

# SQA Advanced Unit Specification

## General information

<b>Unit title:</b>	Preparing Financial Forecasts
<b>Unit code:</b>	J5B0 48
<b>Superclass:</b>	AK
<b>Publication date:</b>	June 2021
<b>Source:</b>	Scottish Qualifications Authority
<b>Version:</b>	02 (July 2022)

## Unit purpose

This unit is designed to enable learners to develop an understanding of the use of management accounting information within a business organisation. It provides learners with the skills required to prepare basic management accounting reports. In addition, the unit will also enable learners to learn the financial techniques used for making decisions in relation to budgeting, control and investment decision making.

## Outcomes

On successful completion of the unit, the learner will be able to:

- 1 prepare and analyse budget statements for decision making and cash management
- 2 analyse the impact of price and costs on break-even analysis for decision making
- 3 assess the viability of a project using investment and project appraisal techniques

## Credit points and level

1 SQA unit credit at SCQF level 8: (8 SCQF credit points at SCQF level 8).

## Recommended entry to the unit

Access to this unit is at the discretion of the centre. However, it would be beneficial for learners to have a basic understanding of business accounting. This could be demonstrated by achievement of the SQA Advanced Unit HP7K 47 *Business Accounting* or equivalent, or relevant work experience.

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### Core Skills

Achievement of this unit gives automatic certification of the following:

Core Skill component	Critical Thinking at SCQF level 6
Complete Core Skill	Numeracy at SCQF level 6

There are also opportunities to develop aspects of Core Skills which are highlighted in the **support notes** of this unit specification.

### Context for delivery

If this unit is delivered as part of a group award, it is recommended that it should be taught and assessed within the subject area of the group award to which it contributes.

The Assessment Support Pack (ASP) for this unit provides assessment and marking guidelines that exemplify the national standard for achievement. It is a valid, reliable and practicable assessment. Centres wishing to develop their own assessments should refer to the ASP to ensure a comparable standard. A list of existing ASPs is available to download from SQA's website (<https://www.sqa.org.uk/sqa/90557.10883.html>)

### Equality and inclusion

This unit specification has been designed to ensure that there are no unnecessary barriers to learning or assessment. The individual needs of learners should be taken into account when planning learning experiences, selecting assessment methods, or considering alternative evidence.

Further advice can be found on our website [www.sqa.org.uk/assessmentarrangements](http://www.sqa.org.uk/assessmentarrangements).

### Statement of standards

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Acceptable performance in this unit will be the satisfactory achievement of the standards set out in this part of the unit specification. All sections of the statement of standards are mandatory and cannot be altered without reference to SQA.

Where evidence for outcomes is assessed on a sample basis, the whole of the content listed in the knowledge and/or skills section must be taught and available for assessment. Learners should not know in advance the items on which they will be assessed and different items should be sampled on each assessment occasion.

#### Outcome 1

Prepare and analyse budget statements for decision making and cash management.

##### Knowledge and/or skills

- ◆ Sales budget
- ◆ Production budget
- ◆ Cash budget

#### Outcome 2

Analyse the impact of price and costs on break-even analysis for decision making.

##### Knowledge and/or skills

- ◆ Cost behaviour — fixed and variable costs
- ◆ Break-even analysis
- ◆ Break-even charts
- ◆ Effect on profit and loss
- ◆ Provide management information for decision making

#### Outcome 3

Assess the viability of a project using investment and project appraisal techniques.

##### Knowledge and/or skills

- ◆ Payback period
- ◆ Accounting rate of return
- ◆ Discounted cash flow (net present value and internal rate of return)

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### Evidence requirements for this unit

#### Outcome 1

Learners will need to provide evidence to demonstrate their knowledge and/or skills by showing that they can:

- ◆ Prepare sales and production budgets
- ◆ Prepare a cash budget from sales and cost information provided
- ◆ Costs should include:
  - purchases (cash and credit)
  - raw materials
  - labour hours and rates
  - variable production overhead rate
  - fixed costs
  - fixed production overheads
- ◆ Sales should include both cash and credit sales using a recognised spreadsheet package
- ◆ Calculate the opening and closing cash balances
- ◆ Budgets should cover a minimum period of six months and information from individual budget worksheets should be linked
- ◆ Use financial modelling to prepare revised budgets incorporating a minimum of two changes in data

The evidence should be generated under open-book, supervised conditions.

