

Level 3 Award in Understanding Financial Statements



International
Qualifications from EDI

Syllabus

Effective from: 1 September 2010

INTRODUCTION

Education Development international (EDI) is a leading international awarding body that was formed through the merger of the London Chamber of Commerce and Industry Examinations Board (LCCI) and a leading online assessment provider GOAL. EDI now delivers LCCI International qualifications (LCCI IQ) through a network of over 5000 registered centres in more than 120 countries worldwide. Our range of business-related qualifications is trusted and valued by employers worldwide and recognised by universities and professional bodies.

Level 3 Award in Understanding Financial Statements

Aims

The aims of the qualification are to:

- develop candidates knowledge and understanding of the nature and purpose of the main types of financial statements
- enable candidates to interpret the information presented on the Trading, Profit and Loss Account, Balance Sheet and Cash Flow Statement
- enable candidates to make basic calculations relating to financial statements
- develop candidates skills in using ratios to assess the profitability, liquidity and efficiency of a business.

This qualification is accredited in the UK as EDI Level 3 Award in Understanding Financial Statements (QCF) 501/1127/9. This qualification has a credit value of 5.

Target Audience and Candidate Progression

This qualification is suitable for people who are non-specialist in financial accounting but who need to understand the language and principles of financial statements in order to broaden their career opportunities or improve their career progression. It is particularly suitable for candidates specialising in cost and management accounting or other business-related courses as well managers, administrators, budget holders, salespeople, business owners, etc. It is also useful for anyone wishing to simply improve their own learning and personal development and better manage their personal finance.

This qualification can be taken as a standalone qualification or as part of the Level 3 Specialised Diploma in Managerial Accounting or the Level 3 Specialised Diploma in Cost Accounting.

Level of English Required

There are no formal entry requirements for this qualification. However, candidates should have a minimum level of English equivalent to the LCCI Level 2 English for Business or JETSET 4 - (Council of Europe B1/Threshold) to meet the communication requirements for this qualification.

Structure of the qualification

The Level 3 Award in Understanding Financial Statements is a single unit qualification which covers the following key areas:

- 1 Purpose and use of financial statements
- 2 Accounting concepts and principles
- 3 Interpreting the Trading, Profit and Loss Account
- 4 Interpreting the Balance Sheet
- 5 Interpreting the Cash Flow Statement
- 6 Applying and interpreting profitability, liquidity and efficiency ratios.

Guided Learning Hours

EDI recommends that 45 - 55 Guided Learning Hours (GLHs) provide a suitable course duration for an 'average' candidate at this level. This figure includes direct contact hours as well as other time when candidates' work is being supervised by teachers. Ultimately, however, it is the responsibility of training centres to determine the appropriate course duration based on their candidates' ability and level of existing knowledge. EDI's experience indicates that the number of GLHs can vary significantly from one training centre to another.

ASSESSMENT

Assessment Objectives

The examination will assess the candidate's ability to:

- demonstrate an understanding of the purposes of financial statements and how they are used
- demonstrate knowledge of the main financial statements
- demonstrate an understanding of the main accounting concepts and principles and how they impact on the preparation of financial statements
- demonstrate an understanding of the preparation of the Trading, Profit and Loss Account, Balance Sheet and Cash Flow Statement and the main components within each
- interpret the information presented on a Trading, Profit and Loss Account, Balance Sheet and Cash Flow Statement
- apply and interpret the results of ratios relating to profitability, liquidity and efficiency.

Assessment Format

The qualification is assessed by a paper-based multiple-choice test, which consists of 30 questions covering all six areas of the syllabus. The time allowance for the test is 60 minutes. The exam is available on demand.

All multiple-choice tests must be carried out in accordance with the *Examination Guide for LCCI Centres* and the *Examination Regulations*, which is sent to centres with the exam papers.

Coverage of Key Syllabus Areas in the Examination

The multiple-choice test will cover the key syllabus areas as follows:

Syllabus areas	Approximate weighting of question allocation
1 Purpose and use of financial statements	10%
2 Accounting concepts and principles	10%
3 Interpreting the Trading, Profit and Loss Account	20%
4 Interpreting the Balance Sheet	20%
5 Interpreting the Cash Flow Statement	20%
6 Applying and interpreting profitability, liquidity and efficiency ratios	20%

Answer Format

For each of the 30 multiple-choice questions candidates must mark A, B, C or D on the Candidate Answer Sheet, using a HB pencil. Only one answer must be marked for each question and the answer circle must be completely shaded.

