

# Management Accounting: Budgeting

Unit level	GLH value	Assessment
4	60	Unit and synoptic assessment

## Introduction

This unit is about the use of budgeting for planning, coordinating and authorising the activities of an organisation and for controlling costs. The unit provides skills and knowledge to improve the performance of an organisation by setting targets, constructing achievable plans and monitoring results.

Students will develop a range of skills within the context of planning and control. These include management accounting, statistical analysis, written communication and variance analysis. The application of standard costing and its links to budgeting is also included, although the topic is covered in detail in the Management Accounting: Decision and Control unit.

Students will also develop their business awareness as part of this unit. In particular, they will gain an elementary understanding of production planning (efficiency, adjusting for changing inventory levels, material control, staff planning, plant scheduling) and aspects of marketing (competition, promotion, product life cycle and so on). In this context, performance measures are used to set targets and monitor performance. These are not high-level financial indicators such as return on net assets, as learned in other units, but detailed measures relevant to specific budgets. As an example, average hourly labour rate would be relevant to the control of a direct labour cost budget.

Budgeting could be described as the art of the possible. Budgets are constructed from forecasts and plans. Forecasts relate to external factors, over which management may have very little influence, while plans relate to the organisation's activities and must be managed.

Management Accounting: Budgeting is a **mandatory** unit. Its content has links with Management Accounting: Decision and Control, but the application here is specifically to budgeting.

## Learning outcomes

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1. Prepare forecasts of income and expenditure
  2. Prepare budgets
  3. Demonstrate how budgeting can improve organisational performance
  4. Report budgetary information to management in a clear and appropriate format
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## Scope of content

This section illustrates the depth and breadth of content to be delivered for this unit. All areas indicated in the table below must be covered in teaching.

In any one assessment, students may not be assessed on all content, or on the full depth or breadth of a piece of content. The content assessed may change over time to ensure validity of assessment, but all assessment criteria will be tested over time.

### 1. Prepare forecasts of income and expenditure

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#### 1.1 Identify internal and external sources of information used to forecast income and expenditure

Students need to be able to:

- select the appropriate sources of data to use for forecasting
  - describe their sources of data when issuing forecasts.
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#### 1.2 Use statistical techniques to forecast income and expenditure

Students need to be able to:

- apply the following techniques:
    - sampling
    - indices
    - time series; trends and seasonal variation.
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#### 1.3 Discuss the purpose of revenue and cost forecasts and their link to budgets

Students need to be able to:

- differentiate between forecasts and plans
  - describe how each forecast contributes to the budgeting process
  - describe the methods of dealing with the uncertainty inherent in forecasting (planning models, regular reforecasting, rebudgeting, rolling budgets and budget flexing).
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#### 1.4 Identify the impact of internal and external factors on income and expenditure forecasts

Students need to be able to:

- advise on the reliability of forecasts
  - describe the stages and features of the product life cycle and their impact on income forecasts
  - describe market trends and competitive pressures
  - explain the expected impact of promotional activity
  - identify and describe external events affecting the reliability of cost forecasts.
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## 2. Prepare budgets

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### 2.1 Identify budgetary responsibilities and accountabilities

Students need to be able to:

- describe the role of the budget committee
  - describe the duties and responsibilities of the budget accountant
  - describe the budgetary accountabilities of senior managers in typical organisations (chief executive and heads of marketing, sales, production, purchasing, finance and human resources)
  - select the appropriate managers to provide information required to prepare budgets
  - classify and allocate direct costs to appropriate responsibility centres
  - identify appropriate responsibility centres and recovery methods for all types of indirect cost.
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### 2.2 Identify and calculate the effect of production and sales constraints

Students need to be able to:

- identify budget limiting factors, for example, a production bottleneck, possible market share, access to finance, Shortage of material, labour, plant capacity, factory space
  - calculate the production limit.
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### 2.3 Prepare planning schedules for physical production resources

Students need to be able to prepare the following planning schedules:

- production plan (volumes of inventory, production and sales)
  - material usage and purchases
  - staffing, labour hours and overtime
  - plant utilisation.
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### 2.4 Calculate budgets for different types of cost

Students need to be able to:

- calculate budgets for the following types of cost:
    - direct
    - indirect
    - fixed
    - variable
    - semi-variable
    - stepped
    - capital
    - revenue
    - Operational Costs (materials, production labour, direct expenses and production overhead)
    - Staff costs
    - Core Costs (non-operational overheads)
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## 2.5 Prepare draft budgets from historical data, forecasts and planning assumptions

Students need to be able to:

- prepare the following budgets:
  - sales revenue
  - material usage and purchases
  - labour (employees and other resources)
  - production facilities
  - other overheads
  - operating statement (profit and loss account down to profit from operations)
  - capital expenditure budget
  - Cash Budgets (cash flow forecasts)
  - Master budget
  - Operating budget
  - Financial budget
  - Static budget (also called fixed or non-flexed budget)
  - Flexible budget
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## 2.6 Prepare cash flow forecasts

Students need to be able to:

- prepare a cash flow forecast from budget data, making due allowance for time lags or assumptions about changes in debtor, creditor and inventory balances
  - analyse a cash flow forecast into shorter control periods, allowing for time lags.
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## 3. Demonstrate how budgeting can improve organisational performance

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### 3.1 Discuss how budgeting can promote effective, ethical and focused management

Students need to be able to:

- create an effective budgeting system that is built on honesty and transparency
  - use budget planning and control to motivate the management team
  - use budget planning and control to create a cycle of continuous improvement
  - coordinate budgets to achieve goal congruence
  - recognise the behaviours that threaten effective budgetary control by creating budgetary slack, rivalry and suboptimal performance
  - discuss the benefits and risks of linking remuneration to budget achievement.
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### 3.2 Discuss the use of budgeting for planning, coordinating, authorising and cost control

Students need to know:

- how budgeting fulfils the four apparently diverse functions of planning, coordinating, authorising and cost control
  - why a balance must be maintained (for example, overemphasis on cost control is likely to constrain business growth and high-level planning targets can conflict with detailed coordination activity)
  - the potential for conflict between these functions.
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### 3.3 Break a budget down into control periods

Students need to be able to:

- split the elements of an operating statement budget into appropriate time periods to facilitate regular reporting
  - ensure that the planning assumptions and cost behaviours in the budget are correctly reflected in the split into control periods.
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### **3.4 Recommend appropriate performance measures to support budgetary control**

Students need to be able to:

- suggest suitable physical and financial performance measures, consistent with key planning assumptions, to aid budgetary control
  - calculate these measures for budget and for actual performance
  - provide constructive advice to assist the achievement of targets and budgets.
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### **3.5 Integrate standard costing into budgetary control**

Students need to be able to:

- incorporate standard costs into budget calculations
  - use standard costing methodology to split the total material and the total labour variances into price and efficiency variances
  - explain how the use of standard costing can complement budgetary control.
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### **3.6 Prepare and explain a flexed budget**

Students need to be able to:

- flex budgets, adjusting each element of the budget correctly according to the original budget assumptions about cost behaviour
  - explain the purpose of budget flexing
  - discuss the limitations of budget flexing in the context of a given scenario.
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### **3.7 Calculate variances between budget and actual income and expenditure**

Students need to be able to:

- calculate variances in absolute and percentage terms
  - calculate backward variances (use variance data to calculate underlying budget or actual performance)
  - identify favourable and adverse variances
  - compare like with like and present the results clearly.
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### **3.8 Review and revise budgets to reflect changing circumstances**

Students need to be able to:

- identify when a budget revision is appropriate
  - calculate the impact of changes to planning assumptions and forecasts
  - recalculate budgets accordingly.
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## 4. Report budgetary information to management in a clear and appropriate format

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### 4.1 Discuss the basic methods of budgeting and make recommendations for their use

Students need to know:

- the features of the basic methods:
    - incremental (historical or performance based)
    - zero-based
    - priority-based
    - activity-based
    - top down
    - bottom up
    - participatory
    - rolling
    - contingency
  - the comparative advantages of each method
  - the circumstances in which each method should be recommended.
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### 4.2 Plan and agree draft budgets with all parties involved

Students need to be able to:

- describe the sources of information and the validity of those sources when submitting draft budgets to management
  - identify the key planning assumptions in a prepared budget
  - identify the potential threats to budget achievement
  - identify the responsibilities of relevant managers
  - quantify the impact of the budget on the organisation
  - submit the budget for approval.
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### 4.3 Analyse variances and explain their impact on the organisation

Students need to be able to:

- calculate backward variances (use variance data to calculate underlying budget or actual performance)
  - identify significant variances
  - use operational information provided to explain the likely causes of variances
  - provide suitable advice to management
  - explain the impact of variances on overall organisational performance
  - identify where further investigation is needed
  - make recommendations to improve operational performance.
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### 4.4 Effectively present budgetary issues to management

Students need to be able to:

- identify and describe important budgetary planning and control issues
  - make relevant and focused recommendations to initiate management action.
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## Delivering this unit

This unit has the following links across the AAT Professional Diploma in Accounting.