Figures must be accurate within a tolerance of three errors.

It is recommended that the assessment of this outcome be completed within one and a half hours.

#### Outcome 2

Learners will need to provide evidence to demonstrate their knowledge and/or skills by showing that they can:

- ◆ Calculating break-even point in terms of both units and sales revenue
- ◆ Calculating the margin of safety in terms of both units and sales revenue
- ◆ Calculating the profit or loss at different levels of output
- ◆ Prepare a break-even chart showing break-even and margin of safety for one level of output calculated, using a recognised spreadsheet package
- ◆ Prepare a recommendation for management based on findings

The evidence should be generated under open-book, supervised conditions.

Figures must be accurate within a tolerance of three errors.

It is recommended that the assessment of this outcome be completed within one and a half hours.

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### Outcome 3

Learners will need to provide evidence to demonstrate their knowledge and/or skills by showing that they can:

- ◆ Select and use two appropriate investment appraisal techniques in terms of the information provided and the requirements of the user
- ◆ Produce a discounted cash flow (net present value or internal rate of return) which includes all relevant data allocated to the correct periods
- ◆ Assess the viability of the project making reference to a minimum of three conclusions and recommendations — these must be supported with evidence from your analysis of the investment appraisal techniques

The evidence should be generated under open-book conditions, supervised.

Figures must be accurate within a tolerance of four errors.

It is recommended that the assessment of this outcome be completed within two hours.

### Support notes

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Unit support notes are offered as guidance and are not mandatory.

While the exact time allocated to this unit is at the discretion of the centre, the notional design length is 40 hours.

#### Guidance on the content and context for this unit

This unit is designed to provide learners with an understanding of the use of management accounting information in the decision-making processes within an organisation. Learners would normally be expected to have prior knowledge of business accounting. The unit is mandatory within the SQA Advanced Diploma in Business but may form part of other group awards and may be delivered as a stand-alone unit.

**Outcome 1** covers the preparation of budget statements.

- ◆ Information used to prepare budgets within a manufacturing business
- ◆ Production of a sales and production budget
- ◆ The cash budget should include the following:
  - sales on both cash and credit terms
  - purchases on cash and credit terms
  - raw materials
  - labour hours and rates
  - variable production overhead rate
  - fixed production overheads
  - fixed costs
- ◆ Cash budget preparation including recommendations for how the cash position of the business could be improved if applicable
- ◆ Analyse the effect of a change in a minimum of two variables within the budget
- ◆ The cash budget should be prepared using relevant spreadsheet software and formulae

**Outcome 2** covers the use of break-even analysis for short-term decision-making.

- ◆ Calculation of break-even point and margin of safety using a mathematical approach
- ◆ Presentation of break-even data using graphical means generated electronically
- ◆ Effects on profit/loss
- ◆ Marginal costing techniques including cost behaviour — distinction between fixed and variable costs
- ◆ The effects of limiting factors, although not formally assessed, should be covered in the teaching of this learning outcome but not formally assessed
- ◆ Recommendation to management on a course of action to be taken as a result of the findings of the analysis

**Outcome 3** involves the use of investment and project appraisal techniques to assess the viability of a project.

- ◆ Investment appraisal techniques — traditional and discounted cash flow and their uses in decision-making

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- ◆ Relevant costing concepts should be covered in the teaching of this unit but not formally assessed
- ◆ The effects of taxation should be discussed alongside relevant costing, but excluded from the analysis
- ◆ Recommendation to management on the viability of the project or investment under review

### Guidance on approaches to the delivery and assessment of this unit

This unit is designed to provide learners with the knowledge and skills for further study or employment within a business environment.

If this unit is delivered as part of the SQA Advanced Diploma in Business it is recommended that it be delivered and assessed after the SQA Advanced Unit HP7K 47 *Business Accounting* and would, therefore, be more appropriate for study in the second year of the SQA Advanced Diploma in Business.

It is recommended that the unit be delivered in the order of the outcomes as this is a logical sequence.

This unit should be assessed by individual assessment tasks.

Learners could be encouraged to use a spreadsheet package to produce the management accounting reports.

Centres are reminded that prior verification of centre-devised assessments would help to ensure that the national standard is being met. Where learners experience a range of assessment methods, this helps them to develop different skills that should be transferable to work or further and higher education.

