

Unit 6: Financial Accounting

Unit code:	T/502/5416
QCF Level 3:	BTEC National
Credit value:	10
Guided learning hours:	60

● Aim and purpose

The aim of this unit is to enable learners to understand the importance of and reasons for recording transactions and statements accurately year on year, and of complying with all relevant legislation, regulations and accounting frameworks.

● Unit introduction

The role of financial accounting is to record the financial transactions of an organisation accurately and to prepare appropriate financial statements from these records. Net profit or loss is calculated and the financial position of the organisation is established. If the financial statements are going to provide an accurate and meaningful comparison with previous accounting periods then the same rules and conventions must be followed each year. It is not always appropriate for very different organisations to be treated in the same way so there is some flexibility to accommodate this.

Results shown in financial statements are subject to tax, and inconsistent accounting can have huge tax implications. Accountants must uphold the law and apply accounting regulations. A framework of accounting concepts, conventions and standards has been developed and fine-tuned and the development process is continuing with international accounting standards. Legislation is another part of the accounting regulatory framework and accountants in the UK need to understand the implications of the Partnership Act and the Companies Acts.

This unit aims to give learners a sound understanding of why financial statements are prepared in the way they are. It covers the final accounts of sole traders, partnerships, clubs, charities and limited companies both public and private. Learners will gain a greater appreciation of cash flow statements, which enable users of financial statements to understand why a large profit does not necessarily result in an abundance of cash. Whatever an employee's role, an understanding of the financial statements of the business organisation gives an insight into its strength and worth.

● Learning outcomes

On completion of this unit a learner should:

- 1 Know the impact of accounting legislation and concepts on organisations' accounting policies and procedures
- 2 Understand the impact of the regulatory framework on a limited company's accounting policies and procedures
- 3 Be able to make appropriate adjustments to accounting information
- 4 Understand a cash flow statement for a limited company.

Unit content

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

Legislation: Companies Acts (1985, 1989, 2006), Partnership Act (1890); division of profits and losses

Accounting concepts: business entity; materiality; going concern; accruals (matching); prudence; consistency; money measurement; historical cost; duality (double-entry); principles of relevance, reliability, comparability and understandability; Framework for the Preparation and Presentation of Financial Statements

Accounting policies and procedures: principles; conventions; rules and practices applied to financial statements (valuation of assets, matching of income and expenditure); depreciation; bad debts; provision for doubtful debts; accruals; prepayments; stock valuation

Impact on organisations: sole traders; partnerships; limited companies (private, public); clubs; charities

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)

Financial statements: profit and loss account (income statement); balance sheet; cash flow statement; and international equivalents

Users: shareholders; employees; potential investors; directors; managers; suppliers; customers; lenders; government

3 Be able to make appropriate adjustments to accounting information

Adjustments: valuation of stock; depreciation on fixed assets (non-current); bad debts; provision for doubtful debts; accruals and prepayments

Accounting information: assets; liabilities; income and expenditure; balances in the trial balance

4 Understand a cash flow statement for a limited company

Purpose: financial position; liquidity; use of funds; relationship between profit and cash; sources of finance; costs of finance; analysis of working capital; comparison with previous periods

Assessment and grading criteria

In order to pass this unit, the evidence that the learner presents for assessment needs to demonstrate that they can meet all the learning outcomes for the unit. The assessment criteria for a pass grade describe the level of achievement required to pass this unit.

Assessment and grading criteria		
To achieve a pass grade the evidence must show that the learner is able to:	To achieve a merit grade the evidence must show that, in addition to the pass criteria, the learner is able to:	To achieve a distinction grade the evidence must show that, in addition to the pass and merit criteria, the learner is able to:
P1 describe how legislation and accounting concepts affect an organisation's accounting policies [IE]	M1 compare the final accounts of two organisations explaining the similarities and differences	D1 justify the application of accounting conventions and regulations to ensure that the financial statements meet their users' needs
P2 explain how a limited company's financial statements are influenced by the legal and regulatory framework [RL, TW]		
P3 make adjustments to a limited company's financial statements [SM]	M2 assess the impact of adjustments to profit and loss account and balance sheet items for a limited company	
P4 explain the purpose of a limited company's cash flow statement. [CT]	M3 assess the importance of the different elements of a cash flow statement.	D2 evaluate the changes in the financial position of a limited company using a cash flow statement.

