

Unit BR1: Financial Principles and Techniques for Non-specialists

Unit code:	M/503/7385
QCF level:	6
Credit value:	15

Aim

This unit aims to give the learner understanding of some financial accounting and reporting principles, together with the skills to apply financial and management accounting principles in business.

Unit abstract

This unit provides an introduction to the context of both financial and management accounting and financial reporting.

It looks at how the financial statements of a range of business entities differ, as well as the common elements between them. Learners will be able to explain the constituent elements and purpose and uses of the three main financial statements. Learners will also gain practical experience of preparing both the statement of financial position and income statement for limited companies, and the balance sheet and profit and loss account for sole traders. Learners will gain practical experience of analysing the performance of a business through the use of financial ratios and become familiar with the components of published financial statements. The unit covers the role of external auditors and the debate surrounding the development of international accounting standards.

The unit then deals with cost accounting for businesses. Learners will gain experience of determining the unit costs of production. Finally, the unit looks at budgetary control procedures and performance evaluation. Learners will gain practical experience of producing budgets, flexing budgets based on actual output, and calculating variances between budgeted and actual results. Learners will be able to identify possible causes of variances and suggest corrective actions to be taken by management.

Learning outcomes

On successful completion of this unit a learner will:

- 1 understand the principles of financial accounting and financial reporting
- 2 be able to apply the principles of financial accounting and financial reporting
- 3 be able to apply principles of management accounting to a given business.

Unit content

1 Understand the principles of financial accounting and financial reporting

Role of accounting standards: UK and international, comparability, harmonisation process

Entity financial statements: sole trader, partnership, limited company, charity

Constituent elements of financial statements: financial position and financial performance, assets, liabilities, equity, revenue, expenses, cash flows, accrual accounting

Cash flow statement: cash flows from operating activities, financing activities and investing activities

2 Be able to apply the principles of financial accounting and financial reporting

Preparation of financial statements: recording of financial transactions; preparation of statement of financial position, balance sheet, income statement, profit and loss account

Consolidated financial statements: rationale for consolidation

Annual reports: financial statements, notes to accounts, auditors' report, chairman's statement

Financial ratio analysis: profitability, management performance, liquidity, gearing, efficiency, investor ratios; comparisons with competitors and previous accounting periods

Role of external auditors: appointment, role, independence, agency theory

3 Be able to apply principles of management accounting to a given business

Unit cost measurement: cost types (materials, labour, overheads, direct and indirect, fixed, variable and semi-variable); measurement, appropriate techniques; improvements; cost reduction; value enhancement

The budgeting process: purpose; benefits; links with organisational objectives/strategy; the budget manual; budgets as planning, coordinating, motivation and control devices; behavioural aspects

Budget preparation: limiting or key factors; master, subsidiary and functional budgets; cash budgets; the preparation of sales budget, debtors' budgets, creditors' budgets, production costs, raw materials and finished goods budgets

Budgeting methods: incremental; zero-based; fixed and flexible

Variations: types; analysis; calculation; flexed budget; possible causes; corrective action

Reporting: operating statement; reconciliation of budgeted and actual results

Responsibility centres: relevance to budgeting; identification of responsibility for variances

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 principles of financial accounting and financial reporting	1.1 Explain the role of UK and international accounting standards in financial accounting 1.2 Critically evaluate the impact on businesses of one set of accounting standards being used on a worldwide basis 1.3 Analyse the differences in the accounts of a range of different types of business 1.4 Describe the constituent elements of the statement of financial position and income statement for companies 1.5 Analyse the constituent elements of the balance sheet and profit and loss accounts for sole traders 1.6 Evaluate the importance and structure of a cash-flow statement for companies
LO2 Be able to apply the principles of financial accounting and financial reporting	2.1 Prepare financial statements for given businesses, making adjustments and from incomplete records 2.2 Evaluate the importance of consolidated financial statements for groups of companies 2.3 Evaluate the significance and importance of the constituent parts of a given annual report 2.4 Analyse the results and position of a given company using financial ratios 2.5 Analyse the importance of the relationship between a company's external auditor and its directors

