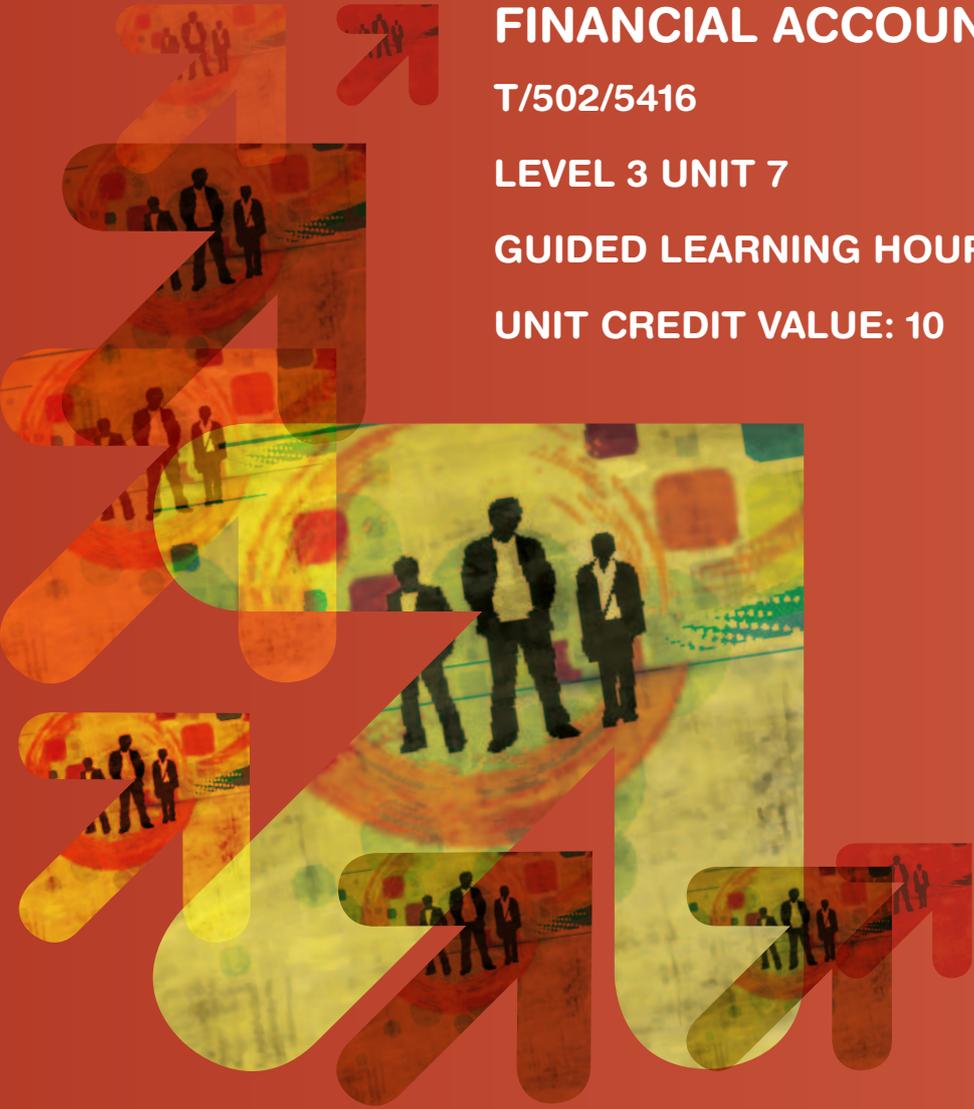




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# OCR LEVEL 3 CAMBRIDGE TECHNICAL CERTIFICATE/DIPLOMA IN BUSINESS



## FINANCIAL ACCOUNTING

T/502/5416

LEVEL 3 UNIT 7

GUIDED LEARNING HOURS: 60

UNIT CREDIT VALUE: 10



# FINANCIAL ACCOUNTING

T/502/5416

LEVEL 3 UNIT 7

## PURPOSE OF THE UNIT

This unit will help learners to understand the format and purpose of financial statements that are used in business. Learners will also gain an understanding of the legislative and regulatory framework within which financial statements are produced. In addition, on completion of this unit, learners will be able to appropriately adjust financial statements for business.