PLTS: This summary references where applicable, in the square brackets, the elements of the personal, learning and thinking skills applicable in the pass criteria. It identifies opportunities for learners to demonstrate effective application of the referenced elements of the skills.

Key	IE – independent enquirers	RL – reflective learners	SM – self-managers
	CT – creative thinkers	TW – team workers	EP – effective participators

Essential guidance for tutors

Delivery

When accountants prepare financial statements (final accounts) for an organisation, the financial performance and position of the organisation can be seen and interpreted clearly. Users of those financial statements will compare them with the information from previous accounting periods. Comparisons are only valid where accountants consistently follow the same accounting rules, principles and policies.

Accounting concepts have been developed and applied over a number of years, and the Framework for the Preparation and Presentation of Financial Statements was developed in 1989 to present the principles that should be followed when presenting financial statements. Learners will discuss adjustments that should be applied at the end of the accounting period, so that the final accounts present a 'true and fair view' of the organisation's financial performance and position and any changes in the financial position. Those adjustments will be related to actual accounting concepts and the Framework.

Learners will use case studies and apply accounting concepts to the accounting information. They will consider the impact on assets, liabilities and profit. The final accounts of sole traders, partnerships, clubs and charities will be studied and compared, and the provisions of the Partnership Act will be discussed in relation to profit-sharing, especially where there is no partnership agreement. Looking at actual final accounts of clubs or charities provides an interesting contrast and learners will be able to download these from the internet. Learners will understand that an organisation's accounting policies are based on the concepts and Framework, but some variation will be found between different organisations in areas such as depreciation methods and rates.

The financial statements of limited companies are governed by the Companies Act 1985, as amended by the Companies Acts 1989 and 2006. Learners will study the background and structure of limited companies and the accounting implications of the Acts. Accounting standards have been developed since the 1970s, in the form of Statements of Standard Accounting Practice (SSAP) and then Financial Reporting Standards (FRS). These accounting standards completed the regulatory framework that companies are obliged to follow when preparing financial statements. More recently, International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) have been developed by the International Accounting Standards Board to try and harmonise international financial reporting. Only EU-listed companies are required to follow these standards (from January 2005) but are likely to be adopted by all UK companies so they cannot be ignored.

Learners will research accounting standards in small groups, making use of the internet and other resources to discover the impact that these standards have on the accounting policies and procedures adopted by limited companies. Published reports will be examined to view companies' accounting policies. Learners will use case studies to identify and carry out the required adjustments to organisations' financial statements, based on the Companies Acts, the concepts, the Framework and current standards. Adjustments must be justified with reference to the appropriate regulations, and learners will consider the effects of each adjustment on profit and the organisation's assets. As international standards are adopted in the UK, the Companies Acts will be updated, and learners will research developments in this area. The regulatory framework is designed to help meet the needs of users of financial statements so that they can understand and interpret them. Learners will discuss how the application of accounting concepts and regulations to financial statements will meet those needs.

The profit and loss account (or income statement) of an organisation shows the performance and profitability over the period covered. The balance sheet of an organisation shows the financial position at one point in time ie the date of that balance sheet. Managers are sometimes confused by a cash shortage when the organisation has made a good profit. It is more valuable to know the changes in financial position over the trading period caused by cash flows into and out of the organisation, so that movements of cash over the trading period can be seen clearly. The main purpose of the cash flow statement is to show an analysis of cash movements, dividing cash flows into different categories.