Unit name	Content links	Suggested order of delivery
Management Accounting: Decision and Control and Cash and Treasury Management	<p>This unit and Management Accounting: Decision and Control are complementary, forming the management accounting element of the Professional level qualification. Some criteria appear in both units, such as statistical techniques, performance measures and writing management reports. The application of these concepts is broader in Management Accounting: Decision and Control than in Management Accounting: Budgeting.</p> <p>There is also a small overlap with the optional unit, Cash and Treasury Management. However, preparation of a cash flow forecast from budget data only appears in Management Accounting: Budgeting.</p>	<p>Students may find it useful to study Management Accounting: Decision and Control and Management Accounting: Budgeting at the same time, as there are many overlapping concepts.</p>

## Links to standards

This unit links with the following National Occupational Standards (NOS) for Accountancy and Finance:

- MA-3 Draft budgets.

It also links with the Level 4 Apprenticeship Standard: Professional Accounting / Tax Technician:

- Accounting
- Ethical Standards.

## Test specification for Management Accounting: Budgeting unit assessment

Please refer to the latest Qualification Technical Information (QTI) for specific legislation or rates that apply to the current assessments. Details can be accessed at [aat.org.uk/about-aat/qualification-development](http://aat.org.uk/about-aat/qualification-development)

Assessment method	Marking type	Duration of exam
Computer based assessment	Partially computer / partially human marked	2 hours 30 minutes

  

Learning outcomes	Weighting
1. Prepare forecasts of income and expenditure	10%
2. Prepare budgets	35%
3. Demonstrate how budgeting can improve organisational performance	35%
4. Report budgetary information to management in a clear and appropriate format	20%
<b>Total</b>	<b>100%</b>

# Management Accounting: Decision and Control

Unit level	GLH value	Assessment
4	90	Unit and synoptic assessment

## Introduction

This unit is one of the mandatory Professional level units. It takes students from Advanced level costing principles and prepares them to be valuable members of a management accounting finance team. This unit was formerly known as Financial Performance.

A student who has successfully completed this unit, together with the Professional level unit, Management Accounting: Budgeting, should be a useful member of a management accounting team. Working with little supervision, the student could be expected to liaise with key business unit managers and/or budget holders in order to: prepare a basic budget and/or standard cost budget; create budgetary reports, control reports and standard costing control reports; and prepare key performance indicators and workings to aid management decision making.

This unit teaches students management accounting principles and concepts. Students will understand the nature and importance of different concepts such as cost behaviour, cost analysis, standard costing and contribution theory. They will know when each technique should be used to aid the planning and decision making of an organisation and the subsequent analysis for control purposes.

They will learn the key performance indicators that should be used to aid the performance monitoring of an organisation and the techniques for assessing changes to an organisation (what-if analysis). The student will build a toolbox of techniques, understand the nature of these techniques and know when each technique should be used.

Management Accounting: Decision and Control is a **mandatory** unit and builds on the fundamental concepts and techniques introduced in Foundation level Elements of Costing and Advanced level Management Accounting: Costing.

## Learning outcomes

1. Analyse a range of costing techniques to support the management accounting function of an organisation
2. Calculate and use standard costing to improve performance
3. Demonstrate a range of statistical techniques to analyse business information
4. Use appropriate financial and non-financial performance techniques to aid decision making
5. Evaluate a range of cost management techniques to enhance value and aid decision making.

## Scope of content

This section illustrates the depth and breadth of content to be delivered for this unit. All areas indicated in the table below must be covered in teaching.

In any one assessment, students may not be assessed on all content, or on the full depth or breadth of a piece of content. The content assessed may change over time to ensure validity of assessment, but all assessment criteria will be tested over time.

### 1. Analyse a range of costing techniques to support the management accounting function of an organisation

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#### 1.1 Distinguish between different cost classifications and evaluate their use in a management accounting function

Students need to know:

- product costing and the elements of direct and indirect costs, cost classification into materials, labour and production overhead
- cost classification by behaviour (fixed, variable, stepped fixed and semi-variable) and the relevant range for fixed costs
- prime cost, full production cost and marginal cost
- the differences between cost centres, profit centres and investment centres
- the High-Low method of cost estimation.

Students for semi-variable costs need to be able to:

- use the high-low method to extract the fixed and variable elements, including making adjustments for a step up in cost or a quantity discount.
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#### 1.2 Discriminate between and use marginal costing and absorption costing techniques

Students need to know:

- the difference between marginal costing and absorption costing, and how to critically evaluate the differences between the two methodologies
  - how to reconcile a marginal costing profit with an absorption costing profit for changes in inventory to demonstrate the differences in the two methodologies.
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#### 1.3 Recognise and calculate measures of profitability and contribution

Students need to know:

- the difference between contribution and profit
  - the contribution per unit and per £ of turnover
  - when to use contribution analysis as a decision-making tool
  - the break-even point and margin of safety
  - the optimal production mix when labour, materials or machine hours are restricted and opportunity costs of limited resources
  - the outcomes of the various decision-making tools to aid the decision-making process.
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### 2. Calculate and use standard costing to improve performance

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#### 2.1 Discuss how standard costing can aid the planning and control of an organisation

Students need to know:

- how standard costs can be established and revised
  - the different types of standard (ideal, target, normal and basic)
  - how the type of standard can affect behaviour and variances
  - how the type of standard can impact on variance
  - flexible budgeting and how the calculation of the standard cost/budget is affected by changes in output.
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## 2.2 Calculate standard costing information

Students need to be able to:

- prepare standard cost card from given information
  - extract information contained in a budgetary control report.
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## 2.3 Calculate standard costing variances

Students need to be able to calculate

- raw material variances (total raw material, price and usage)
  - labour variances (total, rate, idle time and efficiency)
    - Idle time= idle hours / total hours x 100%
    - Labour activity= standard hours of actual production / budgeted hours x 100%
    - Labour efficiency= standard hours of actual production / actual hours worked x 100%
  - the variable overhead variances (total, rate and efficiency)
  - the fixed production variances (total, expenditure and volume)
  - actual and standard costs derived from variances (backward variances).
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## 2.4 Prepare and reconcile standard costing operating statements

Students need to be able to:

- prepare a standard costing operating statement reconciling budgeted cost with actual cost of actual production
  - explain the differences between marginal costing and absorption costing operating statements
  - reconcile the difference between the operating statement under marginal costing and absorption costing.
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## 2.5 Analyse and effectively present information to management based on standard costing information

Students need to know

- how variances may interrelate.

Students need to be able to:

- identify the nature of variances
  - identify what causes standard costing variances such as wastage, economies of scale, learning effect, inflation and skills mix
  - identify possible action that can be taken to reduce adverse variances and increase favourable variances
  - identify elements of a variance that are controllable and non-controllable
  - effectively communicate what the standard costing variance means in report format.
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## 3. Demonstrate a range of statistical techniques to analyse business information

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### 3.1 Calculate key statistical indicators

Students need to be able to:

- calculate
    - index numbers
    - Time series analysis – moving averages, seasonal variations and trend information
  - use the regression equation (e.g.  $y = a + bx$ )
  - calculate the outputs from various statistical calculations.
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### 3.2 Use and appraise key statistical indicators

Students need to know:

- the key statistical indicators to forecast income and costs and recommend actions
  - the reasons for their recommendations
  - the key variations (seasonal, cyclical and random).
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## 4. Use appropriate financial and non-financial performance techniques to aid decision making

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### 4.1 Identify and calculate key financial and non-financial performance indicators

Students need to be able to:

- identify a range of and select key performance indicators
  - calculate a range of key performance indicators and manipulate them.
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### 4.2 Evaluate key financial and non-financial performance indicators

Students need to know:

- what the performance indicator means
- how the various elements of the indicator affect its calculation
- the impact of various factors on performance indicators including learning effect and economies of scale
- how some performance indicators interrelate with each other
- how proposed actions may affect the indicator
- what actions could be taken to improve the indicator
- how ethical and commercial considerations can affect the behaviour of managers aiming to achieve a target indicator.