## ASSESSMENT AND GRADING CRITERIA

<b>Learning Outcome (LO)</b>  The learner will:	<b>Pass</b> The assessment criteria are the pass requirements for this unit.  The learner can:	<b>Merit</b> To achieve a merit the evidence must show that, in addition to the pass criteria, the learner is able to:	<b>Distinction</b> To achieve a distinction the evidence must show that, in addition to the pass and merit criteria, the learner is able to:
1 Know the impact of accounting legislation and concepts on organisations' accounting policies and procedures	P1 describe how legislation and accounting concepts affect an organisation's accounting policies		
2 Understand the impact of the regulatory framework on a limited company's accounting policies and procedures	P2 explain how a limited company's financial statements are influenced by the legal and regulatory framework	M1 compare the financial statements of two limited companies, explaining similarities and differences	
3 Be able to make appropriate adjustments to accounting information	P3 make adjustments to a limited company's financial statements	M2 explain the reasons for adjustments to a limited company's financial statements	
4 Understand a cash flow statement for a limited company	P4 explain the purpose of a limited company's cash flow statement	M3 analyse the cash flow statement for a selected limited company from the perspective of two different stakeholder groups	D1 evaluate the changes in the financial position of a selected limited company using cash flow statements covering a period of two years

## TEACHING CONTENT

The unit content describes what has to be taught to ensure that learners are able to access the highest grade.

Anything which follows an i.e. details what must be taught as part of that area of content.

Anything which follows an e.g. is illustrative, it should be noted that where e.g. is used, learners must know and be able to apply relevant examples to their work though these do not need to be the same ones specified in the unit content.

### Learning Outcome 1 Know the impact of accounting legislation and concepts on organisations' accounting policies and procedures

Accounting Legislation	Recent and relevant legislation that may contain within it rules to govern the accounting policies of an organisation <i>for example Companies Act, Partnership Act.</i>
Accounting concepts	The accounting conventions of duality (double entry), consistency, going concern, matching (accruals) materiality, objectivity, prudence (conservatism) and realisation.
Accounting policies and procedures	The ways in which an organisation ensures the integrity of the financial data being used and the accuracy and validity of the financial statements. <i>For example principles, conventions, valuation of assets, depreciation, bad debts, provision for doubtful debts, accruals, prepayments, stock valuation.</i>
Organisations	Sole traders, partnerships, limited companies (public and private), clubs and charities.

### Learning Outcome 2 Understand the impact of the regulatory framework on a limited company's accounting policies and procedures.

Regulatory framework	Statements of Standard Accounting Practice (SSAPs), Financial Reporting Standards (FRS), International Accounting Standards (IAS), International Financial Reporting Standards (IFRS)
Accounting policies and procedures	The ways in which an organisation ensures the integrity of the financial data being used and the accuracy and validity of the financial statements. <i>For example principles, conventions, valuation of assets, depreciation, bad debts, provision for doubtful debts, accruals, prepayments, stock valuation.</i>
Financial statements	Income statement (profit and loss account), balance sheet and cash flow statement.
Stakeholders	An individual or group who has an interest in a business. Stakeholders can be internal or external. <i>For example employees (internal), managers (internal), Owners/shareholders (internal), government (external), suppliers (external), customers (external), potential investors (external), potential lenders (external).</i>

### Learning Outcome 3 Be able to make appropriate adjustments to accounting information

Adjustments to accounting information	Adjustments based on the organisations policies and procedures (or changes to the policies and procedures). <i>For example principles, conventions, valuation of assets, depreciation, bad debts, provision for doubtful debts, accruals, prepayments, stock valuation.</i>
Financial statements	Income statement (profit and loss account), balance sheet and cash flow statement.

### Learning Outcome 4 Understand a cash flow statement for a limited company

The difference between cash and profit	Cash is a liquid asset which may be used to purchase whereas profit (or loss) is the difference between total costs and total revenue. Profit and cash should not be confused.
Cash flow statement	A record of the cash inflows into an organisation and the cash outflow from an organisation.
Purpose of a cash flow statement	<ul style="list-style-type: none"> <li>• To provide information on a firm's liquidity</li> <li>• To allow stakeholders to evaluate an organisation</li> <li>• To be able to compare the organisations operating performance over time</li> <li>• To be able to compare different organisations operating performance</li> <li>• To indicate the amount, timing and probability of future cash flows.</li> </ul>
Stakeholders	An individual or group who has an interest in a business. Stakeholders can be internal or external. <i>For example employees (internal), managers (internal), Owners/shareholders (internal), government (external), suppliers (external), customers (external), potential investors (external), potential lenders (external).</i>

It is important to maintain focus on the current law and practice in this area. The list given above is neither prescriptive nor exhaustive. Where legislation has been revised learners will consider the most up to date version as that will reflect current industry practice.

