

Cambridge TECHNICALS LEVEL 3

BUSINESS

Cambridge
TECHNICALS
2016

Unit 12

Financial accounting

K/507/8159

Guided learning hours: 60

Version 3 Assessment guidance and Opportunities for
applying learning across units updated - August 2016

LEVEL 3

UNIT 12: Financial accounting

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Guided learning hours: 60

Essential resources required for this unit: None

This unit is internally assessed and externally moderated by OCR.

UNIT AIM

Profit is a key driver for most business organisations. It is, in fact, the main reason that many businesses are created and continue to trade for many years. This unit will allow you to look at the financial aspects of recording financial transactions and consider the role you might play in ensuring business success.

The role of a financial accountant is to accurately record business transactions and prepare appropriate financial statements from these records. This unit will allow you to understand the impact of legislation and accounting concepts and principles on organisations' accounting policies and procedures.

This unit aims to give you a sound understanding of why financial statements are prepared in the way they are. You will cover the final accounts of a range of business types, such as sole traders, partnerships, private and public limited companies and non-profit making or third sector organisations. You will explore the difference between a cash flow forecast, and a cash flow statement, and understand why a large profit does not necessarily result in an abundance of cash for use by the business.

Whatever business career path you choose to follow, an understanding of business financial statements will give you an insight into the strength and monetary worth of a business.

You can build on your skills by studying the other Accounting units in this qualification.

TEACHING CONTENT

The teaching content in every unit states what has to be taught to ensure that learners are able to access the highest grades.

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 in their work, although these do not need to be the same ones specified in the unit content.

For internally-assessed units you need to ensure that any assignments you create, or any modifications you make to an assignment, do not expect the learner to do more than they have been taught, but must enable them to access the full range of grades as described in the grading criteria.

Learning outcomes	Teaching content
The Learner will:	Learners must be taught:
1. Understand the impact of legislation, concepts and principles on accounting processes	1.1 Relevant legislation (e.g. Companies Act, Partnership Act, Charities Act) 1.2 Impact of relevant legislation on different forms of business ownership, i.e. <ul style="list-style-type: none"> • sole traders • partnerships • private limited companies • public limited companies • third sector organisations – clubs and societies/charities 1.3 Accounting concepts (e.g. Prudence, Consistency, Going Concern, Materiality, Matching) 1.4 Accounting principles, i.e. <ul style="list-style-type: none"> • relevance • reliability • comparability • understandability 1.5 The application of accounting concepts and principles to financial statements, i.e. <ul style="list-style-type: none"> • valuation of non-current assets • valuation of inventory • matching concept, i.e. <ul style="list-style-type: none"> ○ accruals ○ prepayments • depreciation • provision for depreciation • bad debts • provision for doubtful debts

Learning outcomes	Teaching content
The Learner will:	Learners must be taught:
<p>2. Understand the reporting requirements of private limited companies and public limited companies</p>	<p>2.1 The main elements of Private Limited Companies' annual accounts, i.e.</p> <ul style="list-style-type: none"> • income statement • statement of financial position <p>2.2 The main elements of Public Limited Companies' annual reports, i.e.</p> <ul style="list-style-type: none"> • general corporate information • accounting policies • income statement • statement of financial position • statement of cash flows • notes to the financial statements • chairperson's and directors' reports • auditor's report <p>2.3 The way in which publically available reports are used by different stakeholder groups, i.e.</p> <ul style="list-style-type: none"> • shareholders • employees • potential investors • directors • managers • suppliers • customers • lenders • government • analysts <p>2.4 The roles and responsibilities of Directors and Auditors with regard to company accounts</p> <p>2.5 The key differences between internal final accounts and the publically available final accounts of a limited company, i.e.</p> <ul style="list-style-type: none"> • purpose • content • structure and format

Learning outcomes	Teaching content
The Learner will:	Learners must be taught:
<p>3. Be able to prepare final accounts for sole traders</p>	<p>3.1 To be able to prepare final accounts for a sole trader from a Trial Balance, comprising, i.e.</p> <ul style="list-style-type: none"> • income statement, i.e. <ul style="list-style-type: none"> ○ purpose ○ use ○ trading account ○ calculation of gross profit (to include sales, purchases, opening and closing inventories) ○ calculation of net profit (to include overheads, additional income (e.g. discounts received, commission received, etc.)) ○ transfer to the Statement of Financial Position • statement of financial position, i.e. <ul style="list-style-type: none"> ○ purpose ○ use <p>3.2 To make appropriate adjustments to accounting information, i.e.</p> <ul style="list-style-type: none"> • valuation of inventory • depreciation of non-current assets, i.e. <ul style="list-style-type: none"> ○ straight line method ○ reducing (diminishing) balance method • bad debts • provision for doubtful debts • accruals • prepayments
<p>4. Use ratios to assess the performance of businesses</p>	<p>4.1 To use ratios to assess the performance of a business, i.e.</p> <ul style="list-style-type: none"> • Liquidity ratios, i.e. <ul style="list-style-type: none"> ○ Current ratio ○ Acid test (Quick) ratio • Profitability ratios, i.e. <ul style="list-style-type: none"> ○ Gross profit mark-up ○ Gross profit margin ○ Net profit margin ○ Return on capital employed • Efficiency ratios, i.e. <ul style="list-style-type: none"> ○ Inventory turnover ○ Trade receivables collection period ○ Trade payables payment days • Gearing ratio <p>4.2 The usefulness of ratio analysis when assessing the performance of a business</p>

