

Financial Accounting 2

Unit level 4

Unit code T/650/9637

GLH 60

Credit value 15

Unit grading structure

Pass-Merit-Distinction

Unit aims

Learners will develop the ability to prepare financial statements according to the International Accounting Standards for Small and Medium-Sized entities (IFRS for SMEs).

Learners will gain knowledge and skills required to enable them to measure performance and assess the financial position of small and medium-sized enterprises (SMEs) and small and medium-sized practices (SMPs).

Learning outcomes

The learner:

Assessment criteria

The learner can:

Pass

Merit

Distinction

1. Understands the relationship between organisational ownership and the nature of financial reporting statements.

1. Compare the capital structures of different organisations.
2. Explain how and why a particular capital structure is selected.
3. Analyse the effect the capital structure of organisation has on the preparation of the financial reporting statements.

1. Assess how a change of capital structure within an organisation will impact on the preparation of the financial reporting statements.

2. Understands the role of accounting and accounting records within an organisation.

1. Explain the role of common format of accounting and accounting records within an SME/SMP
2. Explain systems for reporting financial transactions.
3. Produce a trial balance from double entry accounting records.

3. Can prepare financial reporting statements for different types of organisation.

1. Describe the treatment of non-current assets in financial reporting statements.
2. Prepare financial reporting statements for different types of organisation.

1. Analyse the components of financial statements.

4. Can use techniques to measure performance and assess the financial position of organisations.

1. Calculate performance indicators to assess and monitor the financial position, performance and efficiency of a specific organisation.

2. Develop key performance indicators relevant to a specific business organisation.

3. Interpret and report on the results of performance indicators.

1. Analyse the rationale for using quantitative and qualitative measures to assess organisational performance and position.

1. Compare and contrast the financial performance of an SME using financial indicators.



Indicative content

1. Understand the relationship between organisational ownership and the nature of financial reporting statements

Capital Structures of different business organisations to include:

- Sole traders
- Partnerships
- Limited liability partnerships
- Limited companies
- Manufacturing companies
- Not for profit organisation

Financial Reporting Statements for different business organisations, for example:

- Income statements
- Statements of financial position
- Manufacturing accounts
- Income and expenditure accounts for not for profit organisations
- Accounting policies
- Notes to the financial statements
- Auditor's report

2. Understand the role of accounting and accounting records within an organisation

Accounting systems e.g. double entry bookkeeping, ledger accounts e.g. Assets, liabilities, capital, posting transactions, balancing ledger accounts, making transfers to final accounts, interpreting ledger accounts and their balances, computerised systems, other accounting records.

- Classification of different types of income and expenditure – capital and revenue
- Production of a trial balance from ledger account balances.

3. Can prepare financial reporting statements for different types of organisation

The application of accounting concepts and principles to financial reporting statements:

- Valuation of non-current assets
- Depreciation of non-current assets, i.e.
 - Straight line method
 - Reducing (diminishing) balance method
- Calculation of net book value.

Period end adjustments:

- Valuation of inventory
- Depreciation of non-current assets, i.e.
 - Straight line method
 - Reducing (diminishing) balance method
- Irrecoverable debts
- Provision for doubtful debts
- Accruals
- Prepayments.

Application of relevant accounting standards, for example, IASs and IFRSs.

Preparation of financial reporting statements for sole traders, partnerships, limited companies/corporations, or parts thereof, suitable for external users such as shareholders, owner managers, creditors, employees and public:

- Main elements of annual accounts of small enterprises, e.g. in UK private limited companies i.e. income statement and statement of financial position
- The main elements of published accounts e.g. in UK Public Limited Companies' annual reports, i.e. 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 and auditor's report.

4. Can use techniques to measure performance and assess the financial position of organisations


Calculation and interpretation of:

- Liquidity ratios
- Profitability ratios
- Working capital ratios
- Efficiency ratios
- Resource utilisation ratios.

The usefulness of ratio analysis when assessing the performance of a business.

Develop and calculate relevant performance indicators for a business measuring profitability and performance and apply benchmarking and balance scorecard as a method of appraisal. (Comparing different companies and to industry averages.)

Distinguishing between qualitative and quantitative measures and application to case study material.



The role of different quality systems in the continuous improvement of business processes and performance:

- Quality control and testing
- Quality assurance
- Total quality management (TQM)
- The internal and external costs associated with weak quality systems.

The use of financial reports and financial analysis by different stakeholder groups. For example:

- Shareholders
- Employees
- Potential investors
- Directors
- Managers
- Suppliers
- Customers
- Lenders
- Government
- Analysts

Suggested resources

Textbooks

Sangster, A. & Gordon, L. (2021) *Frank Wood's Business Accounting* (15th edition), Pearson, Harlow

Sangster, A. (2018) *Frank Wood's Business Accounting 2* (14th edition), Pearson, Harlow

Websites

International Reporting Standards (IFRS) <https://www.ifrs.org>

Investopedia, How to Use Ratio Analysis to Compare Companies

<https://www.investopedia.com/ask/answers/032315/how-does-ratio-analysis-make-it-easier-compare-different-companies.asp>

Videos

<https://youtube.com>

Accounting Stuff, *FINANCIAL RATIOS: How to Analyze Financial Statements*

Accounting University, *How to Do a Ratio Analysis - (REAL WORLD COMPANY)*


Unit assessment

The assessment for each unit is based on the achievement of the learning outcomes at the standards set by the assessment criteria for that unit. The learner can achieve a Pass, Merit, Distinction or Fail for each unit based on the quality of the work submitted and the assessor's judgements made against the criteria provided.


The assessment is completed through the submission of internally assessed learner work which is subject to external moderation or verification.

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