The following is a list of the type of performance indicators students might be asked to calculate

- Financial (profitability, liquidity, efficiency and gearing):
    - Administration costs as a percentage of revenue, any cost as a percentage of revenue =  $\text{cost} / \text{sales revenue} \times 100\%$
    - Current ratio =  $\text{current assets} / \text{current liabilities}$   
This can be expressed as a number only or as a number: 1, for example, if current assets are £10,000 and current liabilities are £8,000 the ratio is 1.25 or 1.25:1. In questions, students should just use 1.25 as their answer unless stated otherwise.
    - Quick ratio =  $(\text{current assets} - \text{inventories}) / \text{current liabilities}$ . This should be expressed as a single number in assessments.  
Gearing ratio can be calculated as either  $\text{total debt} / \text{total debt} + \text{total equity} \times 100\%$  which is the preferred method, or  $\text{total debt} / \text{total equity} \times 100\%$ . Total debt is all non-current liabilities and includes overdrafts (where given or applicable).
  - Trade cycles:
    - Receivable (debtor) Collection Period (days) =  $\text{receivables} / \text{revenue} \times 365$  (days)
    - Inventory Holding Period (days) =  $\text{inventories} / \text{cost of sales} \times 365$  (days)
    - Payable (creditor) Period (days) =  $\text{payables} / \text{cost of sales} \times 365$  (days)
    - Asset Turnover (net assets) =  $\text{revenue} / \text{total assets} - \text{current liabilities} = X$  times
    - Asset Turnover (non-current assets) =  $\text{revenue} / \text{non-current assets} = X$  times
    - Interest Cover =  $\text{profit from operations} / \text{finance costs (i.e. interest)} = X$  times
    - Working capital =  $\text{inventory days} + \text{receivable days} - \text{payable days}$
    - Value added =  $\text{revenue} - \text{the cost of materials used and bought in services}$
  - Indicators to measure efficiency and productivity. Measures of efficiency include ROCE or RONA, profit margin and efficiency ratio for labour.
    - ROCE (return on capital employed) =  $\text{profit from operations} / \text{capital employed} \times 100\%$ . This ratio is always expressed as a percentage.
    - Capital employed =  $\text{working capital} + \text{non-current assets}$ . This can also be calculated as  $\text{total equity} + \text{non-current liabilities}$ .
    - RONA (return on net assets) =  $\text{Net income or profit from operations} / \text{net assets} \times 100\%$ . Net income will be equal to the net profit in the statement of profit or loss (income statement). This ratio is also always expressed as a percentage
    - Gross profit margin =  $\text{gross profit} / \text{sales revenue} \times 100\%$
    - Operating profit margin =  $\text{profit from operations} / \text{sales revenue} \times 100\%$
    - Productivity measures are likely to be measured in units of output or related to output in some way. Examples include number of, say, vehicles manufactured
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per week, operations undertaken per day, passengers transported per month, units produced per worker per day, rooms cleaned per hour or meals served per sitting.

- Indicators to measure quality of service and cost of quality:
  - The number of defects/units returned/warranty claims/customer complaints, the cost of inspection/ repairs/re-working
  - Prevention costs, appraisal costs, internal failure costs, external failure costs.

Tasks may require the calculation of specific performance indicators. If this is the case the calculation of the indicator will either be obvious or the formula for the indicator will be provided. For example, if the task is based on a hotel, the occupancy rate calculation should be obvious given the number of rooms sold in the month divided by the total number of room nights available in the month. If the indicator is more complicated the formula will be given.

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#### 4.3 Use decision-making techniques

Students need to know:

- the optimal production mix when resources are limited
- the break-even point and margin of safety
  - Break-even= fixed costs / contribution per unit
  - Margin of safety= budgeted sales - break-even / budgeted sales x 100%
- the way to analyse decisions about: make or buy, closure of a business segment, automation
- the use of relevant and non-relevant costing information to aid decision making.

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#### 4.4 Make recommendations and effectively communicate to management based on analysis

Students need to know:

- how analysis and calculations lead to recommendations.

Students need to be able to

- use the analysis to make reasoned recommendations and communicate them effectively
- identify the risks associated with a particular decision.

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### 5. Evaluate a range of cost management techniques to enhance value and aid decision making

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#### 5.1 Use life cycle cost to aid decision making

Students need to be able to:

- identify the components of the life cycle cost of a product
- calculate the discounted and non-discounted life cycle cost of a product
- interpret the results of calculations of life cycle costs.

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#### 5.2 Use target costing to aid decision making

Students need to be able to:

- analyse and evaluate target costs
- identify the components of a target cost.

Students need to know:

- the concepts behind target costing, including value analysis and value engineering.

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#### 5.3 Calculate and interpret activity based costing (ABC) information

Students need to be able to:

- calculate product costs using ABC
- recognise that ABC is a refinement on absorption costing, where production costs are analysed into cost pools affected by cost drivers other than simple production volumes.

Students need to know:

- why products with short production runs may have a higher production overhead absorbed into each unit.

#### 5.4 Evaluate the commercial factors that underpin the life cycle of a product

Students need to know:

- the stages of the product life cycle
  - how costs change throughout the product life cycle
  - concepts of economies of scale, mechanisation and learning effect and how costs can switch between variable and fixed through the stages of the product life cycle
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#### 5.5 Take account of ethical considerations throughout the decision-making process

Students need to know:

- how ethical considerations can be included throughout the life of a product
  - how ethical considerations can be included in the value analysis/engineering of a product in order to promote good corporate citizenship.
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### Delivering this unit

This unit has the following links across the AAT Professional Diploma in Accounting.

Unit name	Content links	Suggested order of delivery
Management Accounting: Budgeting and Cash and Treasury Management	To deliver this unit effectively, tutors need to have a solid understanding of the topics that make up Management Accounting: Decision and Control (formerly known as Financial Performance). This unit brings together many fundamental techniques of mathematical and management accounting.	Students may find it useful to study Management Accounting: Decision and Control and Management Accounting: Budgeting at the same time, as they contain many overlapping concepts.

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## Links with standards

This unit links with the following National Occupational Standards (NOS) for Accountancy and Finance:

- MA-4 Monitor financial performance.

It also links with the Level 4 Apprenticeship Standard: Professional Accounting / Tax Technician:

- Accounting
- Ethical Standards.

### Test specification for Management Accounting: Decision and Control unit assessment

Please refer to the latest Qualification Technical Information (QTI) for specific legislation or rates that apply to the current assessments. Details can be accessed at [aat.org.uk/about-aat/qualification-development](http://aat.org.uk/about-aat/qualification-development)

Assessment method	Marking type	Duration of exam
Computer based assessment	Partially computer / partially human marked	2 hours 30 minutes

Learning outcomes	Weighting
1. Analyse a range of costing techniques to support the management accounting function of an organisation	10%
2. Calculate and use standard costing to improve performance	40%
3. Demonstrate a range of statistical techniques to analyse business information	10%
4. Use appropriate financial and non-financial performance techniques to aid decision making	30%
5. Evaluate a range of cost management techniques to enhance value and aid decision making	10%
<b>Total</b>	<b>100%</b>

# Financial Statements of Limited Companies

Unit level	GLH value	Assessment
4	90	Unit and synoptic assessment

## Introduction

This unit is concerned with the drafting, analysis and interpretation of financial statements of limited companies. This builds on the Foundation and Advanced levels, where the emphasis of the financial accounting units is on identifying and recording transactions in accounts and ledgers following the principles of double-entry bookkeeping, and drafting the financial statements of unincorporated organisations from the accounts and records prepared.

On successful completion of this unit, a student could be expected to be able to draft the financial statements of single limited companies and groups of companies with little supervision. A student could also analyse and interpret financial statements of limited companies by means of ratio analysis for the purposes of assisting outside user groups in their decision making, thereby fulfilling a useful role within an accounting team.

The unit provides students with the skills and knowledge for drafting the financial statements of single limited companies and consolidated financial statements for groups of companies. It ensures that students will have a proficient level of knowledge and understanding of international accounting standards, which they will be able to apply when drafting the financial statements, and will have a sound appreciation of the regulatory and conceptual frameworks that underpin the preparation of limited company financial statements.

