



Unit 11: Financial Statements for Public Limited Companies

Delivery guidance

Approaching the unit

This unit is about the financial statements required for public limited companies and the calculation and analysis of shareholder ratios. This unit has very clear links to *Unit 3: Business Finance* because the financial statements for sole traders and ratio analysis are covered in that unit. Since a limited company structure is a very common form of ownership in the UK, a unit about the financial statements required should be useful to learners.

For this unit, learners will need to be able to produce concise, accurate financial statements which comply with the international accounting standard IAS1 (Presentation of financial statements) and IAS7 (Statement of cash flows). They will need to be able to complete a wide range of typical accounting exercises and case studies for practice.

You can use a range of delivery methods in delivering this unit, for example:

- class and small group discussion on the difference between cash and profit
- individual and/or paired completion of the practical accounting exercises
- case studies and scenarios for the practical accounting exercises to complete financial statement and statement of cash flows.

Group work is an acceptable form of delivery in terms of practice exercises and learning the layouts/formats of the financial statements, but you must ensure that learners individually produce evidence that is sufficient for assessment.

You can involve local employers in the delivery of this unit by inviting them as:

- guest speakers
- providers of work experience for learners, and of business materials as exemplars and casestudies
- mentors for learners.

Delivering the learning aims

You could introduce learning aim A by doing a class exercise together or in pairs on the financial statements for sole traders. This would remind learners about what goes where in the financial statements and how they are balanced. Since there are similarities in the basic format, this would serve as a good starting point for limited company accounts.

You could also introduce learning aim A by asking learners to identify some of the main objectives of a business – profit, growth, increased sales, market share. You could then ask learners to consider the factors a potential business would take into account when considering their investment decisions. This would then lead into the concept of the statement of comprehensive income, and the notion of gross profit and the impact of expenses on net profit.

Similarly, learners could be set an exercise in which they are required to classify assets and liabilities so that they begin to be familiar with terms such as current and non-current assets



and liabilities.

Before moving on to the preparation of financial statements, learners must have a clear understanding of the difference between the information provided in a statement of comprehensive income and the statement of financial position; they should also be familiar with the accounting terms used in both of these statements. For example, they should be able to define and give examples of the cost of sales in relation to gross profit and understand the term *inventory*. In relation to the statement of financial position, they should be able to define and give examples of current and non-current assets and liabilities, and be able to define *depreciation*. It is useful for learners to prepare a glossary of accounting terminology which can be updated at the end of each lesson. Short class tests and quizzes can be used at the start of lessons to test learners' knowledge of accounting terminology.

Next, move on to exercises that involve the completion of financial statements for limited company accounts, which should include the statement of comprehensive income (profit and loss account), the appropriation account and the statement of financial position (balance sheet). It might be worthwhile completing one or two relatively straightforward exercises first, for example exercises with few and/or relatively straightforward adjustment calculations.

Then, working in pairs, learners could complete a table of terms and their definitions. It is often not the calculations or even the completion of financial statements which defeat learners but all the 'new' accounting terminology that they must be able to define, understand and use in their financial statements. With one or two completed financial statements to refer to, learners may find this task easier.

Learners then need to define and apply all the relevant accounting concepts and standards. This could be covered first before any financial statements are produced but, again, if learners have some accounts to hand they may find applying the concepts and standards more straightforward. They can apply the theory to examples in the financial statements that they have just completed.

This theoretical topic can become very 'dry' for learners so you could consider asking them to work in small groups to come up with a board game or quiz to understand the accounting concepts and standards. Alternatively, each group could design a webpage or interactive game using IT for the same purpose. Or they could simply design a flowchart or pictorial representation of the concepts using graphics and acronyms which would act as a visual prompt to help them understand the concepts and standards.

It might also be worthwhile inviting a guest speaker from a local accountancy firm to come and discuss the importance of the financial statements to different stakeholder groups, who they are and what financial information concerns them most. Learners could design a leaflet or put together a table of the priorities and interests of each stakeholder group listed in the specification.

