

Unit Title:	Analysing financial statements and reports
OCR unit number:	2
Credit value:	7
Level:	4
Guided learning hours:	61
Unit reference number:	D/504/1299

Unit aim and purpose

By completing this unit the learner will be able to analyse financial statements and reports, understand the relationship between business financials and business strategy, and assess the financial performance of a business.

Learning Outcomes	Assessment Criteria	Teaching content
<p>The Learner will:</p> <p>1 Understand the purpose of financial statements and reports</p>	<p>The Learner can:</p> <p>1.1 Explain the background and structure of financial statements and reports</p> <p>1.2 Explain the purpose of recording business transactions</p> <p>1.3 Identify the different users of financial statements and why they are used</p>	<p>This may include:</p> <ul style="list-style-type: none"> • balance sheet • profit and loss account • income and expenditure account • statement of cash flows • directors' report • notes to financial statements • annual report • fulfilling legal requirements • providing information to management to make decisions • producing accurate financial statements • assisting auditing in tracing source documents • shareholders • potential investors • company executives • creditors • customers • employees • government • general public • pressure groups • trade unions
	1.4 Explain how the need for	<ul style="list-style-type: none"> • shareholders

Learning Outcomes	Assessment Criteria	Teaching content
	<p>financial information varies between different users of financial statements</p> <p>1.5 Explain the reporting cycle and the content of different types of accounts:</p> <ul style="list-style-type: none"> • Statutory accounts • Management accounts 	<ul style="list-style-type: none"> • potential investors • company executives • creditors • customers • employees • government • general public • pressure groups • trade unions <p>This may include:</p> <ul style="list-style-type: none"> • reporting cycle – journal, ledger accounts, trial balance and final accounts • published accounts including balance sheet, profit and loss account and statement of cash flows • budgeting including cash budget and departmental /divisional account
<p>2 Understand the relationship between business financials and business strategy and operations</p>	<p>2.1 Explain how profits are used in a business</p> <p>2.2 Analyse the influence of tax considerations in business strategy and operations</p>	<p>This may include:</p> <ul style="list-style-type: none"> • distributed as dividend • to pay tax • retained as reserve • as internal source of finance • as a basis to evaluate the performance of an entity • as a basis to evaluate the performance of the managers • as incentive plan to award employees • Advantages, disadvantages <ul style="list-style-type: none"> • minimizing tax obligation • tax relief on the written down value of assets • impact on cash flow • impact of change in tax rate • introduction of new tax • corporation tax, income tax and VAT • environmental taxes

Learning Outcomes	Assessment Criteria	Teaching content
<p>3 Be able to assess the financial performance of a given entity</p>	<p>3.1 Identify, in relation to performance, the relevant information in:</p> <ul style="list-style-type: none"> • balance sheet (<i>fixed assets and depreciation, stock, debtors and creditors</i>) • profit and loss • cash flow • annual report <p>3.2 Evaluate the relevance of using ratio analysis to assess financial performance of a given entity</p> <p>3.3 Calculate simple standard ratios:</p> <ul style="list-style-type: none"> • Profitability (<i>GP, EBITDA, NP, ROA, ROCE</i>) • Efficiency (<i>Cost ratios/overheads, turnover ratios</i>) • Liquidity/capital structure, (<i>current ratio, quick/acid ratio, cost of capital</i>) • Financial and stock market ratios (<i>EPS, P/E, market capitalisation</i>) 	<p>This may include understanding the components, nature and meaning of each of the following terminology:</p> <ul style="list-style-type: none"> • net book value – cost of fixed assets and depreciation • current assets • current liabilities • long-term liabilities • working capital • net assets • capital employed • equity • shareholders' fund • gross profit • cost of sales / cost of goods sold • operating expenses • net profit • dividend • retained profits/earnings • cash flows from operating activities, investing activities and financing activities • annual report • five-year summary of performance • auditors' report <p>• the reasons for using ratio analysis</p> <p>• the limitations of using ratio analysis</p> <p>Profitability</p> <ul style="list-style-type: none"> • net profit margin • gross profit margin • mark- up • return on assets • return on capital employed • return on equity • earnings before interest, tax, depreciation and amortisation <p>Efficiency</p> <ul style="list-style-type: none"> • expenses/overheads as a percentage to revenue • stock turnover

Learning Outcomes	Assessment Criteria	Teaching content
	<p data-bbox="507 860 906 927">3.4 Compare trends identified through analysis</p> <p data-bbox="507 1126 906 1261">3.5 Draw conclusions on the financial performance of a given entity from analysis and calculated values</p>	<ul style="list-style-type: none"> • debtor turnover • creditor turnover <p data-bbox="946 264 1286 293">Liquidity/capital structure,</p> <ul style="list-style-type: none"> • current ratio • quick/acid ratio • cash ratio • gearing ratio • cost of capital <p data-bbox="946 539 1377 568">Financial and stock market ratios</p> <ul style="list-style-type: none"> • earnings per share • price/earnings ratio • market capitalisation • dividend yield • dividend cover • interest cover <p data-bbox="946 860 1182 889">This may include :</p> <ul style="list-style-type: none"> • analysis over time • comparison with similar companies • comparison with industry average <p data-bbox="946 1126 1174 1155">This may include:</p> <ul style="list-style-type: none"> • making comments on the result of comparison • identifying the weaknesses and/or strengths of the entity • making recommendations for future operations • non-monetary factors to consider when making evaluation • other financial information to consider in drawing the conclusions, i.e. company announcement and financial press • degree of risk

Assessment

This unit is assessed by an OCR set and marked examination.

Sample assessment material is available on our [website](#).

Additional information

For further information regarding administration for this qualification, please refer to the OCR document '*Admin Guide: Vocational Qualifications*' (A850) on the OCR website www.ocr.org.uk .