Learners will discuss the issue of cash flow and will use case studies to consider the effects of transactions on profit and cash. They will use tasks to develop an understanding of different elements of cash flow: operating activities, investing activities and financing activities. In addition to case studies, actual cash flow statements will be obtained, discussed and analysed. A cash flow statement should be compared with the supporting income statement and balance sheet to build up a 'picture' of an organisation's financial performance and position. Learners will be encouraged to evaluate organisations' performance and cash flows explaining profitability, liquidity and the impact of changes to working capital. Comparison will be made with previous cash flows to identify whether improvements are made over time.

Outline learning plan

The outline learning plan has been included in this unit as guidance and can be used in conjunction with the programme of suggested assignments.

The outline learning plan demonstrates one way in planning the delivery and assessment of this unit.

Topic and suggested assignments/activities and/assessment
Induction and outline scheme of work/programme of assignments
Formal theory input on legislation and concepts
Practical class exercises for application of theory/work on scenarios
Research and group work
Visits to/or speakers from business
Assignment 1: Financial Regulations and Legislation
Formal theory input on regulation
Practical class exercises for application of theory/work on scenarios
Research and group work
Visits to/or speakers from business
Formal theory input on adjustments
Practical class exercises for application of theory/work on scenarios
Research and group work
Assignment 2: Adjustments to Final Accounts
Formal theory input on cash flow
Practical class exercises for application of theory
Research and group work
Assignment 3: Cash Flow
Supervised assignment work
Non-supervised study time and completion of assignments

Assessment

The unit can be divided into three areas for assessment and three different assignments may be used. The first area is about sole traders, partnerships, clubs and charities and it is recommended that this area is assessed separately, covering P1 and M1. The second and third areas relate to limited companies, and though it would be possible to produce one assignment to cover P2, P3, P4, M2, M3, D1 and D2, it might be easier to use two separate assignments.

For P1, learners will be given case studies and describe the effects of legislation (the Partnership Act) and accounting conventions (concepts and principles) on the organisations' accounting policies. The case studies will include a partnership and a sole trader or a club/charity. The same case studies can be used for M1. (P1 and M1 are linked.)

For P2, learners will research, in small groups, a specific case study relating to a limited company. They will produce a report to show the required content of the company's policies, based on the Companies Acts and the relevant standards applied in the UK. Current UK standards that should be addressed are FRS 18, SSAP 9, FRS 1, FRS 15, FRS 5, SSAP 13. Once UK standards have been replaced by international accounting standards, the following should be covered: IAS 1, IAS 2, IAS 7, IAS 16, IAS 18 and IAS 38. (P2, P3, M2 and D1 are linked.)

For P3, learners could work on a case study which includes provisional (pre year-end adjustments) financial statements already stored on a spreadsheet. The spreadsheet and case study may be stored on a learner intranet or virtual learning environment. Learners in small groups will discuss the required changes and their implications and individually make the adjustments on the spreadsheet itself, saving and printing the amended financial statements. The impact of these adjustments will be considered for M2. (P3 and M2 are linked and may also be linked with P2 and D1.)

For P4, learners may prepare a written explanation of the role of the cash flow statement in linking profit made with changes in assets and liabilities. They could show a summary of the cash flows into and out of an organisation, during the accounting period. The relationship between profit and cash should be defined clearly. (P4, M3 and D2 are linked.)

For M1, learners could be presented with case studies of the final accounts of two separate organisations. One may be a small club or charity, where the accounting concepts have been overlooked by an inexperienced treasurer. The other may be a sole trader or partnership. Learners will be able to identify the similarities and differences and explain them accurately, based on relevant legislation (Partnership Act) and the accounting concepts.

For M2, learners will be working on the same case study as for P3, having already amended a computerised spreadsheet. Learners will then write a brief report assessing the impact of each amendment on profit or loss, assets and liabilities.