It would be useful to start learning aim B by using a class discussion about the difference between profit and cash. Learners should be able to identify some typical transactions which affect cash but not profit and vice versa which can then be developed and explained further. Learners should be able to use the financial statements from learning aim A to find such examples. This should then lead naturally into the reasons why a cash flow statement is so important and why financial statements which only declare profit do not reveal the full picture of the financial position of a public limited company.

Once again, practical exercises should be used to complete the statement of cash flow, and it might be useful to use the same company and exercise that was used for the financial statements completed in learning aim A. In this way, learners will complete a full set of financial statements for each company and be able to see for themselves how the profit and cash amounts differ and why that is so. Ensure that learners follow the recognised format IAS7 and that they complete two distinct sections so that they can:



- calculate **net cash from operating activities** by adjusting profit
- calculate **net increase or decrease in cash** by completing all actual cash inflows and outflows.

Learners should then be encouraged to apply their knowledge of concepts and standards to the statement of cash flow that they produce so that they have more relevant and realistic examples to draw on. Learners must be able to identify the main reasons for changes in cash flow from one period to another and analyse the implications of these to the financial planning of the company in the future and the various stakeholders. You will need to ensure, therefore, that the formative exercises set allow sufficient variety and complexity of cash flow changes so that this analysis can be completed in a meaningful and realistic way by learners.

Issuing templates for the layout of the financial statements in both learning aims A and B would be very useful for learners, they could either do their own template or you could issue them with one. If you produce the templates, then perhaps learners could come up with some useful acronyms to help remember and recall the layouts.

For learning aim C, learners will already have completed ratio analysis as part of *Unit 3: Personal and Business Finance*, so you only need to focus here on shareholder ratios. It is important that learners appreciate the diversity and volume of shareholders in public limited companies and that the published financial statements do not always tell shareholders everything they would like to know about the financial health of the company. Furthermore, these statements are complex, particularly to non-accountants, which the majority of shareholders will be. Ratios can help break down information into key financial data and look at the relationship between financial variables.

Start with a group discussion about what learners consider to be the main financial priorities of current and potential shareholders and why. It is important learners appreciate shareholder priorities early on so that when they analyse and evaluate the financial position of the company using their ratio calculations, they can relate it back to these key priorities.

Introduce the formulae and definition of each ratio. It would be worthwhile to calculate each ratio as you do this, and immediately apply and analyse the result. Learners can often calculate ratios but tend to struggle with ratio application and analysis. If they learn all the processes together it may mean that their understanding is reinforced and applied as they go along. Learners could then produce a table to summarise the ratios. This could include the formula, definition and main use to current and potential shareholders.

Learners can then move on to completing the ratios using suitable formative assessment exercises. Once again, it would be beneficial to use the exercises and financial statements from learning aims A and B so that learners can calculate the ratios and apply them to the examples that they have already worked with. You could then develop this process with a group discussion about how and why the ratios have added important information for current and potential shareholders. Learners could work in small groups to come up with ideas and relate these back to the financial priorities of shareholders.



At all stages, learners must ensure that they can calculate and analyse the results of the ratios. It might be worthwhile asking them to do the calculations individually and then discuss and analyse the results in pairs. Finally, the relative merits and drawbacks of ratio analysis need to be discussed. Learners should appreciate that any/all financial information does not reveal everything someone might need to know about a limited company. Ratios are just another financial tool which help to give information and data, but they should not exist or be used in isolation.



Learning aim	Key content areas	Recommended assessment approach
<p>A Examine the end-of-year financial statements for a public limited company</p>	<p>A1 Accounting concepts A2 Accounting standards A3 Accounting adjustments A4 End-of-year financial statements A5 Analysis and interpretation of end-of-year financial statements</p>	<p>A report to explain the accounting concepts and standards to be followed when preparing end-of-year financial statements.</p> <p>Calculation of end-of-year adjustments and a completion of the end-of-year financial statements for a public limited company.</p>
<p>B Explore the statement of cash flows of a public limited company</p>	<p>B1 Purpose of cash flow statements B2 Completion of statement of cash flows B3 Changes to cash flow</p>	<p>A report to assess and apply the relevant concepts and standards to the end-of-year financial statements.</p>
<p>C Undertake shareholder ratio analysis for public limited company accounts</p>	<p>C1 Definition and purpose of shareholder ratios C2 Calculation of shareholder ratios C3 Merits and drawbacks of shareholder ratios C4 Ratio analysis</p>	<p>A written evaluation of the significance of the financial statements to different stakeholders of the public limited company.</p> <p>A report to explain the purpose of a cash flow statement and shareholder ratios.</p> <p>Calculation and preparation of a public limited company cash flow statement in accordance with the format for publication.</p> <p>A written analysis of the statement of cash flows.</p> <p>A written evaluation of the financial position of the public limited company.</p> <p>Calculation of specified shareholder ratios.</p> <p>An oral presentation to analyse the ratio results.</p> <p>A written evaluation of the financial position of the two limited companies.</p>