## DELIVERY GUIDANCE

### Learning Outcome 1

This learning outcome is about understanding that financial accounting works within a legal and conceptual framework that must be adhered to. Learners are not required to describe the Acts, but they are required to understand what effects the legislation has on the financial policies of an organisation.

Learners could be put into groups to look at case studies that illustrate the use of accounting conventions, why they are there and the impact they have on organisations.

### Learning Outcome 2

Learners must be aware of the need for a limited company to work within the standards and practices. A good method for introducing learners to this is to use company reports (widely available on the internet). Most company reports will include a section on significant accounting policies and these may be linked to specific SSAP's, FRS, IAS or IFRS. This can bring the topic alive for learners and show them the real application of the regulatory framework. Learners could be split into groups and given different sets of financial statements to look at, which will cover a range of SSAP's, FRS, IAS and IFRS. They could then present back their findings to the rest of the group. To aid learners, the tutor might think about giving them a summarised 'crib' sheet of the most popular and applicable practices and standards.

### Learning Outcome 3

A method of preparing learners for this might be to have some fictional financial statements (and case studies) and allow learners to detect the errors, omissions and mistakes that have been made (e.g. where depreciation has not been accounted for). The learner would then be expected to calculate the depreciation using the method outlined in the firm's policies and procedures, and recalculate the balance sheet and the profit and loss account (also called income statement). Other normal adjustments include pre-payments and accruals.

### Learning Outcome 4

Tutors should emphasise the difference between cash and profit as learners often confuse and misuse these terms. To

make this point clear, tutors could compare the cash flow statements of a business with the profit and loss account to show how a business may be profitable yet at the same time can have little cash. Learners should be taught the importance for a business of cash flow and how it can be used to identify, compare, inform, evaluate and even to indicate future performance of the business.

## SUGGESTED ASSESSMENT SCENARIOS AND TASK PLUS GUIDANCE ON ASSESSING THE SUGGESTED TASKS

### P1, P2

Scenario and task:

A small business in your area has recently become a private limited company. The business has never had to produce formal financial statements before and they have asked for your advice and help with this year's figures. Produce a presentation for the board of directors that outlines what their accounting policies and procedures should be in order to satisfy the legal and regulatory framework. You must also include a description of the accounting concepts that must be used.

Guidance:

Learners could include a description of the legal framework, to include relevant UK and/or international standards.

Plus, a description of the role of the Companies Act in setting an organisation's accounting policies

Plus, a description of accounting concepts. For example, duality (double entry), consistency, going concern, matching (accruals) materiality, objectivity, prudence (conservatism) and realisation.

### M1

Scenario and task:

You have been provided with the financial statements of two limited companies. You must compare and contrast the two statements, and explain the similarities and differences.

Guidance:

Tutors should provide the accounts for the learners to use.

### P3

Scenario and task:

To aid the business identified in P1 with this year's accounts you should make adjustments to their basic financial statements for the year.

Guidance:

Tutors should provide the accounts for the learners to use.

Learners could include a profit and loss account, balance sheet and cash flow statement that has been adjusted to show adjustments for valuation of assets, depreciation, bad debts, provision for doubtful debts, accruals, prepayments or stock valuation.

### M2

Scenario and task:

Using the adjusted financial statements from P3 and any accompanying notes; you should explain your reasons for the adjustments.

Guidance:

Tutors should ensure that the documents used allow the learner to explain their reasons.

The learner's analysis could show the extent of the effect of the adjustment (i.e. comparatively large or small).

The learner's analysis could show impact of duality (double entry), consistency, going concern, matching (accruals) materiality, objectivity, prudence (conservatism) and realisation on the financial statements.

### P4, M3

Scenario and task:

You have been asked to create a report for the local newspaper about a business that is rumoured to have cash flow problems.

You should explain what the purpose of a cash flow statement is from the point of view of two different stakeholder groups.

Guidance:

Learners must provide an explanation of the purpose of a cash flow statement. They could produce a written report, media article, pictorial story board etc.

To meet the M3 criteria learners must analyse the cash flow statement for a limited company from the point of view of two different stakeholder groups. They could present their findings in a variety of ways; report, presentation with notes, article etc.

### D1

Scenario and task

You should obtain the cash flow statements over the last two years from a selected limited company. Evaluate the change of the financial position of the company during this period.

Guidance:

Tutors should ensure that the documents used allow the learner to explain their reasons.

## LINKS TO NOS

**CfA BAD322** Analyse and report data (Partial)

**CfA BAA522** Draft financial statements (Partial)



## **CONTACT US**

Staff at the OCR Customer Contact Centre are available to take your call between 8am and 5.30pm, Monday to Friday.

We're always delighted to answer questions and give advice.

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