### Opportunities for e-assessment

E-assessment may be appropriate for some assessments in this unit. By e-assessment, we mean assessment which is supported by Information and Communication Technology, such as e-testing or the use of e-portfolios or social software. Centres wishing to use e-assessment must ensure that the national standard is applied to all learner evidence and that conditions of assessment — as specified in the evidence requirements — are met, regardless of the mode of gathering evidence. The most up-to-date guidance on the use of e-assessment to support SQA's qualifications is available at: [www.sqa.org.uk/e-assessment](http://www.sqa.org.uk/e-assessment).

### Opportunities for developing Core and other essential skills

The delivery and assessment of this unit may contribute towards the Using Number component of the Core Skill *Numeracy* at SCQF level 5. Throughout all outcomes of this unit, the learners apply a wide range of numerical skills to solve practical problems.

The Critical Thinking component of Problem Solving at SCQF level 6 is embedded in this unit. When a learner achieves the unit, their Core Skills profile will also be updated to include this component.

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The Core Skill of Numeracy at SCQF level 6 is embedded in this unit. When a learner achieves the unit, their Core Skills profile will also be updated to include this Core Skill.



## History of changes to unit

Version	Description of change	Date
02	Additional Core Skills information added to the 'Opportunities for developing Core and other essential skills' section	12/07/22

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SQA acknowledges the valuable contribution that Scotland's colleges have made to the development of SQA Advanced Qualifications.

### Further information

Call SQA's Customer Contact Centre on 44 (0) 141 500 5030 or 0345 279 1000.  
Alternatively, complete our [Centre Feedback Form](#).

### General information for learners

**Unit title:** Preparing Financial Forecasts

This section will help you to decide whether this is the unit for you by explaining: what the unit is about; what you should know or be able to do before you start; what you will need to do during the unit; and opportunities for further learning and employment.

This unit is designed to enable you to gain knowledge and develop practical skills in the preparation of financial forecasts (management accounting information) and the use of these in the decision-making process (both short-term and long-term) within a business organisation.

Outcome 1 covers the preparation of budgets within a manufacturing environment. You will learn how to prepare a sales budget from given data, and how to then prepare a production budget to see if those sales levels can be met. Thereafter, you will prepare a cash budget which will require you to allow for timing differences in terms of sales revenue being received and operating expenses being paid to ensure that the business has enough cash at every given point during the period. The budgets will cover a minimum period of six months and you will be required to report your findings to management. You will learn about ways in which the cash position of a business could be improved, including short-term sources of finance, to all you to make suitable recommendations to management should that be appropriate.

Outcome 2 introduces you to marginal costing techniques and the concept of cost behaviour. You will learn the difference between fixed and variable costs, the effect that these have on short-term decision making and the impact of not understanding how these costs affect the profitability of a business can have. You will learn about break-even analysis, how to calculate the break-even point for a project and also the margin of safety — two very important components of marginal costing. You will also be introduced to the concept of limiting factors, which is basically something that will prevent a business maximising their productivity in a particular period. This could be lack of materials, labour or production hours or even lack of funds. Finally, you will learn how to present your findings graphically using a spreadsheet package and make a recommendation to management on the best course of action based on your analysis.

Outcome 3 looks at the application of investment appraisal techniques — both traditional and discounted cash flow — as an aid to decision-making. You will also be introduced to relevant costing concepts which help identify what items should be included in the appraisal, and what are irrelevant, and should therefore be excluded. You will also consider the effects of taxation on a project but this will not be formally assessed in this unit. You will then use the results of your analysis to make a recommendation to management as to whether a particular project is viable and therefore pursued, or not.

You are encouraged to use a spreadsheet package in all outcomes to complete the calculations, and a word processing package for your reports/recommendations if applicable.

The learning outcomes of this unit will be assessed separately.

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You may have opportunities to develop the Core Skills of *Numeracy* and *Problem Solving* in this unit although there is not automatic certification of Core Skills or Core Skills components.

The Critical Thinking component of Problem Solving at SCQF level 6 is embedded in this unit. When a learner achieves the unit, their Core Skills profile will also be updated to include this component.

The Core Skill of Numeracy SCQF at level 6 is embedded in this unit. When a learner achieves the unit, their Core Skills profile will also be updated to include this Core Skill.