

Unit 10: Financial Accounting and Reporting

Unit code: F/601/0864

QCF level: 4

Credit value: 15 credits

Aim

In this unit learners will prepare financial statements for different types of business, complying with relevant legal and regulatory provisions and the basic principles of group accounts. Learners will also develop tools for the interpretation of financial statements.

Unit abstract

It is essential for the success of any business that it has good financial control and record keeping. Lack of effective control, planning and recording can ultimately lead to poor financial results. Owners and managers need to be able to recognise the indications of potential difficulties and take remedial action when required.

The unit considers the current regulations governing financial reporting, the formats of financial statements and the purpose of these statements for different users.

Learners will use records to complete financial statements. They will consider various categories of business income and expenditure and use cash flow forecasts, monitoring and adjusting for the effective management of cash flow. They will measure financial performance using a profit and loss account and balance sheet and analyse the profitability, liquidity and efficiency of a business through the application of ratio analysis.

Learning outcomes

On successful completion of this unit a learner will:

1. 1 Understand the regulatory framework for financial reporting
2. 2 Be able to prepare financial statements from complete or incomplete records
3. 3 Be able to present financial information in accepted formats for publication
4. 4 Be able to interpret financial statements.

Unit content

1 Understand the regulatory framework for financial reporting

User groups: owners; managers; employees; suppliers; customers; lenders; government; potential investors; different needs from financial statements

User needs: profitability; liquidity; gearing; cash flow; job security; Accounting Standards Board (ASBs) statement of principles; International Accounting Standards Board (IASBs) framework for the presentation of financial statements

Legislation: current legislation including Companies Acts 1985, 1989 and 2006; Partnership Act 1890; European directives

Other regulations: International Accounting Standards (IASs); International Financial Reporting Standards and the main differences from UK Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs); The Accounting Standards Board (ASB)

2 Be able to prepare financial statements from complete or incomplete records

Statements: trial balance; assets, liabilities, income, expenses, capital; profit and loss accounts; balance sheet; cash flow statement; notes to the accounts; statement of recognised gains and losses; international equivalents under the International Accounting Standards (IAS)

Types of business: sole trader; partnership; limited company (public and private); manufacturing/service/retail, group of companies

Preparation: from trial balance with adjustments eg stock, prepayments, accruals, bad debts, depreciation; from incomplete records; basic consolidation of accounts; changes to reporting requirements under the International Accounting Standards (IAS) eg statement of comprehensive income, statement of financial position

3 Be able to present financial information in accepted formats for publication

Types of business: different formats for the businesses described in learning outcome 2 above; annual report

Formats: requirements of law and generally accepted accounting practice; changes to reporting requirements under the International Accounting Standards (IAS)

4 Be able to interpret financial statements

Ratios: calculate ratios to reflect profitability, liquidity, efficiency, gearing, investment; comparison of these ratios both externally (other companies, industry standards) and internally (previous periods); interpretation of results

Reporting: present findings in a format appropriate to users; weaknesses and limitations of analysis

Learning outcomes and assessment criteria

Learning outcomes On successful completion of this unit a learner will:	Assessment criteria for pass The learner can:
LO1 Understand the regulatory framework for financial reporting	1.1 describe the different users of financial statements and their needs 1.2 explain the legal and regulatory influences on financial statements 1.3 assess the implications for users 1.4 explain how different laws/regulations are dealt with by accounting and reporting standards
LO2 Be able to prepare financial statements from complete or incomplete records	2.1 prepare financial statements for a variety of businesses from a trial balance, making appropriate adjustments 2.1 prepare financial statements from incomplete records 2.3 prepare a consolidated balance sheet and profit and loss account for a simple group of companies
LO3 Be able to present financial information in accepted formats for publication	3.1 explain how the information needs of different user groups vary 3.2 prepare financial statements in a form suitable for publication by a sole trader, partnership and limited company
LO4 Be able to interpret financial statements	4.1 calculate accounting ratios to assess the performance and position of a business 4.2 prepare a report incorporating and interpreting accounting ratios, including suitable comparisons.

Links

The unit links with the following units within the specification: Unit 2: Managing Financial Resources and Decisions, Unit 6: Business Decision Making, Unit 9: Management Accounting: Costing and Budgeting, Unit 11: Financial Systems and Auditing and Unit 12: Taxation.

Additionally, the unit covers some of the underpinning knowledge and understanding for the NVQ in Accounting as mapped in Annexe B.

The unit covers topics essential for learners aiming to make a career in this field and who would like to become members of professional accounting bodies.

Essential requirements

Published financial reports of public limited companies are essential and are available from the companies themselves, or from the free online service provided by The Financial Times.