Learning outcomes On successful completion of this unit a learner will:	Assessment criteria for pass The learner can:
LO3 Be able to apply principles of management accounting to a given business	3.1 Calculate the unit costs of a given business using appropriate techniques 3.2 Suggest improvements to reduce costs and enhance value in a given business 3.3 Select appropriate budgeting methods for a given business and its needs 3.4 Prepare a cash budget from given information for a given business 3.5 Calculate variances from flexed budget, identify possible causes and recommend corrective action 3.6 Prepare an operating statement reconciling budgeted and actual results 3.7 Report findings to management in accordance with identified responsibility centres

Guidance

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

The learning outcomes associated with this unit are closely linked with the Accounting NOS. It develops the content of the Level 4 *Unit 2: Managing Financial Resources and Decisions* of the Edexcel BTEC Level 4 HNC Diploma in Business.

The content of this unit has also been mapped against the Engineering Council's current Learning Outcomes for IEng Accreditation. The completion of the learning outcomes for this unit will contribute knowledge, understanding and skills towards the evidence requirements for IEng Registration.

See *Annexe B* for summary of mapping information for IEng Accreditation.

Essential requirements

There are no essential resources required for this unit.

Delivery

This unit provides an essential background to external financial accounting and reporting and internal management accounting for both companies and sole traders. It will enable learners to understand the wider accountancy framework within which businesses operates. Delivery of the unit can be undertaken in a variety of ways, ranging from an integrated approach to discrete topic delivery.

The unit could be delivered in the learning outcome order, or alternatively learning outcomes 1 and 2 could be taught alongside each other as part of a larger assignment. Alternatively, learning outcome 3 could be delivered first if accompanied by a suitable introduction. If the unit order is followed for delivery purposes, then there could either be separate assignments for each learning outcome, or preferably a case study could be constructed which links all or some of the learning outcomes together.

An integrated approach could be based upon a hypothetical business, for which learners are required to prepare both internal and external reports of a company. External financial reports could be prepared from either incomplete records or from detailed accounting transactions. Learners could then be asked to provide advice for a company if it were to become part of a larger group as well as to use ratio analysis to interpret the financial performance over a number of years. Internal management reports could be prepared starting with the subsidiary budgets culminating in the master budget. Variance analysis could then be performed to compare actual results with the original and flexed budgets.

There are many websites that can provide basic information for learner research. Learners could be encouraged to undertake research regarding the layout of the financial statements of a range of business entities which are freely available. Representatives from local accountancy and audit firms may also be able to provide some input.

Assessment

It is important that assessment shows the learner's understanding of the different accountancy roles both within and external to a business. Ideally this should be achieved through application in case studies and business scenarios investigating real or simulated businesses, rather than just extracted verbatim from text books.

Resources

Books

Atrill P and McLaney E – *Accounting and Finance for Non-specialists with MyAccountingLab, 7th Edition* (Financial Times/Prentice Hall, 2010) ISBN 978-0273745969

Dyson J R – *Accounting for non-Accounting Students, 8th Edition* (Financial Times/Prentice Hall, 2010) ISBN 978-0273722977

Gowthorpe C – *Business Accounting and Finance for Non-specialists, 2nd Edition* (Cengage Learning EMEA, 2005) ISBN 978-1844802005

Walsh C – *Key Management Ratios, 4th Edition* (Financial Times/Prentice Hall, 2008) ISBN 978-0273719090

Weetman P – *Financial and Management Accounting: An Introduction, 5th Edition* (Financial Times/Prentice Hall, 2010) ISBN 978-0273703693

Journals

Accountancy (CCH)

Accountancy Age (Incisive Financial Planning Limited)

Accounting Technician (Association of Accounting Technicians)

PQ Magazine (PQ Publishing)

Websites

www.accountancyage.com	Accounting news, information and case studies
www.accountingweb.co.uk	Accounting news, information and case studies
www.bbc.co.uk/news/business	The business pages of the BBC website
www.bized.co.uk	A business education resource site
www.bizhelp24.com	Help and support for businesses
www.businesslink.gov.uk	Business guidance for businesses, including accounting
www.canterbury.gov.uk	An example of a specific local business support website
www.ons.gov.uk	Office for National Statistics – UK government statistics, including the Retail Price Index

www.thetimes100.co.uk
www.tutor2u.net

The Times 100 case studies
Educational website for business and economics