Finally, the unit will equip students with the tools and techniques that will enable them to analyse and interpret financial statements effectively.

Financial Statements of Limited Companies is a **mandatory** unit. It builds on the skills and knowledge acquired in the two Foundation level units, Bookkeeping Transactions and Bookkeeping Controls, and the two Advanced level units, Advanced Bookkeeping and Final Accounts Preparation.

## Learning outcomes

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1. Demonstrate an understanding of the reporting frameworks and ethical principles that underpin financial reporting
  2. Demonstrate an understanding of the key features of a published set of financial statements
  3. Draft statutory financial statements for a limited company
  4. Draft consolidated financial statements
  5. Interpret financial statements using ratio analysis
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## Scope of content

This section illustrates the depth and breadth of content to be delivered for this unit. All areas indicated in the table below must be covered in teaching.

In any one assessment, students may not be assessed on all content, or on the full depth or breadth of a piece of content. The content assessed may change over time to ensure validity of assessment, but all assessment criteria will be tested over time.

### 1. Demonstrate an understanding of the reporting frameworks and ethical principles that underpin financial reporting

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#### 1.1 Explain the regulatory framework that underpins financial reporting

Students need to know:

- the purpose of financial statements
  - the different types of business organisation (sole traders, partnerships, limited liability partnerships, companies, not-for-profit organisations (charities, clubs and societies), Public sector organisations (local authorities, central government and the National Health Service) and cooperatives)
  - the types of limited company
  - how the financial statements of limited companies differ from those of sole traders and partnerships
  - forms of equity, reserves and loan capital
  - the reasons for the existence of a regulatory framework
  - sources of regulation: international accounting standards and company law (Companies Act 2006)
  - the purpose of accounting standards
  - the duties and responsibilities of the directors in respect of financial statements.
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#### 1.2 Explain the International Accounting Standards Board (IASB) Conceptual Framework that underpins financial reporting

Students need to know:

- the concepts that underlie the preparation and presentation of financial statements for external users, as detailed in the guidance notes.
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#### 1.3 Discuss the ethical principles that underpin financial reporting in accordance with the *AAT Code of Professional Ethics*

Students need to be able to:

- explain fundamental principles
  - identify the threats
  - apply the safeguards to resolve ethical conflict.
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## 2. Demonstrate an understanding of the key features of a published set of financial statements

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### 2.1 Examine the effect of international accounting standards on the preparation of financial statements

Students need to be able to:

- explain the effect of international accounting standards on the presentation, valuation and disclosure of items within the financial statements
  - make any supporting calculations.
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## 3. Draft statutory financial statements for a limited company

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### 3.1 Draft a statement of profit or loss and other comprehensive income

Students need to be able to:

- make appropriate entries in the statement in respect of information extracted from a trial balance and additional information.
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### 3.2 Draft a statement of financial position

Students need to be able to:

- make appropriate entries in the statement in respect of information extracted from a trial balance and additional information.
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### 3.3 Draft a statement of changes in equity

Students need to be able to:

- make appropriate entries in the statement in respect of information extracted from a trial balance and additional information or other financial statements provided.
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### 3.4 Draft a statement of cash flows

Students need to be able to:

- make appropriate entries in the statement, using the indirect method, in respect of information extracted from a statement of profit or loss and other comprehensive income for a single year, and statements of financial position for two years, as well as any additional information provided.
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## 4. Draft consolidated financial statements

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### 4.1 Draft a consolidated statement of profit or loss for a parent company with one partly owned subsidiary

Students need to be able to:

- consolidate each line item in the statement of profit or loss
  - treat intercompany sales and other intercompany items, impairment losses on goodwill and dividends paid by a subsidiary company to its parent company
  - calculate and treat unrealised profit on inventories and non-controlling interest.
- 

### 4.2 Draft a consolidated statement of financial position for a parent company with one partly owned subsidiary

Students need to be able to:

- consolidate each line item in the statement of financial position
  - calculate and treat goodwill, non-controlling interest, pre- and post-acquisition profits, equity and unrealised profit on inventories
  - treat adjustment to fair value, impairment of goodwill and intercompany balances.
-

## 5. Interpret financial statements using ratio analysis

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### 5.1 Calculate ratios with regard to profitability, liquidity, efficient use of resources and financial position

Students need to be able to:

- calculate the following ratios:

#### profitability

- ROCE (return on capital employed)= profit from operations / capital employed x 100%. This ratio is always expressed as a percentage.
- Capital employed= total equity + non-current liabilities
- Return on shareholders' funds)= profit after tax / total equity x 100%
- Gross profit percentage= gross profit / revenue x 100%
- Operating profit percentage= profit from operations / revenue x 100%
- Expense/revenue percentage
  - Specified expense as a % of revenue= specified expense / revenue x 100%

#### liquidity

- Current ratio= current assets / current liabilities= X:1
- Quick ratio or 'acid test' ratio= current assets - inventories / current liabilities= X:1

#### use of resources

- Inventory turnover= cost of sales / inventories= X times
- Inventory holding period (days)= inventories / cost of sales x 365 (days)
- Trade receivables collection period= trade receivables / revenue x 365 (days)
- Trade payables payment period= trade payables / cost of sales x 365 (days)
- Working capital cycle= inventory days + receivable days - payable days
- Asset turnover (net assets)= revenue / total assets - current liabilities= X times
- Asset turnover (non-current assets)= revenue / non-current assets= X times

#### financial position

- Interest cover= profit from operations / finance costs (i.e. interest)= X times
- Gearing= total debt / total debt + total equity x 100%. Where total debt is all non-current liabilities only.

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### 5.2 Appraise the relationship between elements of the financial statements with regard to profitability, liquidity, efficient use of resources and financial position by means of ratio analysis

Students need to be able to:

- identify, with reasons, whether a ratio is better or worse as compared to a comparative ratio
- suggest the factors that influence ratios and how they interrelate.

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### 5.3 Effectively present an analysis with recommendations

Students need to be able to:

- present the key findings of their analysis to meet user requirements
  - suggest how ratios could be improved and the potential consequences of doing so
  - explain the limitations of ratio analysis.
-

## Delivering this unit

This unit has the following links across the AAT Professional Diploma in Accounting.

Unit name	Content links	Suggested order of delivery
N/A	<p>This unit integrates with a number of other units in the qualification, all of which are concerned with financial accounting.</p> <p>At Foundation level, Bookkeeping Transactions and Bookkeeping Controls introduce students to basic bookkeeping skills and the books of prime entry.</p> <p>These units lead into the two Advanced level units, Advanced Bookkeeping and Final Accounts Preparation, which cover the theoretical foundations of financial accounting, together with practical skills for the preparation of financial statements for unincorporated traders.</p> <p>The knowledge and skills gained in the Foundation level and Advanced level financial accounting units are drawn on and developed at Professional level in Financial Statements of Limited Companies, which focuses on the drafting, analysis and interpretation of the financial statements of limited companies.</p>	<p>Students may find it useful to have studied the Foundation level and Advanced level bookkeeping units before this unit.</p>

## Links to standards

This unit links with the following National Occupational Standards (NOS) for Accountancy and Finance:

- FA-5 Draft financial statements.

It also links with the Level 4 Apprenticeship Standard: Professional Accounting / Tax Technician:

- Accounting
- Ethical Standards.

## Test specification for Financial Statements of Limited Companies unit assessment

Please refer to the latest Qualification Technical Information (QTI) for specific legislation or rates that apply to the current assessments. Details can be accessed at [aat.org.uk/about-aat/qualification-development](http://aat.org.uk/about-aat/qualification-development)

Assessment method	Marking type	Duration of exam
Computer based assessment	Partially computer / partially human marked	2 hours 30 minutes

Learning outcomes	Weighting
1. Demonstrate an understanding of the reporting frameworks and ethical principles that underpin financial reporting	7%
2. Demonstrate an understanding of the key features of a published set of financial statements	18%
3. Draft statutory financial statements for a limited company	27%
4. Draft consolidated financial statements	20%
5. Interpret financial statements using ratio analysis	28%
<b>Total</b>	<b>100%</b>

# Accounting Systems and Controls

Unit level	GLH value	Assessment
4	60	Synoptic assessment only

## Introduction

This unit aims to enable students to demonstrate their understanding of the role of the accounting function in an organisation and the importance of internal controls in minimising the risk of loss. Students will undertake an evaluation of an accounting system to identify weaknesses and assess the impact of those weaknesses on the operation of the organisation.