Mark Allocation

The multiple-choice test is marked objectively and each question is equally weighted. One mark is allocated to each correct answer. EDI rigorously edits all multiple-choice items and test papers to ensure their quality and consistency.

Certification

Successful candidates will be awarded the Level 3 Award in Understanding Financial Statements based on the achievement of the marks and grades below:

Pass	18 - 23 marks
Credit	24 - 27 marks
Distinction	28 marks

Centres will receive certificates within a maximum of 6 weeks of the receipt of the OMR answer sheets at EDI.

Recommended Reading List and Support Materials

Reading List

Title	Authors(s)	Publisher	ISBN Code
Understanding Financial Statements: Student Workbook	EDI	EDI	
Understanding Financial Statements: A Primer of Useful Information	James O Gill	Cengage Learning Inc	9781560524251
Passport to Success: Level 2 Book Keeping and Accounts	EDI	Hodder	978-1-86247-111-2

Support Material

Sample multiple-choice questions and answers are available on the qualification page of the website. A Student Book and a Teachers' Toolkit will also be available on the qualification page of the website – centres will need to login before they can access these.

How to offer this qualification

To offer this qualification you must be an LCCI IQ registered examination centre. To gain centre approval please contact Customer Support on 08700 818008 between the hours of 0830 and 1700 (GMT) Monday to Friday or by email on centresupport@ediplc.com

Alternatively you may contact your Regional LCCI Office or Co-ordinating Authority.

Level 3 Understanding Financial Statements

Learning outcomes	Assessment Criteria	Indicative Content
<i>The learner will:</i>	<i>The learner can:</i>	
1. Understand the purpose of financial statements and how they are used	<p>1.1 Explain the meaning of the term 'financial statements'</p> <p>1.2 Explain why it is important for businesses to produce financial statements</p> <p>1.3 Describe how financial statements are used by each of the different user groups</p> <p>1.4 Describe the three main financial statements that are produced annually</p>	<p><i>Definition: a formal record of the financial activities of a business or person.</i></p> <p><i>Reasons include: to provide information about the financial position; performance; changes in the financial position of the business</i></p> <p><i>Users include: managers, shareholders, lenders, suppliers, government, potential investors, employees and potential employees</i></p> <p><i>The three main financial statements are the Trading, Profit and Loss Account, Balance Sheet and The Cash Flow Statement.</i></p>
2. Understand the accounting concepts and principles that are used in the preparation of financial statements	<p>2.1 Describe each of the following accounting concepts:</p> <ul style="list-style-type: none"> ▪ consistency ▪ matching and accruals ▪ prudence ▪ going-concern <p>2.2 Explain how each of the accounting concepts affects the preparation of the financial statements.</p> <p>2.3 Distinguish between the terms 'capital expenditure' and 'revenue expenditure'</p>	

