

Next Generation Higher National Unit Specification

Financial Accounting Principles (SCQF level 7)

Unit code: J6DY 47
SCQF level: 7 (32 SCQF credit points)
Valid from: session 2022–23

Prototype unit specification for use in pilot delivery only (version 2.1) January 2025

This unit specification provides detailed information about the unit to ensure consistent and transparent assessment year on year.

This unit specification is for teachers and lecturers and contains all the mandatory information required to deliver and assess the unit.

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Unit purpose

This unit provides learners with the knowledge and skills to progress to employment in entry level accounting or finance roles or to accounting professional or degree qualifications.

Unit outcomes

Learners who complete this unit can:

- 1 record financial transactions in books of original entry, in a double-entry bookkeeping system, extract a trial balance and prepare a VAT return
- 2 prepare financial statements from complete records with annual adjustments for sole traders and manufacturing partnerships, and from incomplete records for sole traders
- 3 incorporate control mechanisms into a bookkeeping system
- 4 analyse the financial statements of a sole trader using accounting ratios
- 5 describe the different types of organisations that need to prepare financial statements, discuss the differences between preparing financial statements for a limited company versus a sole trader, and explain their use and importance of the conceptual framework in accounting

Evidence requirements

Throughout the unit, learners must use relevant software to produce evidence, for example they should complete financial records using spreadsheet software.

Learners must not use specific bookkeeping software. Do not give learners templates containing pre-populated formulae or text.

Outcome 1

Learners must record a minimum of 30 financial transactions. These transactions must:

- ◆ cover revenue and capital items
- ◆ be recorded in the relevant books of original entry
- ◆ be from sales and purchase invoices, credit notes, bank transactions, cash payments and receipts

Transactions must:

- ◆ cover standard-rated, and zero-rated items that are subject to VAT
- ◆ cover items that are exempt from VAT
- ◆ include amounts gross and net of VAT

Learners calculate and account for prompt payment discounts for receipts from customers and payments to suppliers for four invoices and one credit note.

Learners must total the relevant day books and use double-entry principles to post transactions to the ledger accounts. They must then extract a trial balance from the balanced ledgers.

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Learners must complete a VAT return including working notes from the books of original entry covering a one-month period.

You must assess this outcome under supervised closed-book conditions.

To achieve this outcome, learners need a minimum mark of 70%.

Outcome 2

This outcome has three parts. You can assess them in any order.

Part 1

Learners must prepare the income statement and statement of financial position for a sole trader from a trial balance. Learners must incorporate a minimum of six different adjustments into the accounts, from:

- ◆ straight-line depreciation
- ◆ reducing balance depreciation
- ◆ irrecoverable debts
- ◆ allowance for irrecoverable debts
- ◆ other payables
- ◆ other receivables
- ◆ closing inventory
- ◆ drawings

Part 2

Learners must prepare the financial statements for a sole trader from incomplete records by:

- ◆ presenting an opening statement of affairs
- ◆ preparing working notes that show the conversion of receipts and payments into revenue and expenses for a minimum of six items and deducing a minimum of one missing figure
- ◆ preparing the income statement and statement of financial position

Part 3

Learners must prepare an income statement and a statement of financial position, incorporating the capital and current accounts from a year-end trial balance for a manufacturer trading as a partnership. This must incorporate where there has been a change in the partnership agreement in the period. Learners must incorporate a minimum of six different year-end adjustments into the accounts:

- ◆ drawings
- ◆ interest on capital
- ◆ interest on drawings
- ◆ partnership salaries

Plus, two from:

- ◆ straight-line depreciation
- ◆ reducing balance depreciation
- ◆ irrecoverable debts
- ◆ allowance for irrecoverable debts
- ◆ other payables
- ◆ other receivables
- ◆ closing inventory

You should assess this outcome under supervised open-book conditions

To achieve this outcome, learners need a minimum mark of 70%.

Outcome 3

Learners must reconcile a cash book with a bank statement and prepare a bank reconciliation. In the reconciliation, they must include a minimum of six different anomalies covering outstanding lodgements, unprocessed payments, standing orders, direct debits, charges, and errors in cash book.

Learners must prepare journal entries to correct eight different errors in ledger accounts, four of which should affect and be posted to a suspense account. Learners must then correctly clear the suspense account.

Learners must complete two control accounts (trade receivables and trade payables) from completed day books. You can integrate this with the part one assessment, or assess it separately by providing learners with the day books and ledgers from part one.

You must assess this outcome under supervised closed-book conditions.

To achieve this outcome, learners need a minimum mark of 70%.