Students will then make recommendations to address the weaknesses, having regard for the costs and benefits, the sustainability and the impact of those recommendations on users of the accounting system. This unit enables students to consolidate and apply the knowledge and understanding that they have gained from the mandatory Professional level units of Financial Statements of Limited Companies, Management Accounting: Budgeting and Management Accounting: Decision and Control to the analysis of an accounting system.

When organisations have a planned change in policy, there will be a transition period, which will present its own challenges. Students need to be able to review a planned change in policy, identify potential problem areas while one system is being changed to another, and make suitable recommendations to ensure that the integrity of the accounting system is maintained.

The accounting system affects all areas of an organisation and should be capable of producing information to assist management with decision making, monitoring and control, as well as producing financial information to meet statutory obligations. In this unit, students will demonstrate their analytical and problem-solving skills, exercising judgement to make informed recommendations. These are practical skills that are essential to the accounting technician.

Accounting Systems and Controls is a **mandatory** unit and requires students to have a sound understanding of management accounting and financial accounting information requirements, and the way in which the accounting function needs to support both areas.

## Learning outcomes

1. Demonstrate an understanding of the role and responsibilities of the accounting function within an organisation
2. Evaluate internal control systems
3. Evaluate an organisation's accounting system and underpinning procedures
4. Analyse recommendations made to improve an organisation's accounting system

## Scope of content

This section illustrates the depth and breadth of content to be delivered for this unit. All areas indicated in the table below must be covered in teaching.

In any one assessment, students may not be assessed on all content, or on the full depth or breadth of a piece of content. The content assessed may change over time to ensure validity of assessment, but all assessment criteria will be tested over time.

### **1. Demonstrate an understanding of the role and responsibilities of the accounting function within an organisation**

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#### **1.1 Discuss the purpose, structure and organisation of the accounting function**

Students need to know:

- the difference between financial and management accounting
  - the importance of accuracy and cost-effectiveness within the accounting system
  - the importance of ethics and sustainability within the accounting function
  - why different types and sizes of organisation or departments within an organisation will require different accounting information and systems
  - the different accounting team staffing structures that will be required by different types or sizes of organisation.
- 

#### **1.2 Discuss the purpose of the key financial reports and their use by a range of stakeholders**

Students need to know:

- the purpose and content of statutory financial statements
  - the purpose and content of financial information produced for internal use
  - the key external stakeholders of an organisation
  - how financial information is used by both internal and external stakeholders
  - the importance of ethical information and sustainability practices to internal and external stakeholders
  - the following types of financial report:
    - income statement
    - statement of financial position
    - statement of cash flow
    - budgetary control reports.
- 

#### **1.3 Examine the impact of relevant regulations affecting the accounting function**

Students need to be able to:

- identify the types of regulations that affect the accounting function
  - explain how the structure of the accounting function supports compliance with external regulations
  - assess how the existing structure of the accounting function may need to be adapted to comply with changes in external regulations.
- 

#### **1.4 Demonstrate an understanding of the impact of management information requirements on the accounting function**

Students need to know:

- how organisational requirements will inform the management information system
  - how management information systems should enable the calculation of performance indicators
  - why changes may be required to existing systems to meet revised organisation requirements.
-

## 2. Evaluate internal control systems

---

### 2.1 Discuss how internal controls can support the organisation

Students need to be able to:

- explain the purpose of internal controls
  - assess how a strong system of internal controls can minimise the risk of loss to an organisation
  - assess how a strong system of internal controls can ensure ethical standards in an organisation
  - identify the types of internal controls used in different parts of the accounting function
  - consider how different types of internal controls suit different types of organisations.
- 

### 2.2 Evaluate how information from the organisation's financial statements may indicate weaknesses in its internal controls

Students need to be able to:

- use ratio analysis
  - use key performance indicators.
- 

### 2.3 Examine ways of preventing and detecting fraud and systemic weaknesses

Students need to know:

- the common types of fraud
  - the common types of systemic weaknesses and their causes
  - the need for segregation of duties
  - the financial and non-financial implications for an organisation if fraud occurs
  - the role of internal controls in preventing fraud and errors
  - the role of internal controls in detecting fraud and errors.
- 

## 3. Evaluate an organisation's accounting system and underpinning procedures

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### 3.1 Examine an organisation's accounting system and its effectiveness

Students need to be able to:

- identify the varying financial information requirements of stakeholders (payroll, sales accounting, purchases accounting, general ledger, cash book and costing systems)
  - explain how a fully integrated accounting system enables the extraction of information to meet internal and external reporting and monitoring requirements
  - identify how an organisation's accounting system can support ethical standards and sustainability practices
  - identify weaknesses in accounting systems that impact on cost-effectiveness, reliability and timeliness
  - evaluate impact of weaknesses in an accounting system in terms of time, money and reputation.
- 

### 3.2 Evaluate the underpinning procedures of an accounting system, assessing the impact on the operation of the organisation

Students need to be able to:

- identify how underpinning procedures in the organisation impact on the operation of the organisation (payroll, authorisation and control of sales, purchases, capital expenditure, overheads, payments and receipts)
  - identify how underpinning procedures in the organisation can support ethical standards and sustainability practices
  - identify weaknesses in the underpinning procedures and the impact on cost-effectiveness, reliability and timeliness
  - evaluate the impact of weaknesses in the underpinning procedures in terms of time, money and reputation.
-

### 3.3 Evaluate the risk of fraud arising from weaknesses in the internal control system

Students need to be able to:

- identify the impact of a poor internal control system on the exposure to risk for an organisation
  - grade the risk of fraud using either 'low, medium or high' or a numerical grade where the number increases in size as the risk becomes more serious.
- 

### 3.4 Examine current and planned methods of operating

Students need to be able to:

- explain why accounting systems should be reviewed regularly to ensure that they are fit for purpose
  - identify and review the methods of operating used by an organisation to ensure that they:
    - are cost-effective
    - encourage ethical standards
    - support sustainability principles and practices
  - explain that appropriate controls need to be in place during the transition from one system to another
  - evaluate a computerised accounting system's suitability for the specific information needs of the organisation.
- 

## 4. Analyse recommendations made to improve an organisation's accounting system

---

### 4.1 Identify changes to the accounting system or parts of the accounting system

Students need to be able to:

- identify suitable changes to the accounting system
  - explain any assumptions made
  - identify problems that might occur during transition.
- 

### 4.2 Analyse the implications of changes to the accounting system

Students need to be able to:

- quantify the costs of recommendations, stating assumptions made
  - undertake a cost benefit analysis
  - evaluate the implications of the changes to operating procedures and time spent
  - review recommendations against ethical and sustainability principles, including social, corporate and environmental issues
  - undertake a SWOT analysis.
- 

### 4.3 Consider the effects of recommended changes on users of the system

Students need to be able to:

- identify the changes that users may be required to make to working practices to comply with changes to statutory and organisational requirements
  - consider different methods of support that can be given to users of the accounting system to assist them in adapting to the recommended changes.
- 

### 4.4 Justify recommended changes to the accounting system

Students need to be able to:

- effectively present recommendations to management
  - provide a clear rationale to support recommendations.
-

## Delivering this unit

This unit has the following links across the AAT Professional Diploma in Accounting.

Unit name	Content links	Suggested order of delivery
Management Accounting: Budgeting, Management Accounting: Decision and Control, and Financial Statements of Limited Companies.	<p>For this unit, students are expected to be able to draw together the knowledge and understanding that they have gained from studying other units, at this level and at lower levels, and apply this to a given practical scenario. Analytical and problem-solving skills are challenging to teach; therefore, tutors may need to take a different approach to delivering this unit than for other units.</p> <p>Students may have difficulty in converting their theoretical knowledge into practical recommendations and making links between different areas of an accounting system. Therefore, it is recommended that the unit is only undertaken after students have studied Management Accounting: Budgeting, Management Accounting: Decision and Control, and Financial Statements of Limited Companies.</p>	Management Accounting: Budgeting and Management Accounting: Decision and Control should be delivered first, followed by Financial Statements of Limited Companies, followed finally by this unit.

## Links to standards

This unit links with the following National Occupational Standards (NOS) for Accountancy and Finance:

- FS-1 Review accounting systems.