<p>3. Be able to interpret the information presented on the Trading, Profit and Loss Account</p>	<p>3.1 Distinguish between expenses and revenues and how they are treated</p> <p>3.2 Explain why depreciation is considered as a non-cash expense</p> <p>3.3 Outline the basic equation that the preparation of a Trading, Profit and Loss Account is based on</p> <p>3.4 Describe the main components of a Trading, Profit and Loss Account</p> <p>3.5 Explain how the components relate to each other in the preparation of a Trading, Profit and Loss Account.</p> <p>3.6 Calculate gross profit/loss and net profit/loss from given figures</p> <p>3.7 Explain how the information provided by a Trading Account is different to that provided by a Profit and Loss Account</p>	<p><i>Revenues - Expenses = Profit/Loss</i></p> <p><i>Main components include: Sales Revenue; Purchases; Opening stock; Closing stock; Cost of goods sold; Gross Profit/Loss; Net Profit/Loss; Operating Expenses</i></p> <p><i>Arithmetical operations applied to the different components in the preparation of the statement.</i></p>
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<p>4. Be able to interpret the information presented in the Balance Sheet</p>	<p>4.1 Define the following terms:</p> <ul style="list-style-type: none"> ▪ Assets ▪ Liabilities ▪ Capital / Owners equity <p>4.2 Distinguish between fixed assets and current assets, giving examples</p> <p>4.3 Explain the way in which assets are presented on the Balance Sheet</p> <p>4.4 Distinguish between current liabilities and long term liabilities</p> <p>4.5 State the accounting equation</p> <p>4.6 Explain how the accounting equation relates to preparation of the Balance Sheet</p> <p>4.7 Calculate working capital from given figures</p> <p>4.8 Explain the importance of having positive working capital</p>	<p><i>Fixed assets in descending order of permanence; current assets in increasing order of liquidity;</i></p> <p><i>Assets = capital + liabilities; can also be stated as “capital = assets – liabilities” or “liabilities = assets – capital”</i></p> <p><i>Working Capital = Current Assets – Current Liabilities</i></p>
<p>5. Be able to interpret the information presented on a Cash Flow Statement</p>	<p>5.1 Explain how the principle in preparing a Cash Flow Statement is different from that of a Trading, Profit and Loss Account and Balance Sheet</p> <p>5.2 Describe the underlying equation used in preparing a Cash Flow Statement</p> <p>5.3 Describe the information shown in the main sections of the Cash Flow Statement based on FRS1</p> <p>5.4 Distinguish between the ‘Direct Method’ and the ‘Indirect Method’ of calculating Cash Flow from Operating Activities</p> <p>5.5 Explain how the information provided by a Cash Flow Statement is useful to the business and users of accounts</p>	<p><i>Cash accounting basis as against accruals accounting</i></p> <p><i>Change in cash and cash equivalents = total cash generated by/used for operating activities + investing activities + financing activities</i></p> <p><i>Operating activities; Returns on investment and servicing of finance; Taxation; Capital expenditure and financial investment; Acquisitions and disposals; Equity dividends paid; Management of liquid resources; Financing</i></p>

<p>6. Be able to apply a range of ratios to a given set of financial statements and interpret the results</p>	<p>6.1 Define and calculate the following profitability ratios:</p> <ul style="list-style-type: none"> Gross profit as a percentage of sales Net profit as a percentage of sales Return on capital employed <p>6.2 Use the results of calculated ratios to assess the profitability of a business</p> <p>6.3 Define and calculate the following liquidity ratios:</p> <ul style="list-style-type: none"> Current (working capital) ratio Acid Test (Quick) ratio <p>6.4 Use the results of calculated ratios to assess the financial stability of a business</p> <p>6.5 Define and calculate the following efficiency ratios:</p> <ul style="list-style-type: none"> Stock turnover ratio <ul style="list-style-type: none"> Debtors' collection period Creditors' settlement period <p>6.6 Use the results of calculated ratios to assess how well the business controls and uses its assets</p>	<ul style="list-style-type: none"> Gross profit as a percentage of sales: $= \frac{\text{gross profit}}{\text{sales}} \times 100 = X\%$ Net profit as a percentage of sales: $= \frac{\text{net profit}}{\text{sales}} \times 100 = X\%$ Return on capital employed: $= \frac{\text{net profit}}{\text{capital employed}} \times 100 = X\%$ <ul style="list-style-type: none"> Current (working capital) ratio: $= \frac{\text{current assets}}{\text{current liabilities}} = X:1$ Acid test (Quick) ratio: $= \frac{\text{current assets} - \text{stock}}{\text{current liabilities}} = X:1$ <ul style="list-style-type: none"> Stock turnover: - $= \frac{\text{cost of sales}}{\text{average stock}} = X \text{ times}$ <p style="text-align: center;">or</p> $\frac{\text{average stock}}{\text{cost of sales}} \times 365 = X \text{ days}$ Debtors' collection period: $= \frac{\text{debtors}}{\text{sales}} \times 365 = X \text{ days}$ Creditors' settlement period:- $= \frac{\text{creditors}}{\text{purchases}} \times 365 = X \text{ days}$
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