Outcome 4

Learners must show they can:

- ◆ analyse the financial statements of a sole trader by preparing working notes that show the calculation of the following accounting ratios over a two-year period:
 - gross profit ratio
 - expenses-to-revenue ratio
 - operating profit ratio
 - current ratio
 - acid test ratio
 - inventory turnover (or days)
 - trade receivables turnover
 - trade payables turnover

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- ◆ comment and report on the purpose and results by discussing the significance of each ratio calculated on the business's financial position and performance
- ◆ advise a client on the results of this analysis

You must assess this outcome under supervised, restricted open-book conditions, giving learners access to the accounting formulae only.

To achieve this outcome, learners need a minimum mark of 70% in both computational and theory aspects of assessments with a final minimum overall mark of 70%.

If learners produce the minimum evidence requirements, award the minimum pass marks in those sections. Award more marks for more in-depth answers. The computational element must equate to no more than 40% of the overall marks available for this outcome.

Outcome 5

Learners must show they can:

- ◆ advise a client on the different types of business organisations, including:
 - the structure of different types of businesses
 - the advantages and disadvantages of those types
 - a suitable recommendation with a rationale appropriate to the situation
- ◆ advise a client of the difference between accounting for a sole trader and a limited company, including:
 - detailing the legal requirements to prepare financial statements
 - explaining why the selection and application of accounting policies is regulated
 - describing the statutory formats used to prepare financial statements for a limited company

(Learners must show they understand the key formats and elements of financial statements for limited company.)

- ◆ advise a client of the purpose of the conceptual framework for accounting, including:
 - the general purpose of financial reporting
 - explaining and illustrating the application of a minimum of five accounting concepts
 - identifying the elements of the financial statements

You must assess this outcome under unsupervised open-book conditions.

To achieve this outcome, learners need a minimum mark of 70%. If learners produce the minimum evidence requirements, award the minimum pass marks in those sections. Award more marks for more in-depth answers.

Knowledge and skills

The following table shows the knowledge and skills covered by the unit outcomes:

Knowledge	Skills
<p>Outcome 1 Learners should understand how to:</p> <ul style="list-style-type: none"> ◆ record financial transactions in the books of original entry ◆ correctly record VAT on transactions ◆ record prompt payment discounts for sales and purchases ◆ record receipts and payments ◆ record transaction in the ledgers using double-entry bookkeeping principles ◆ prepare and extract a trial balance ◆ account for VAT inputs and outputs ◆ prepare a VAT return 	<p>Outcome 1 Learners can:</p> <ul style="list-style-type: none"> ◆ record financial transactions, covering revenue and capital items in the relevant books of original entry ◆ calculate and account for VAT on these transactions in the books of original entry ◆ calculate and account for prompt payment discounts for receipts from customers and payments to suppliers ◆ total and balance day books and cash books ◆ post financial transactions from the books of original entry to sales, purchases and general ledger accounts, applying double-entry bookkeeping principles ◆ balance the ledger accounts for assets, liabilities, income and expenses ◆ extract a trial balance from the ledger accounts ◆ calculate the figures needed for a VAT return from the books of original entry ◆ prepare a VAT return

Knowledge	Skills
<p>Outcome 2 Learners should understand how to:</p> <ul style="list-style-type: none"> ◆ prepare income statements and statements of financial position for sole traders ◆ account for adjustments to the financial statements ◆ prepare an opening statement of financial position from incomplete records ◆ prepare a statement of affairs from incomplete records ◆ record receipts, payments, revenues and expenses from incomplete records ◆ prepare an income statement and statement of financial position from incomplete records ◆ prepare an income statement and statement of financial position for a manufacturer trading as a partnership ◆ account for adjustments to the financial statements for a manufacturer trading as a partnership ◆ account for changes to partnership agreements in the financial statements 	<p>Outcome 2 Learners can:</p> <ul style="list-style-type: none"> ◆ prepare an income statement and a statement of financial position from a year-end trial balance for a sole trader ◆ record a range of year-end adjustments into the accounts ◆ prepare an opening statement of affairs for a sole trader ◆ prepare working notes that demonstrate the conversion of receipts and payments into revenue and expenses ◆ prepare an income statement and statement of financial position for a sole trader from incomplete records ◆ prepare a manufacturing account, an income statement and a statement of financial position from a year-end trial balance for a manufacturer trading as a partnership ◆ record a range of year-end adjustments into the accounts ◆ record the impact of changes in partnership agreements into the accounts
<p>Outcome 3 Learners should understand:</p> <ul style="list-style-type: none"> ◆ the purpose of and how to perform a bank reconciliation ◆ how to correct errors in the accounts ◆ the purpose of and how to use a suspense account ◆ how to use ledger and control accounts ◆ how to prepare a trial balance from the ledger accounts 	<p>Outcome 3 Learners can:</p> <ul style="list-style-type: none"> ◆ reconcile a cash book with a bank statement and prepare a bank reconciliation statement ◆ prepare journal entries to correct different types of errors in ledger accounts ◆ open, post to and clear a suspense account ◆ prepare and balance the ledger and control accounts ◆ extract a trial balance from the ledger accounts