It also links with the Level 4 Apprenticeship Standard: Professional Accounting / Tax Technician:

- Systems and Processes
- Ethical Standards.

# Business Tax

Unit level	GLH value	Assessment
4	60	Unit assessment only

## Introduction

This unit introduces the student to UK taxation relevant to businesses. It is about the computing of business taxation, preparation of tax returns and how taxation has an impact on the running of a business for sole traders, partnerships and limited companies.

In learning how to prepare tax computations, students will gain skills in the tax treatment of capital expenditure, and the adjustment of accounting profits for tax purposes for sole traders, partnerships and limited companies. In addition, they will be able to allocate profits between partners in a partnership and be able to calculate National Insurance (NI) contributions for the self-employed.

The student will become familiar with the completion of tax returns. They will know when these returns need to be filed with the UK's Revenue and Customs authority (HMRC), and the implications of errors in tax returns, the late filing of returns and the late payment of tax. They will understand how to compute tax on the sale of capital assets and they will have an introduction to some of the tax reliefs available to businesses.

Tax advice is an important part of many accountancy roles. Students will be able to discuss the ethical issues facing business owners and managers in reporting their business tax and the responsibilities that an agent has in giving advice on tax issues to business clients.

Business Tax is an **optional** unit.

## Learning outcomes

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1. Complete tax returns for sole traders and partnerships and prepare supporting tax computations
  2. Complete tax returns for limited companies and prepare supporting tax computations
  3. Provide advice on the UK's tax regime and its impact on sole traders, partnerships and limited companies
  4. Advise business clients on tax reliefs, and their responsibilities and their agent's responsibilities in reporting taxation to HMRC
  5. Prepare tax computations for the sale of capital assets
- 

## Scope of content

This section illustrates the depth and breadth of content to be delivered for this unit. All areas indicated in the table below must be covered in teaching.

In any one assessment, students may not be assessed on all content, or on the full depth or breadth of a piece of content. The content assessed may change over time to ensure validity of assessment, but all assessment criteria will be tested over time.

### 1. Complete tax returns for sole traders and partnerships and prepare supporting tax computations

---

#### 1.1 Analyse trading profits and losses for tax purposes

Students need to be able to:

- apply rules relating to deductible and non-deductible expenditure
  - classify expenditure as either revenue or capital expenditure
  - adjust accounting profit and losses for tax purposes.
- 

#### 1.2 Identify the correct basis period for each tax year

Students need to be able to:

- identify the basis periods using the opening year and closing year rules
  - determine overlap periods and overlap profits
  - explain the effect on the basis period of a change in accounting date.
- 

#### 1.3 Identify and calculate capital allowances

Students need to be able to:

- identify the types of capital allowances
  - calculate capital allowances including adjustments for private usage.
- 

#### 1.4 Analyse taxable profits and losses of a partnership between the partners

Students need to be able to:

- apportion profits between a maximum of four partners
  - determine the basis periods for continuing, new or departing partners
  - allocate profits between the partners.
- 

#### 1.5 Calculate the NI contributions payable by self-employed taxpayers

Students need to be able to:

- determine who is liable to pay NI contributions
  - calculate NI contributions.
-

## 1.6 Complete the individual and partnership tax returns relevant to sole traders and partnerships

Students need to be able to:

- accurately complete self-employed tax returns
  - accurately complete partnership tax returns.
- 

## 2. Complete tax returns for limited companies and prepare supporting tax computations

---

### 2.1 Analyse trading profits and losses for tax purposes

Students need to be able to:

- apply the rules relating to deductible and non-deductible expenditure
  - classify expenditure as either revenue or capital expenditure
  - adjust accounting profits and losses for tax purposes.
- 

### 2.2 Identify and calculate capital allowances

Students need to be able to:

- identify types of capital allowances
  - calculate capital allowances.
- 

### 2.3 Calculate total taxable profits and corporation tax payable

Students need to be able to:

- calculate the taxable total profits from trading income, property income, investment income and chargeable gains
  - calculate the total profits and corporation tax payable for accounting periods longer than, shorter than or equal to 12 months.
- 

### 2.4 Complete corporation tax returns

Students need to be able to:

- accurately complete a corporation tax return.
- 

## 3. Provide advice on the UK's tax regime and its impact on sole traders, partnerships and limited companies

---

### 3.1 Demonstrate an understanding of the tax return filing requirements and tax payments due

Students need to know:

- tax return filing deadlines
  - payment rules for sole traders and partnerships: amounts and dates
  - payment rules for limited companies: amounts and dates.
- 

### 3.2 Demonstrate an understanding of the penalties and finance costs for non-compliance

Students need to know:

- penalties for late filing of tax returns and failing to notify chargeability
  - late payment interest and surcharges
  - the enquiry window and penalties for incorrect returns.
- 

## 4. Advise business clients on tax reliefs, and their responsibilities and their agent's responsibilities in reporting taxation to HMRC

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### 4.1 Appraise the effective use of trading losses

Students need to be able to:

- assess and calculate available loss relief
  - advise on the best use of a trading loss for sole traders, partnerships and limited companies.
-

#### **4.2 Demonstrate an understanding of the current tax reliefs and other tax issues**

Students need to know:

- current tax reliefs available to businesses current tax reliefs available to businesses. Please refer to the Reference Material for the unit for further guidance as to the topics to be assessed. This Reference Material is available to candidates during the assessment
  - current tax issues and their implications for businesses.
- 

#### **4.3 Discuss the responsibilities relating to tax for the business and its agent**

Students need to know:

- what the badges of trade are and how they evolved
  - what records need to be maintained by a business, how long these records need to be maintained and the penalties for failing to keep these records
  - the distinction between tax planning, tax avoidance and tax evasion
  - AAT's ethical standards relating to tax advice and professional conduct in relation to taxation.
- 

### **5. Prepare tax computations for the sale of capital assets**

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#### **5.1 Calculate capital gains tax payable by self-employed taxpayers**

Students need to be able to:

- apply the rules relating to chargeable persons, disposals and assets
  - calculate chargeable gains and allowable losses
  - apply the rules relating to the disposal of shares
  - apply the rules relating to the disposal of chattels and wasting assets
  - apply current reliefs and allowances Please refer to the Reference Material for the unit for further guidance as to the topics to be assessed. This Reference Material is available to candidates during the assessment.
  - apply capital gains tax rates.
- 

#### **5.2 Calculate chargeable gains and allowable losses for limited companies**

Students need to be able to:

- apply the rules relating to disposals and assets
  - calculate the computation of chargeable gains and allowable losses
  - apply the rules relating to the disposal of shares
  - apply current reliefs and allowances. Please refer to the Reference Material for the unit for further guidance as to the topics to be assessed. This Reference Material is available to candidates during the assessment.
-

## Delivering this unit

This unit has the following links across the AAT Professional Diploma in Accounting.

Unit name	Content links	Suggested order of delivery
Personal Tax	<p>This unit is an optional unit at Professional level, so it does not need to be taken after another unit has been studied.</p> <p>The Professional level unit, Personal Tax, is associated with this unit, although these units can be taken separately. Knowledge developed in either of these units will be useful in the later study of the other unit.</p>	N/A

## Links to standards

This unit links with the following National Occupational Standards (NOS) for Accountancy and Finance:

- T-2 Calculate business tax.

It also links with the Level 4 Apprenticeship Standard: Professional Accounting / Tax Technician:

- Accounting
- Ethical Standards.

## Test specification for Business Tax unit assessment

Please refer to the latest Qualification Technical Information (QTI) for specific legislation or rates that apply to the current assessments. Details can be accessed at [aat.org.uk/about-aat/qualification-development](http://aat.org.uk/about-aat/qualification-development)

Assessment method	Marking type	Duration of exam
Computer based unit assessment	Partially computer / partially human marked	2 hours

Learning outcomes	Weighting
1. Complete tax returns for sole traders and partnerships and prepare supporting tax computations	29%
2. Complete tax returns for limited companies and prepare supporting tax computations	19%
3. Provide advice on the UK's tax regime and its impact on sole traders, partnerships and limited companies	15%
4. Advise business clients on tax reliefs, and their responsibilities and their agent's responsibilities in reporting taxation to HMRC	19%
5. Prepare tax computations for the sale of capital assets	18%
<b>Total</b>	<b>100%</b>

# Cash and Treasury Management

Unit level	GLH value	Assessment
4	60	Unit assessment only

## Introduction

This unit covers the skills and knowledge that students need in order to be able to identify the movements of cash within the business and make informed decisions on the best course of action to maximise the wealth of the business.