Assessment guidance

This unit is internally assessed. The specification gives specific guidance on the criteria that learners need to meet to gain pass, merit or distinction.

All learners must independently generate individual evidence that can be authenticated. The main sources of evidence are likely to be an individual written report accompanied by individual research, plus a portfolio that includes details of the learner's own participation in team activities, supported by assessor/peer observation records and witness statements, and an individual logbook/diary.

BTEC assessors could complete observation records and learner's colleagues in placements or part-time work could complete witness statements. Note that observation records alone are not sufficient sources of learner evidence, the original learner-generated evidence must also support them.

For learning aims A, B and C it might be useful to apply the same case study/scenario and public limited companies. You need two public limited companies because in learning aim C, there needs to be ratio calculation and analysis of two public limited companies. This does not mean however, that there must be only one assignment. There could be two or three separate assessments but if they are all linked to the same company, this can make the analysis and evaluation more meaningful and cohesive for learners. They can see more easily how all the financial statements and ratios work together for a company.

When writing assessment material, it is important that learners are able to access the merit and distinction criteria through their analysis. For example, in learning aim C the results for the two separate limited companies do need to be sufficiently different in at least some of the results. Where one company has a better or more stable result in one ratio it might be poorer in another, and so on. When completing the statement of cash flow for learning aim B, there needs to be a number of different changes so that learners are able to analyse these in sufficient detail.



Getting started

This gives you a starting place for one way of delivering the unit, based around the specification.

Unit 11: Final Accounts for Public Limited Companies

Introduction

Begin this unit by discussing the ownership and structure of public limited companies and how and why they are different to other forms of ownership. Working in small groups, learners could then identify some familiar and established public limited companies. They could do a short presentation about a company: what it does, its size and location and some key financial data, which would start them looking at the financial statements of public limited companies.

Learning aim A – Examine the end-of-year financial statements for a public limited company

- Start by getting learners to explore the objectives of private sector business organisations and the information required by potential investors. Lead on to accounting terminology used when preparing financial statements, and get learners to start to compile a glossary of accounting terminology which can be continuously updated throughout the duration of the teaching programme
- Start with a recap of the financial statements completed as part of *Unit 3: Personal and Business Finance* for sole traders (statement of comprehensive income and statement of financial position). Doing a typical exercise together as a group would help recap and reinforce where everything goes in the accounts.
- Next, introduce learners to the importance of accuracy in the financial statements and the implications for the business if the financial statements are not accurate. Lead on to the importance of accounting concepts and the purpose of international accounting standards. You could consider preparing the statements for internal use first and then move on to the statements for publication if you felt that the step-up would be bridged more easily this way. Exercises and case studies need to include typical year-end adjustments and entries to the appropriation account.
- Further research needs to be conducted so that learners can identify, define and apply the accounting concepts and standards used in producing financial statements. Exercises should therefore have narrative elements to them so that learners can apply the theoretical knowledge directly to the accounts that they have produced. Learners must be able to not only define and apply the concepts and standards but they must be able to **analyse** – say **why** and **how** the concept and/or standard has been fulfilled while completing financial statements.
- Finally, consider the usefulness of the financial statements to the various stakeholders of a typical public limited company. There are a number of ways this can be done and some suggestions have been made in the delivery section above. Learners should find a way to record stakeholder priorities succinctly and clearly so that they can update this as they move through the unit and complete other financial statements.



