demonstrate the integrative nature of financial accounting. ◆ Learners may then individually practise drawing up financial statements from information given.

Correction of errors	Amendments to gross profit and profit for the year (net profit) as a result of identified errors Knowledge and understanding of different classification of errors.	<ul style="list-style-type: none"> ◆ Using spreadsheets and formulas to demonstrate the before and after effects to gross and profit for the year (net profit) of the result of correcting identified errors.
Sources of finance	Knowledge and understanding of sources of finance for a sole trader.	<ul style="list-style-type: none"> ◆ brainstorming ◆ researching the internet or text book ◆ visiting local organisations and/or visiting speakers to class ◆ presenting research findings to peers

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 National Unit Specification

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

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