GRADING CRITERIA

LO	Pass	Merit	Distinction
The learner will:	The assessment criteria which are the Pass requirements for this unit.	To achieve a Merit the evidence must show that, in addition to the Pass criteria, the candidate is able to:	To achieve a Distinction the evidence must show that, in addition to the Pass and Merit criteria, the candidate is able to:
1. Understand the impact of legislation, concepts and principles on accounting processes	P1*: Explain how legislation affects an organisation's accounting processes		
	P2*: Describe how accounting concepts and principles are applied in financial statements		
2. Understand the reporting requirements of private limited companies and public limited companies	P3*: Describe the main elements of a Public Limited Company's annual report and a Private Limited Company's accounts		
	P4*: Explain how the content of Public Limited Companies' reports are used by different stakeholder groups	M1: Analyse the benefits and limitations to different stakeholder groups of the content of publically available reports	
	P5: Explain the roles and responsibilities of Directors and Auditors with regard to company accounts		
	P6: Describe the key differences between the: <ul style="list-style-type: none"> • internal final accounts, and • publically available final accounts for a limited company 	M2: Compare the content and layout of the final accounts of a sole trader or partnership with those of a Private Limited or Public Limited Company	
3. Be able to prepare final accounts for sole traders	P7*: Explain the purpose of an income statement and a statement of financial position		

LO	Pass	Merit	Distinction
	P8*: Prepare an income statement and statement of financial position for a sole trader including relevant adjustments		
4. Use ratios to assess the performance of businesses	P9*: Use ratios to measure the performance of a business organisation	M3: Analyse the liquidity, profitability, and efficiency of a business organisation	D1: Evaluate the financial performance of a business organisation D2: Evaluate the usefulness of ratio analysis when assessing the performance of a business organisation

ASSESSMENT GUIDANCE

It is important for learners to have the opportunity to learn and apply their knowledge and skills to meaningful substantial tasks, in order to successfully achieve the unit.

Feedback to learners: you can discuss work-in-progress towards summative assessment with learners to make sure it's being done in a planned and timely manner. It also provides an opportunity for you to check the authenticity of the work. You must intervene if you feel there's a health and safety risk.

Learners should use their own words when producing evidence of their knowledge and understanding. When learners use their own words it reduces the possibility of learners' work being identified as plagiarised. If a learner does use someone else's words and ideas in their work, they must acknowledge it, and this is done through referencing. Just quoting and referencing someone else's work will not show that the learner knows or understands it. It has to be clear in the work how the learner is using the material they have referenced **to inform their** thoughts, ideas or conclusions.

For more information about internal assessment, including feedback, authentication and plagiarism, see the centre handbook. Information about how to reference is in the OCR *Guide to Referencing* available on our website: <http://www.ocr.org.uk/i-want-to/skills-guides/>.

Learners will need to be supplied with a range of company accounts. These can be downloaded by the tutor or the learner from the Internet. This will allow the learner the opportunity to analyse and evaluate the formats, concepts and legal requirements.

For LO2, M2, learners need to compare the final accounts of two contrasting organisations. The accounts supplied to the learners should be one sole trader and one partnership or one sole trader and one private or public limited company.

For LO3, learners will need to prepare final accounts for a sole trader (singular) including asset depreciation and discuss adjustments that should be applied at the end of an accounting period to ensure the final accounts show a 'true and fair view' of the financial position of the organisation.

For LO4, learners will need access as part of their assignment to sufficient data from a business organisation which will enable them to meet the criteria of P9, M3, D1, D2.

Simulations or case studies will be required to provide the learners with data for them to produce the final accounts of a sole trader.

Learners should be encouraged to use manual bookkeeping templates or accounting software but this is not a requirement.

SYNOPTIC ASSESSMENT

It will be possible for learners to make connections between other units over and above the unit containing the key tasks for synoptic assessment, please see section 6 of the centre handbook for more detail. We have indicated in this unit where these links are with an asterisk and provided more detail in the next section.

*OPPORTUNITIES FOR APPLYING LEARNING ACROSS UNITS

This identifies opportunities for developing links between teaching and learning with other units in the business suite.

Name of other unit and related LO	This unit and specified LO
Unit 1 The business environment LO4 Be able to use financial information to check the financial health of businesses	LO2 Understand the reporting requirements of private limited companies and public limited companies
Unit 3 Business decisions LO2 Be able to use financial data to inform business decisions	LO4 Use ratios to assess the performance of businesses
Unit 6 Marketing strategy LO5 Be able to use business tools to propose marketing strategies	LO4 Use ratios to assess the performance of businesses
Unit 11 Accounting concepts LO1 Understand why businesses keep accurate accounting records LO4 Be able to use basic double entry bookkeeping to prepare a trial balance	LO1 Understand the impact on legislation, concepts and principals on accounting processes LO3 Be able to prepare final accounts for sole traders
Unit 15 Change management LO4 Be able to assess the impacts of change on businesses and stakeholders	LO4 Use ratios to assess the performance of businesses
Unit 17 Responsible business practices LO1 Understand how businesses operate responsibly	LO1 Understand the impact of legislation, concepts and principles on accounting processes

To find out more

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