Learning aim B – Explore the statement of cash flows of a public limited company

- Using a class discussion and/or group work, ask learners to identify all the differences between cash and profit that they can think of.
- In groups, learners could conduct further research into companies that have gone into liquidation even though profits were positive. Learners could identify just what the cash problems were and why the companies were not able to overcome them.
- Once the importance of considering cash flow and not just profit has been established, use exercises to complete a statement of cash flows. Start by completing an exercise together as a whole group. Learners could then be issued with, or could produce for themselves, a template of the layout of a statement of cash flow. Move on to exercises which learners should complete individually or in pairs. Wherever possible, use the same scenario and company from learning aim A and issue additional information where it is required.
- Use the statement of cash flow from each exercise to identify and explain the changes in cash flow from one period to another. The significance of these to the various stakeholders of a public limited company then needs to be analysed.



Learning aim C – Undertake shareholder ratio analysis for public limited company accounts

- Start by reminding students of the concept of a *ratio* (covered in Unit 3) and what it seeks to measure. Get learners to complete some basic ratio calculations and to interpret the results. For example, use a statement of comprehensive income to extract relevant data to calculate gross and net profit margins. Learners could then be asked to identify how profitability could be improved.
- Follow on by getting learners to complete a simple comparative ratio analysis between two businesses and write a short commentary on their findings.
- Use class discussion to outline and explain the importance of shareholder ratios and what additional financial information they can give to shareholders. Links should be made back to the financial priorities of shareholders that will have been covered in learning aim A.
- Go over the title, formula and definition of each of the shareholder ratios. Learners could complete a table to record this information in a similar way to the templates they have for learning aims A and B.
- Learners should then complete class exercises to calculate and analyse a set of shareholder ratios. Once again, try to use the same public limited companies and scenarios from learning aims A and B. You should issue additional information and data if required.
- Learners could work in small groups to take their shareholder analysis and then evaluate the financial position of the public limited company for current and potential shareholders. This evaluation does not have to comment on ratio results, exclusively. Other financial information could be used to reinforce the points made.
- Finally, learners could work in small groups to produce a presentation or leaflet about the merits and drawbacks of ratio analysis as a financial tool. This can be linked back to the evaluation exercises if learners used other financial information at that point. Use this as an example of the limitations of ratios on their own.



Details of links to other BTEC units and qualifications, and to other relevant units/qualifications

- Unit 3: Business Finance.
- Unit 7: Business Decision Making.
- Unit 10: Recording Financial Transactions.
- Unit 12: Financial Statements for Specific Businesses.

Resources

In addition to the resources listed below, publishers are likely to produce Pearson-endorsed textbooks that support this unit of the BTEC International in Business. Check the Pearson website (<http://qualifications.pearson.com/endorsed-resources>) for more information as titles achieve endorsement.

Textbooks

- Finch C – *A student's guide to International Financial Reporting Standards*, 2nd edition (Kaplan Publishing, 2008) ISBN 9781847107084.
A useful text for understanding the financial reporting standards. It uses memory techniques and colour codes the standards in terms of complexity. It is written in a down to earth, understandable way.
- Johal P and Vickerstaff B – *Financial Accounting (360S)*, (Routledge, 2014) ISBN 9781444170412.
An accounting text which covers all the key topics for this unit including stakeholder needs, accounting concepts, statement of financial position, statement of income, adjustments and cash flow statements.
- Wood F and Robinson S – *Book-keeping and Accounts*, 8th edition (Pearson, 2013) ISBN 9780273773061.
An accounting text that covers the main accounting topics with many book-keeping and accounting practice exercises.

Journals

- *Business Review* (Philip Allan Magazines)
A journal designed for Business Studies learners that includes relevant and topical business articles and case studies.

Websites

- <http://businesscasestudies.co.uk>
The Times newspaper has up to date information and case studies about a whole range of different businesses and organisations.

Pearson is not responsible for the content of any external internet sites. It is essential for tutors to preview each website before using it in class so as to ensure that the URL is still accurate, relevant and appropriate. We suggest that tutors bookmark useful websites and consider enabling learners to access them through the school/college intranet.