For M3, learners will consider the importance and contents of operating cash flows, investing cash flows and financial cash flows. Learners will also emphasise the cash flow statement's role in an organisation's liquidity, given the link between liquidity and survival.

For D1, learners will describe the main users of accounting, their interests and requirements. Learners will consider how each of the accounting conventions and regulations impacts on financial statements and, therefore, on the needs of the different users of the financial statements.

For D2, learners will draft a report to review the financial performance and position of the organisation in the case study used for P4 and M3. Learners will also give a talk or presentation, as part of a small group, to explain their evaluation of the changes. They will highlight negative cash flows for any element, comment on the appropriate use of cash funds and whether an organisation is generating sufficient reserves of cash to allow for future spending or expansion. The quality of the observations, at this level, will reflect good interpretive skills and a true understanding of what a cash flow statement shows the accountant.

Programme of suggested assignments

The following table shows a programme of suggested assignments that cover the pass, merit and distinction criteria in the grading grid. This is for guidance and it is recommended that centres either write their own assignments or adapt any Edexcel assignments to meet local needs and resources.

Criteria covered	Assignment title	Scenario	Assessment method
P1, M1	Financial Regulations and Legislation.	Sole trader/partnership case study.	Group work.
P2, P3, M2, D1	Adjustments to Final Accounts.	Case study on a company.	Controlled individual assignment in class.
P4, M2, D2	Cash Flow.	Case study on a company.	Controlled individual assignment in class.

Links to National Occupational Standards, other BTEC units, other BTEC qualifications and other relevant units and qualifications

This unit forms part of the BTEC Business sector suite. This unit has particular links with the following unit titles in the Business suite:

Level 2	Level 3
Financial Forecasting for Business	Business Resources
Bookkeeping for Business	Business Accounting
	Management Accounting
	Accounting Systems
	Computer Applications for Financial Management

This unit should only be delivered after *Business Accounting*.

This unit also links to the following draft National Occupational Standards for Accounting, particularly FA1, FA2, FA3, FA4, FA5.

Essential resources

Learners can find information using company annual reports, journals, magazines, company websites and newspapers.

Access to a range of information resources to complete investigative assignments and case studies will be essential, including relevant CD ROMs and the internet, as will be access to computers for research and preparing cash flows (using a spreadsheet package) This will enhance delivery of this unit. Learners will also need access to relevant paper-based research material including published financial reports and books.

Employer engagement and vocational contexts

Visits to companies and from employee ambassadors are useful for the delivery of this unit. The use of vocational contexts is essential in the delivery and assessment of this unit.

Sources of support to enable centres to initiate and establish links with industry, and to networks arranging visits to industry are given below:

Work Experience/Workplace learning frameworks – Centre for Education and Industry (University of Warwick): www.warwick.ac.uk/wie/cei/

Learning and Skills Network: www.vocationallearning.org.uk

Indicative reading for learners

Textbooks

Brammer J, Cox D, Fardon M and Penning A – *Active Accounting* (Osborne Books, 2002) ISBN 1 872962378

Cox D and Street D – *Limited Company Accounts (IAS)* (Osborne Books, 2005) ISBN 1 872962939

Dyson J R – *Accounting for non-Accounting Students* (Prentice Hall, 2007) ISBN 027370922

Journals

Accountancy (CCH)

Accountancy Age (VNU Business Publications)

Accounting Technician (Centurion Publishing Group)

PQ Magazine (PQ Publishing)

Websites

www.aat.org.uk

The Association of Accounting Technicians

www.accountingtechnician.co.uk

Association of Accounting Technicians Online

news.bbc.co.uk/1/hi/business/default.stm

The business pages of the BBC website

www.bized.co.uk

A business education resource site

www.canterbury.gov.uk

An example of a specific local business support website

www.frc.org.uk/asb

The Accounting Standards Board, part of the Financial Reporting Council, with information about accounting standards

www.iasb.org

The International Accounting Standards Board, with information about the new international accounting standards

www.thetimes100.co.uk

The Times 100 case studies

Broadcasts

The following programmes often feature business items:

The Money Programme, BBC2 (weekly)

Working Lunch, BBC2 (daily)

Delivery of personal, learning and thinking skills

The table below identifies the opportunities for personal, learning and thinking skills (PLTS) that have been included within the pass assessment criteria of this unit.

