



The Institute of Certified Bookkeepers

Level IV Module 2 - Drafting Financial Statements

Module 2 - Draft Financial Statements

| Topic Area | Learning Outcome | Assessment Criteria |
|---|---|--|
| <p>Topic</p> <p>(1) The Regulatory Framework</p> | <p>Explain the purpose of financial statements, the legal framework that govern these and the role of accounting standards.</p> | <p>Be able to:</p> <p>(1) Define the purpose of financial statements.</p> <p>(2) Explain the need to comply with the Companies Act.</p> <p>(3) Outline the function of accounting standards.</p> |
| <p>(2) The Conceptual Framework</p> | <p>Explain the objectives of financial statements their use and users.</p> | <p>(1) Outline the elements of the statement of principles.</p> <p>(2) Identify the elements of financial statements.</p> <p>(3) Identify the user groups and state clearly the way in which they use financial information.</p> |
| <p>(3) Preparing Limited Company Accounts (Company Finance)</p> | <p>Explain the elements of Company Finance.</p> | <p>(1) Define the terms:</p> <p>Share Capital Reserves Equity</p> <p>(2) Explain what is meant by the nominal and market value of a share.</p> <p>(3) Distinguish between ordinary shares and preference shares</p> <p>(4) (Explain the process of share issue.</p> <p>(5) Explain what is meant by issuing shares at a premium.</p> <p>(6) Distinguish between bonus and rights issues.</p> <p>(7) Define the term Debenture or Loan Stock.</p> |

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| (4) Preparing Limited Company Accounts (Financial Statements) | Draft Limited Company Financial Statements and ensure they comply with relevant accounting standards and company legislation. | <ul style="list-style-type: none"> (1) Outline the distinctive features of a Limited Company. (2) Draft a profit and loss account for publication identifying and implementing subsequent adjustments. (3) Draft a Balance Sheet for publication. (4) Prepare a set of notes to the accounts. (5) Prepare a statement of changes in equity. |
| (5) The Cash Flow Statement | Explain the purpose of the cash flow statement; and prepare a cash flow statement. | <ul style="list-style-type: none"> (1) Explain the need and purpose of a cash flow statement. (2) Outline the elements of the cash flow statement as detailed in the accounting standard FRS1. (3) Prepare a cash flow statement by the indirect method showing clearly cash flow from operating activities, investing activities and financing activities and the subsequent increase or decrease in cash or cash equivalent. (4) Interpret and prepare a set of notes on the company's cash position as outlined in the cash flow statement. |

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| (6) An Introduction to Consolidated Accounts (Group Accounts) | Explain the general principles of consolidation and prepare a set of group accounts. | <p>(1) Explain what is meant by the single entity concept.</p> <p>(2)</p> <ul style="list-style-type: none"> • Establish the group structure • Determine the net assets of the subsidiary • Calculate goodwill on acquisition • Calculate the minority interest • Determine the retained earnings of the group • Draft a Consolidated Balance Sheet <p>(3) Define the term Control.</p> <p>(4) Explain the treatment of pre and post acquisition reserves.</p> <p>(5) Prepare a Consolidated Profit and Loss Account.</p> |

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| <p>(7) Interpretation of Financial Statements</p> | <p>Analyse and interpret Limited Company Financial Statements using Performance Indicators – Ratio Analysis.</p> | <p>(1) Calculate profitability ratios:</p> <ul style="list-style-type: none"> • Return on Capital Employed • Gross profit % of Sales • Net profit % of Sales • Return of Equity <p>(2) Calculate Liquidity Ratios and Asset Utilisation.</p> <ul style="list-style-type: none"> • Current Ratio • Acid Test • Debtors Collection Period • Creditors Payment Period • Stock Turnover • Asset Turnover <p>(3) Calculate financial structure ratios (Risk)</p> <ul style="list-style-type: none"> • Gearing • Interest Cover <p>(4) Calculate Investor Ratios:</p> <ul style="list-style-type: none"> • Earnings per Share (EPS) • Price Earnings Ratio • Dividend Cover <p>(5) Analyse and interpret a set of performance indicators for a Limited Company over a series of years and comment on their financial performance.</p> |

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| <p>(8) Associated Accounting Standards (ASB – UK GAAP) FRS and SSAP's</p> | <p>Explain the meaning and purpose of a range of accounting standards.</p> | <p>(1) Outline the meaning and purpose of the following ASB accounting standards:</p> <ul style="list-style-type: none"> • FRSSE Financial Reporting for Small Entities • SSAP5 Accounting for VAT • SSAP9 Stocks and Long-Term Contracts • FRS1 Cash Flow Statements • FRS2 Accounting for Subsidiary Undertakings • FRS3 Reporting Financial Performance • FRS10 Goodwill and Intangible Assets • FRS11 Impairment of Assets and Goodwill • FRS15 Tangible Fixed Assets • FRS18 Accounting Policies • FRS21 Events after the Balance Sheet Date • FRS22 Earnings per Share |



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