This unit provides a link to the importance of cash management to a business. It is generally accepted that a large number of organisations fail not through a lack of generated sales orders but through an inability to make sound financial decisions in controlling cash and working capital, and making informed decisions in investing surplus funds or raising cash when need dictates. Those organisations that manage their cash resources effectively have a lower risk of failure than those where these controls show signs of a severe lack of robustness and scrutiny on critical decisions that ensure the buoyancy of cash within the business.

Accounting technicians may be required to provide management with information that will aid them in making informed executive decisions to control spending, raise finance if and when needed, invest surplus funds and maximise the return on those funds in accordance with risk management. Students will learn to be able to identify non-cash items in the financial information provided and eliminate these using techniques that will monitor the flow of cash into and out of the business.

This unit will provide students not only with an understanding of the theoretical principles of effective cash management but also with the practical skills needed to identify the various options available and to make informed decisions on the most viable course of action.

Cash and Treasury Management is an **optional** unit.

## Learning outcomes

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1. Use statistical techniques and financial information to prepare forecasts of cash receipts and payments
  2. Prepare cash budgets and monitor cash flows within the organisation
  3. Evaluate the principles of cash management within the context of regulation and government monetary policies
  4. Evaluate ways of raising finance in accordance with organisational requirements
  5. Evaluate ways of investing surplus funds within organisational policies
- 

## Scope of content

This section illustrates the depth and breadth of content to be delivered for this unit. All areas indicated in the table below must be covered in teaching.

In any one assessment, students may not be assessed on all content, or on the full depth or breadth of a piece of content. The content assessed may change over time to ensure validity of assessment, but all assessment criteria will be tested over time.

### 1. Use statistical techniques and financial information to prepare forecasts of cash receipts and payments

---

#### 1.1 Identify and classify different types of cash receipts and payments

Students need to be able to:

- identify the different types of cash receipts and cash payments, including regular, exceptional, capital, drawings, receipt of loan from a bank, repayment of loan instalment and disbursements.
- 

#### 1.2 Reconcile profit with movement in cash

Students need to be able to

- reconcile the differences between other payables accounting and cash accounting, including:
    - adjusting for non-cash items
    - taking accounts to opening and closing balances in the financial statements and/or bank statements
    - calculating movements in cash.
- 

#### 1.3 Prepare forecasts

Students need to be able to:

- calculate the following:
    - mark-up- the production cost of a product is for example £4 and the selling price is to be calculated by adding a mark-up of 25%. Selling price= £4 x 1.25= £5
    - margin- a business wants to set a selling price to achieve a 20% profit margin, and the production cost of the product is £4. If the profit margin is 20%, then the cost must be 80%. Selling price= £4/80\*100= £5
    - moving averages
    - percentages
    - regression analysis (e.g.  $y=a+bx$ )
    - trends
    - seasonal variations
    - index numbers.
-

#### 1.4 Calculate non-current assets cash movements

Students need to be able to:

- calculate the following:
    - the purchase price of the non-current asset
    - the sale price of the non-current asset
    - the carrying value of the non-current asset, including revaluation
    - the effect of revaluation on cash on the disposal of a non-current asset.
- 

### 2. Prepare cash budgets and monitor cash flows within the organisation

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#### 2.1 Prepare cash budgets and/or forecasts in the preferred format and clearly indicate net cash requirements, including the effects of lagged receipts and payments

Students need to be able to:

- identify the range of information required that clearly identifies to the audience the net cash requirement
  - prepare a cash budget format to include:
    - all sources of cash receipts totalled to show receipts for the period
    - all sources of cash payments totalled to show payments for the period
    - net cash flow for the period
    - opening cash balance
    - closing cash balance
  - evaluate the effect of lagged or delayed receipts and payments in the different periods of the cash budget, and the effect of settlements discounts, irrecoverable debts and timings.
- 

#### 2.2 Undertake sensitivity analysis on cash budgets and make recommendations to management

Students need to be able to:

- identify changes in assumptions, both controllable and non-controllable aspects, that can affect the cash budget
  - calculate the impact of changes in volume, price, discounts and timings on the original cash budget
  - make recommendations to management.
- 

#### 2.3 Identify deviations from the cash budget and recommend corrective action within organisational policies

Students need to be able to:

- identify and explain deviations from the cash budget and given information with possible courses of action to address the deviation from the cash budget and controls to prevent further recurrence
  - explain the importance of preparing a cash budget, evaluating the strengths and weaknesses of cash budgets as a monitoring tool for organisations.
-

### 3. Evaluate the principles of cash management within the context of regulation and government monetary policies

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#### 3.1 Explain how government monetary policies affect an organisation's treasury functions

Students need to know:

- how the government, through monetary policy, can influence the rate of inflation and the supply of money through quantitative easing
  - the main roles of the Bank of England.
- 

#### 3.2 Discuss the principles of liquidity management

Students need to know:

- the importance of cash budgeting to liquidity management
  - the importance of ensuring that an organisation can make its financial commitments on time
  - the working capital cycle and the cash cycle
  - working capital cycle/cash cycle= inventory days + receivable days - payable days
  - how to recognise liquid and non-liquid assets
  - liquidity ratios and their importance in liquidity management
    - Receivables collection period (days)= receivables / credit sales x 365 (days). If credit sales is not given, use 'revenue'
    - Payables period (days)= payables / credit purchases. If credit purchases are not given, use 'cost of sales'
    - Inventory holding period= inventories / cost of sales x 365 (days)
    - Credit Sales= revenue - cash sales
    - Credit purchases= cost of sales - cash purchases
  - return on capital employed and current ratio
    - ROCE (return on capital employed)= profit from operations / capital employed x 100%
    - Capital employed= working capital + non-current assets. This can also be calculated as total equity + non-current liabilities.
  - Current ratio= current assets / current liabilities= X:1
  - Return on shareholders' funds= profit after tax or net profit / total equity x 100%
  - Operating profit percentage= profit from operations / revenue x 100%
  - Quick ratio (acid test)= current assets - inventories / current liabilities= X:1
  - the effect on cash flow in respect of the timing of payments received and payments made in determining the cash budget
  - signs of overtrading and overcapitalisation.
- 

#### 3.3 Discuss how an organisation's principles of cash management will be determined by their specific financial regulations, guidelines and security procedures

Students need to know:

- statutory and other organisational regulations that relate to the management of cash balances:
  - that mandatory regulations must be adhered to and awareness of these regulations should be known, as included in the Companies Act 2006 and published by HM Treasury
  - and have an awareness of the Money Laundering Regulations and the Bribery Act 2010.
- 

#### 3.4 Discuss the role of the treasury function

Students need to know:

- the main roles of the treasury function in an organisation
  - the relationship between risk and return
  - how to invest surplus funds to maximise the return on the investment, with due regard to the organisation's attitude to risk.
-

#### 4. Evaluate ways of raising finance in accordance with organisational requirements

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##### 4.1 Demonstrate an understanding of how an organisation can raise finance and the basic terms and conditions associated with each of these types of financing

Students need to know:

- the different ways in which an organisation can raise finance
  - the different terms and conditions surrounding the various types of financing: bank loans and overdrafts, operating and finance leases, hire purchase agreements, loan stock, sale and leaseback, factoring, invoice discounting, equity shares and bonds.
- 

##### 4.2 Evaluate the use of financing options to fund the organisation's cash requirements on the most beneficial terms and conditions

Students need to be able to:

- determine the accounting entries for each financing option
  - explain the effect on gearing and liquidity for each financing option
    - Gearing =  $\frac{\text{total debt}}{\text{total debt} + \text{total equity}} \times 100\%$ . Total debt in CTRM is all non-current liabilities and overdrafts (where given or applicable).
  - calculate and explain the total cost to a business for a financing option
  - identify the most appropriate financing option in a given situation.
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#### 5. Evaluate ways of investing surplus funds within organisational policies

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##### 5.1 Evaluate different types of investment and the associated risk, terms and conditions

Students need to know:

- the various forms of investing surplus funds available to an organisation: land, property, shares, bonds, gilts, various types of bank accounts, certificates of deposits and investments in commodities
  - the different types of investment.
- 

##### 5.2 Analyse ways to manage risk when investing to minimise potential exposure to the organisation

Students need to know:

- the relationship between risk, reward and liquidity when investing surplus funds
  - how to analyse the risk and return of different options
  - the most beneficial method of investment in a given situation
  - the portfolio effect of diversifying investments.
- 

##### 5.3 Consider the investment of surplus funds according to organisational culture and policy

Students need to know:

- that various investments may have a minimum investment level
  - that some investments may have conditions where withdrawal is restricted
  - how the ethics, sustainability or working practices of companies in which investments are made could affect an organisation's reputation and decision making (this will involve both inwardly looking and outwardly looking issues that could affect the company)
  - what the effect of the above restrictions could be in influencing the decision on whether or not to invest.
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#### 5.4 Evaluate economic conditions that could affect various financial markets

Students need to know:

- the benefits, advantages and disadvantages of investing in local economies versus wider economies or the global economy
  - how this could affect the treasury function's role in an organisation
  - whether to invest surplus funds or to reduce debt due to the change in economic conditions
  - the effect of interest rates, exchange rates and commodity prices on financial markets
  - the differences between fiscal and monetary policies and how a government can attempt to use these to manage an economy.
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### Delivering this unit

This unit has the following links across the AAT Professional Diploma in Accounting.