Skill	When learners are ...
Independent enquirers	investigating business finances, regulations and legislation
Creative thinkers	generating ideas about cash flow
Reflective learners	reflecting on situations which result in changes in finances, and the regulatory framework
Team workers	working in a group to discuss ideas and research taking responsibility for their own role managing activities to reach agreements and achieve results
Self-managers	seeking out challenges or new responsibilities and showing flexibility when priorities change dealing with competing pressures, including personal and work-related demands responding positively to change, seeking advice and support when needed.

Although PLTS are identified within this unit as an inherent part of the assessment criteria, there are further opportunities to develop a range of PLTS through various approaches to teaching and learning.

Skill	When learners are ...
Independent enquirers	planning and carrying out research into the different types of businesses
Creative thinkers	looking at the legal/regulatory framework examining reasons/solutions to business change adapting their skills as circumstances change
Reflective learners	setting goals, with success criteria, for researching business finances and frameworks inviting feedback on their own work and dealing positively with praise, setbacks and criticism evaluating their experiences and learning to inform progress
Team workers	working in a group to discuss ideas and research taking responsibility for their own role managing activities to reach agreements and achieve results
Self-managers	seeking out challenges or new responsibilities and showing flexibility when priorities change dealing with competing pressures, including personal and work-related demands responding positively to change, seeking advice and support when needed
Effective participators	planning and carrying out research into accounts and regulation.

● Functional Skills – Level 2

Skill	When learners are ...
ICT – Use ICT systems	
Select, interact with and use ICT systems independently for a complex task to meet a variety of needs	researching business organisations and regulations preparing/adjusting accounts
Use ICT to effectively plan work and evaluate the effectiveness of the ICT system they have used	tabulating information
ICT – Find and select information	
Select and use a variety of sources of information independently for a complex task	finding illustrative materials for presentations and tabulations about business and accounting creating diagrams, presentations and tabulations
Access, search for, select and use ICT-based information and evaluate its fitness for purpose	exploring, extracting and assessing the relevance of information from websites about business and accounting
ICT – Develop, present and communicate information	
Enter, develop and format information independently to suit its meaning and purpose including: <ul style="list-style-type: none"> • text and tables • images • numbers • records 	bringing together a variety of materials gathered through research preparing information to pre sent to others
Bring together information to suit content and purpose	
Present information in ways that are fit for purpose and audience	
Evaluate the selection and use of ICT tools and facilities used to present information	
Select and use ICT to communicate and exchange information safely, responsibly and effectively including storage of messages and contact lists	communicating with other members of a group

Skill	When learners are ...
Mathematics	
Understand routine and non-routine problems in a wide range of familiar and unfamiliar contexts and situations	using numerical data in relation to business finances
Identify the situation or problem and the mathematical methods needed to tackle it	
Select and apply a range of skills to find solutions	
Use appropriate checking procedures and evaluate their effectiveness at each stage	
Interpret and communicate solutions to practical problems in familiar and unfamiliar routine contexts and situations	
Draw conclusions and provide mathematical justifications	
English	
Speaking and listening – make a range of contributions to discussions and make effective presentations in a wide range of contexts	<p>carrying out group work investigating business</p> <p>attending team meetings</p> <p>making presentations about business and accounting</p>
Reading – compare, select, read and understand texts and use them to gather information, ideas, arguments and opinions	reading about regulations and companies to obtain data to compare businesses and to examine business trends
Writing – write documents, including extended writing pieces, communicating information, ideas and opinions, effectively and persuasively.	producing accounts and diagrams showing business accounts.