## Business and Finance

### Analysing Accounting Statements

10218 (Examination)  
10219 (Alternative Assessment)

**GRADED**  
**ACADEMIC SUBJECT CONTENT**

**Credit Value of Unit**: 6  
**GLH of Unit**: 60  
**Level of Unit**: 3

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<th>Learning Outcomes</th>
<th>Assessment Criteria</th>
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<td>The student should be able to</td>
<td>The student can</td>
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</table>
| 1 Understand key terms and concepts relevant to the study of financial accounting statements | 1.1 Explain appropriate accounting terms and concepts  
1.2 Interpret financial accounting statements from provided data |
| 2 Understand how adjustments are applied to financial accounting statements | 2.1 Explain the importance of making year-end adjustments to financial accounting statements  
2.2 Analyse the effect of year-end adjustments to financial accounting statements |
| 3 Understand the role and limitations of ratios when analysing the financial performance of a business | 3.1 Explain the meaning of different accounting ratios  
3.2 Explain the uses and limitations of using ratios to analyse the financial performance of a business |
| 4 Use ratio analysis to analyse the financial performance of a business | 4.1 Use appropriate ratios to analyse the financial performance of a business  
4.2 Analyse the results of ratio calculations and identify strategies for improving the financial performance of a business |

**Assessment Methodology**

A formal unseen two-hour written examination

**Grading of this unit**

The following grade descriptors will be applied to the assessment of this unit:

1 Understanding of the subject  
2 Application of Knowledge  
5 Communication and Presentation  
6 Autonomy and/or Independence  
7 Quality

Please refer to the QAA Grade Descriptors for detail of the components of each descriptor.
Indicative Content

Learning Outcome 1

Accounting Concepts: Fundamental Accounting Concepts, i.e. Accruals (matching), Consistency, Concern, Prudence

Generally Accepted Accounting Concepts, e.g. Money measurement, Historical cost, Materiality, Business entity, Duality (double-entry)

Principles, i.e. Relevance, Reliability, Comparability, Understandability

Interpretation of financial accounting statements:
Income Statement (Trading and Profit and Loss Account):
- Purpose
- Use

Trading Account, e.g. calculation of gross profit from sales, purchases, opening and closing inventories, Calculation of net profit, including expenses, additional income, Transfer to the Statement of Financial Position (Balance Sheet)

Statement of Financial Position (Balance Sheet):
- Purpose
- Use
- Non-current assets, e.g. premises, motor vehicles, office equipment
- Current assets, e.g. inventory, trade receivables, bank and cash
- Long term liabilities, e.g. mortgage
- Current liabilities, e.g. bank overdraft, trade payables, debts to be repaid within one year
- Working capital
- Net assets
- Equity, e.g. capital, profit and drawings

Cash Flow Statement:
- Purpose
- Financial position
- Liquidity
- Use of funds
- Relationship between cash and profit
- Working capital
- Sources of finance
- Cost of finance
- Comparison over time

Learning Outcome 2

Financial Statements, i.e. Income Statement (Trading and Profit and Loss Account), Statement of Financial Position (Balance Sheet), Cash Flow Statement

Adjustments to financial accounting statements, e.g. Depreciation of non-current (fixed) assets, Bad debts, Provision for doubtful debts, Accruals, Prepayments, Inventory valuation
Learning Outcome 3
Definition and use of a range of ratios, e.g.
Liquidity ratios, e.g. Current ratio, Acid test (quick) ratio

Profitability ratios, e.g. Gross profit mark up, Gross profit margin, Net profit margin, Return on capital employed

Efficiency ratios, e.g. Inventory turnover, Trade receivables (debtors) collection period, Trade payables (creditors) payment days

Investor ratios, e.g. Dividend per share, Dividend yield, Gearing

- Use of ratios when analysing the financial performance of a business organisation.
- Assessment of the appropriateness of particular ratios for different users and user needs.
- Limitations of using ratios to analyse the financial performance of a business organisation and difficulties of ratio comparisons.

Learning Outcome 4
Calculation and analysis of a range of ratios:

Current Ratio:
Current assets
Current liabilities (amounts falling due within one year)

Acid Test (Quick) Ratio:
Current assets – Closing inventory
Current liabilities (amounts falling due within one year)

Gross Profit Mark-up:
Gross Profit x 100
Cost of sales

Gross Profit Margin:
Gross Profit x 100
Sales (Revenue)

Net Profit Margin:
Net Profit x 100
Sales (Revenue)

Return on Capital Employed:
Net Profit before tax and interest x 100
Long term capital employed

Inventory Turnover:
Cost of sales
Average inventory

Trade receivables (debtors) collection period:
Trade receivables x 365
Credit sales

Trade payables (creditors) payment days:
Trade payables x 365
Credit purchases

Dividend per share (in pence):
Total dividends
Number of issued ordinary shares
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<tr>
<th>Dividend yield (%)</th>
<th>Ordinary share dividend (in pence)</th>
<th>Current market price (in pence)</th>
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Gearing ratio:
Non-current liabilities \( \times \) 100
Capital employed

Compare and assess the ratio results of inter-firm comparisons and trend analyses.
The difficulties of comparison, for example subjectivity, time lapse, external factors.
Identification of strategies for improvement for the financial performance of a business organisation.

Validation end date: 31 August 2019