Unit name	Content links	Suggested order of delivery
Management Accounting: Decision and Control, Financial Statements of Limited Companies, Accounting Systems and Controls, and External Auditing	<p>This unit follows on from units at Foundation level and Advanced level, building on knowledge learned in specified units such as Advanced Bookkeeping, as well as linking with other Professional level units such as Management Accounting: Decision and Control.</p> <p>Students require an understanding of Foundation level units, Bookkeeping Transactions and Bookkeeping Controls; Advanced level units, Advanced Bookkeeping and Final Accounts Preparation; and Financial Statements of Limited Companies at Professional level.</p>	N/A

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## Links to standards

This unit links with the following National Occupational Standards (NOS) for Accountancy and Finance:

- TM-1 Administer cash balances.

It also links with the Level 4 Apprenticeship Standard: Professional Accounting / Tax Technician:

- Accounting
- Ethical Standards.

## Test specification for Cash and Treasury Management unit assessment

Please refer to the latest Qualification Technical Information (QTI) for specific legislation or rates that apply to the current assessments. Details can be accessed at [aat.org.uk/about-aat/qualification-development](http://aat.org.uk/about-aat/qualification-development)

Assessment method	Marking type	Duration of exam
Computer based unit assessment	Partially computer / partially human marked	2 hours 30 minutes

Learning outcomes	Weighting
1. Use statistical techniques and financial information to prepare forecasts of cash receipts and payments	10%
2. Prepare cash budgets and monitor cash flows within the organisation	20%
3. Evaluate the principles of cash management within the context of regulation and government monetary policies	20%
4. Evaluate ways of raising finance in accordance with organisational requirements	25%
5. Evaluate ways of investing surplus funds within organisational policies	25%
<b>Total</b>	<b>100%</b>

## 12. Synoptic test specification

Please refer to the latest Qualification Technical Information (QTI) for specific legislation or rates that apply to the current assessments. Details can be accessed at [aat.org.uk/about-aat/qualification-development](http://aat.org.uk/about-aat/qualification-development)

Assessment type	Marking type	Duration of exam
Computer based synoptic assessment	Partially computer/partially human marked	3 hours

The synoptic assessment will ask students to apply knowledge and skills gained across the qualification in an integrated way, within a workplace context. Scenarios will change over time to ensure the validity of the assessment.

This assessment is designed to cover the following units:  
Accounting Control and Systems (ASYC)  
Financial Statements of Limited Companies (FSLC)  
Management Accounting: Decision and Control (MDCL)  
Management Accounting: Budgeting (MABU).

It is centred on internal controls applied to other areas such as decision making, budgetary control, and the ability to meet statutory requirements. This means that learning outcomes specified in ASYC are assessed in depth, whereas other unit learning outcomes are assessed in breadth.

The following Assessment Objectives detail unit coverage across the assessment.

## 12.1 Assessment objectives

<b>Assessment objective 1</b>	Demonstrate an understanding of the roles and responsibilities of the accounting function within an organisation and examine ways of preventing and detecting fraud and systemic weaknesses.
<b>Related learning objectives</b>	<p><b>Accounting Systems and Controls</b></p> <p>L01 Demonstrate an understanding of the role and responsibilities of the accounting function within an organisation.</p> <p>L02 Evaluate internal control systems.</p>
<b>Assessment objective 2</b>	Evaluate budgetary reporting and its effectiveness in controlling and improving organisational performance.
<b>Related learning objectives</b>	<p><b>Accounting Systems and Controls</b></p> <p>L01 Demonstrate an understanding of the role and responsibilities of the accounting function within an organisation.</p> <p>L02 Evaluate internal control systems.</p> <p>L03 Evaluate an organisation's accounting system and underpinning procedures.</p> <p><b>Management Accounting: Budgeting</b></p> <p>L03 Demonstrate how budgeting can improve organisational performance.</p> <p>L04 Report budgetary information to management in a clear and appropriate format</p> <p><b>Management Accounting: Decision and Control</b></p> <p>L01 Analyse a range of costing techniques to support the management accounting function of an organisation.</p> <p>L02 Calculate and use standard costing to improve performance.</p>
<b>Assessment objective 3</b>	Evaluate an organisation's accounting control systems and procedures.
<b>Related learning objectives</b>	<p><b>Accounting Systems and Controls</b></p> <p>L02 Evaluate internal control systems.</p> <p>L03 Evaluate an organisation's accounting system and underpinning procedures.</p>

**Assessment objective 4** Analyse an organisation's decision making and control using management accounting tools.

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**Related learning objectives**

**Accounting Systems and Controls**

L01 Demonstrate an understanding of the role and responsibilities of the accounting function within an organisation.

L02 Evaluate internal control systems.

L03 Evaluate an organisation's accounting system and underpinning procedures.

L04 Analyse recommendations made to improve an organisation's accounting system.

**Management Accounting: Decision and Control**

L02 Calculate and use standard costing to improve performance.

L04 Use appropriate financial and non-financial performance techniques to aid decision making.

L05 Evaluate a range of cost management techniques to enhance value and aid decision making.

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**Assessment objective 5** Analyse an organisation's decision making and control using ratio analysis.

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**Related learning objectives**

**Accounting Systems and Controls**

L01 Demonstrate an understanding of the role and responsibilities of the accounting function within an organisation.

L02 Evaluate internal control systems.

L04 Analyse recommendations made to improve an organisation's accounting system.

**Financial Statements of Limited Companies**

L01 Demonstrate an understanding of the reporting frameworks and ethical principles that underpin financial reporting.

L05 Interpret financial statements using ratio analysis.

**Management Accounting: Decision and Control**

L04 Use appropriate financial and non-financial performance techniques to aid decision making.

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**Assessment objective 6**

Analyse the internal controls of an organisation and make recommendations.

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**Related learning objectives**

**Accounting Systems and Controls**

L01 Demonstrate an understanding of the role and responsibilities of the accounting function within an organisation.

L02 Evaluate internal control systems.

L03 Evaluate an organisation's accounting system and underpinning procedures.

L04 Analyse recommendations made to improve an organisation's accounting system.

**Financial Statements of Limited Companies**

L01 Demonstrate an understanding of the reporting frameworks and ethical principles that underpin financial reporting.

**Management Accounting: Budgeting**

L03 Demonstrate how budgeting can improve organisational performance.

**Management Accounting: Decision and Control**

L04 Use appropriate financial and non-financial performance techniques to aid decision making.

L05 Evaluate a range of cost management techniques to enhance value and aid decision making.

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## 12.2 Summary

Assessment objective	Weighting
<b>A01</b> Demonstrate an understanding of the roles and responsibilities of the accounting function within an organisation and examine ways of preventing and detecting fraud and systemic weaknesses.	20%
<b>A02</b> Evaluate budgetary reporting and its effectiveness in controlling and improving organisational performance.	15%
<b>A03</b> Evaluate an organisation's accounting control systems and procedures.	15%
<b>A04</b> Analyse an organisation's decision making and control using management accounting tools.	15%
<b>A05</b> Analyse an organisation's decision making and control using ratio analysis.	20%
<b>A06</b> Analyse the internal controls of an organisation and make recommendations.	15%
<b>Total</b>	<b>100%</b>