Knowledge	Skills
<p>Outcome 4 Learners should understand how to:</p> <ul style="list-style-type: none"> ◆ analyse the accounts for sole trader using accounting ratios (profitability, efficiency and liquidity) ◆ report the analysis of financial statements to a client and advise on appropriate actions 	<p>Outcome 4 Learners can:</p> <ul style="list-style-type: none"> ◆ calculate profitability, efficiency and liquidity ratios ◆ comment and report on the purpose and results of these ratios and provide advice on appropriate actions
<p>Outcome 5 Learners should understand:</p> <ul style="list-style-type: none"> ◆ the different types of business organisations ◆ the differences in the structure and financial characteristics of different organisations ◆ the advantages and disadvantages of operating as different types of organisations ◆ the key differences between preparing financial statements for a limited company and a sole trader ◆ the legal requirements to prepare financial statements ◆ why the selection and application of accounting policies is regulated ◆ the statutory formats in preparing financial statements for a limited company ◆ the purpose of the conceptual framework ◆ the general purpose of financial reporting ◆ accounting concepts and the effects on financial statements ◆ the elements of financial statements 	<p>Outcome 5 Learners can:</p> <ul style="list-style-type: none"> ◆ provide brief descriptions of the different business organisations ◆ discuss the differences in the structure and financial characteristics of different organisations ◆ discuss advantages and disadvantages of operating as different types of organisations and advise the most appropriate set up for a client ◆ describe the key differences between preparing financial statements for a limited company and a sole trader ◆ detailing the legal requirements to prepare financial statements ◆ explain why the selection and application of accounting policies is regulated ◆ describe the statutory formats in preparing financial statements for a limited company ◆ discuss the purpose of the conceptual framework ◆ describe the general purpose of financial reporting ◆ explain the application of accounting concepts ◆ identify the elements of financial statements

Meta-skills

Throughout the unit, learners develop meta-skills to enhance their employability in the accounting sector.

Self-management

This meta-skill includes:

- ♦ focusing: researching and presenting information on a given brief; filtering and sorting the information needed to prepare financial statements and associated reports

Social intelligence

This meta-skill includes:

- ♦ communicating: receiving and conveying accounting information; using relevant methods of communication to convey the information to intended audience; interpreting financial information to convey to their audience; storytelling to bring information to life

Innovation

This meta-skill includes:

- ♦ sense-making: filtering and sorting a large amount of information and raw data and presenting this data in accordance with statutory and generally accepted formats

Literacies

Learners develop core skills in the following literacies.

Numeracy

Learners develop the key skills in this profession by performing accounting calculations, and working with percentages and formulae.

Communication

Learners develop communication skills by providing advice and communicating accounting information.

Digital

Learners develop digital skills and computer literacy by using information and communications technology (ICT).

Delivery of unit

The unit is a mandatory unit in the Higher National Certificate (HNC) Accounting. It can be delivered on a stand-alone basis or partially integrated with parts of the Management Accounting Principles at SCQF level 7 unit.

The notional time for delivery and assessment is 160 hours. The amount of time you allocate to each outcome is at your discretion.

Additional guidance

The guidance in this section is not mandatory.

Approaches to delivery

You can deliver this unit in two parts.

You can use a single sole trader to teach all of outcome 1 and the preparing of accounts from complete records for the sole trader in outcome 2, with learners providing advice on business formation, accounting treatments and preparing the accounting records and reports.

You can deliver the remaining outcomes and elements within the outcomes separately.

Approaches to assessment

To assess the unit, you can use a range of instruments such as case study scenarios or individual tasks with learners producing business reports, presentations or electronic accounting records.

You can assess all of outcome 1 and the preparing of accounts for a sole trader in outcome 2 together or separately using a single case study.

To allow continuity of learning and assessment, you can give learners the correct solution to the previous assessment for outcome 1 to use to prepare the financial statements for a sole trader in outcome 2.

If you take this approach, you must ensure these outcomes are assessed in chronological order.

You may also wish to incorporate the ledger accounting elements from outcome 4 into outcome 1.

You can assess the remaining outcomes individually.

To allow consistency, you should present the accounts over a two-year period for this business to use in outcome 4.

Equality and inclusion

This unit is designed to be as fair and as accessible as possible with no unnecessary barriers to learning or assessment.

You should take into account the needs of individual learners when planning learning experiences, selecting assessment methods or considering alternative evidence.

Guidance on assessment arrangements for disabled learners and/or those with additional support needs is available on the assessment arrangements web page:

www.sqa.org.uk/assessmentarrangements.

Information for learners

Financial Accounting Principles (SCQF level 7)

This section explains:

- ◆ what the unit is about
- ◆ what you should know or be able to do before you start
- ◆ what you need to do during the unit
- ◆ opportunities for further learning and employment

Unit information

This unit develops your bookkeeping and financial accounting skills. It can help you progress to employment in an entry level accounting or finance role, or to further learning in a related accounting qualification.

You learn about the different types of business organisations, their structure and how to account for their transactions.

You are introduced to the financial statements of sole traders, partnerships and manufacturers. The financial statements include an income statement and statement of financial position. You learn how to prepare and present these statements in accordance with current accounting standards.

Business organisations need to analyse their financial position in terms of profitability, liquidity and efficiency. You learn how to calculate and analyse accounting ratios to provide this information.

You are introduced to the differences of accounting for a sole trader or a company and to the conceptual framework that guides accounting principles.

Record financial transactions in books of original entry, in a double-entry bookkeeping system, extract a trial balance and prepare a VAT return (outcome 1)

You learn how to:

- ◆ record financial transactions in the books of original entry of a business
- ◆ calculate and account for value added tax (VAT) and prompt payment discounts
- ◆ distinguish between cash and credit transactions and capital and revenue expenditure

This outcome covers the double-entry bookkeeping system that is fundamental to bookkeeping and accounts. You learn:

- ◆ how every transaction affects two items and how to record these in ledger accounts
- ◆ how to compile a trial balance to check the accuracy of the double entries
- ◆ about the rates of VAT and how to complete a VAT return from the books of original entry

Prepare financial statements from complete records with annual adjustments for sole traders and manufacturing partnerships, and from incomplete records for sole traders (outcome 2)

You learn how to:

- ◆ use the information from the trial balance and other year-end adjustments, such as closing inventory, accruals, prepayments and depreciation, to prepare the income statement and statement of financial position of a sole trade
- ◆ prepare the financial statements for traders operating as a manufacturing partnership
- ◆ consolidate and build on many of the fundamental skills you developed while preparing the financial statements for a sole trader, and also explore the differences in accounting required for a partnership and manufacturer
- ◆ calculate the valuation of materials and goods at different stages of production, the allocation of different overheads and how this affects the preparation of financial statements
- ◆ further explore the impact of partnership inputs and withdrawal to the business and how it affects the financial position of each partner and the impact of changes in partnership structure in the period
- ◆ learn how to prepare the financial statements of a sole trader from incomplete records
- ◆ explore how to calculate the balances in the final accounts and prepare the financial statements for presentation

Incorporate control mechanisms into a bookkeeping system (outcome 3)

You learn how to reconcile the cash book balance with the bank statement, correct errors in the bookkeeping records and how to use ledger accounting.

Analyse the financial statements of a sole trader using accounting ratios (outcome 4)

You learn how to analyse financial statements over periods using accounting ratios. You calculate the ratios applicable to a sole trader, explain the results of the ratios and advise a client on the suitable business approaches.

Describe the different types of organisations that need to prepare financial statements, discuss the differences between preparing financial statements for a limited company versus a sole trader and explain their use and importance of the conceptual framework in accounting (outcome 5)

You learn about different types of businesses, their structure and the advantages and disadvantages of trading for each type of business. You explore the legal and presentation differences between accounting for a sole trader and a limited company, learn about the conceptual framework for accounting, and discuss the elements and characteristics of accounting information.

Each outcome may be assessed separately or the assessments may be combined. You are assessed under closed-book and open-book (supervised and unsupervised) conditions.

Administrative information

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Superclass: AK

History of changes

Version	Description of change	Date
2.0	Evidence requirements updated for all outcomes. Conditions of assessment reviewed and updated. Outcome 5 knowledge and skills updated.	July 2023
2.1	Evidence requirements updated for outcome 2 part 3 (year-end adjustments), and outcome 3 (ledger and control accounts).	January 2025

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