

Next Generation Higher National Unit Specification

Financial Reporting and Corporation Tax (SCQF level 8)

Unit code: J7BC 48
SCQF level: 8 (32 SCQF credit points)
Valid from: session 2024–25

Prototype unit specification for use in pilot delivery only (version 3.0) September 2024

This unit specification provides detailed information about the unit to ensure consistent and transparent assessment year on year.

This unit specification is for teachers and lecturers and contains all the mandatory information required to deliver and assess the unit.

The information in this unit specification may be reproduced in support of SQA qualifications only on a non-commercial basis. If it is reproduced, SQA must be clearly acknowledged as the source. If it is to be reproduced for any other purpose, written permission must be obtained from permissions@sqa.org.uk.

This edition: September 2024 (version 3.0)

© Scottish Qualifications Authority 2023, 2024

Unit purpose

This unit helps learners to develop their knowledge and understanding of the underlying concepts, principles and standards that are applied when preparing limited company financial statements for publication; the conceptual framework for accounting; and how to apply corporation tax legislation.

Entry to the unit is at your centre's discretion. Before they start the unit, learners must have one or more financial accounting qualifications at SCQF level 7, or relevant accounting experience. Learners who complete this unit may be able to progress to further study or employment in this area.

This unit is suitable for learners who want to build on their knowledge and skills in financial accounting. Learners normally study the unit as part of the Higher National Diploma (HND) Accounting. They can also study it on a stand-alone basis.

Unit outcomes

Learners who complete this unit can:

- 1 account for transactions, and prepare and present financial statements for single entities in accordance with FRS102
- 2 analyse and interpret financial statements, and identify appropriate sources of finance
- 3 apply corporation tax legislation to a company
- 4 describe the conceptual and regulatory framework for accounting in the UK

Evidence requirements

Learners must fully reference their assessments where applicable, using reliable sources appropriate for SCQF level 8, and listing all sources in a bibliography or reference list.

Outcome 1 — part 1

Outcome 1 has two parts.

To achieve this outcome, learners need a minimum mark of 70% across the entire outcome.

Accounting for leases

- ◆ Discursive elements — you should assess these under open-book conditions. Learners must explain, for lessees and lessors, the following processes:
 - classification, initial recognition, measurement, subsequent measurement and disclosure of leases
 - treatment of sale and leaseback arrangements
- ◆ Computational elements — you must assess these under closed-book conditions. Learners must:
 - account for finance and operating leases
 - explain the treatment of sale and leaseback transactions to given scenarios

Accounting for provisions and events after the reporting period

- ◆ Discursive elements — you should assess these elements under open-book conditions. Learners must explain:
 - initial recognition, measurement, subsequent measurement and disclosure of provisions and contingencies
- ◆ Computational elements — you must assess these elements under closed-book conditions. Learners must account for:
 - provisions and events after the balance sheet for three different scenarios, including both provisions and contingencies, showing the journal entries and extracts from the financial statements

Government grants

- ◆ Discursive elements — you should assess these under open-book conditions. Learners must explain:
 - initial recognition, measurement, subsequent measurement and disclosure of government grants
- ◆ Computational elements — you must assess these under closed-book conditions. Learners must account for:
 - government grants for two different scenarios, showing the journal entries and extracts from the financial statements

Long-term contracts

- ◆ Discursive elements — you should assess these under open-book conditions. Learners must explain:
 - initial recognition, measurement, subsequent measurement and disclosure of long-term contracts
- ◆ Computational elements — you must assess these under closed-book conditions. Learners must account for:
 - long-term contracts for two different scenarios, showing the journal entries and extracts from the financial statements

Sampling

In each assessment, you must cover:

- ◆ two of the four discursive elements
- ◆ four computational elements

In the event of re-assessment, you should use a different sample of discursive elements.

Outcome 1 — part 2

Prepare and explain the financial statements for a single entity in accordance with FRS102

You should assess the preparation of the financial statements under closed-book conditions, giving learners access only to:

- ◆ financial statements, restricted to layouts for:
 - the statement of comprehensive income
 - the statement of financial position
 - the statement of changes in equity templates for the notes to the accounts

Learners must:

- ◆ prepare the following, in accordance with the Companies Acts and current accounting standards, from a trial balance and additional information supplied. They should incorporate a minimum of eight different year-end adjustments into the financial statements using journal entries.
 - a statement of profit and loss
 - a statement of comprehensive income
 - a statement of financial position
 - a statement of changes in equity for a limited company
- ◆ prepare disclosure notes to accompany the above financial statements in accordance with the Companies Acts and current UK accounting standards. They should produce a minimum of five different notes to the financial statements, including accounting policies and a non-current asset note (including leased assets). The financial statements should include separate disclosure of continuing and discontinued operations.
- ◆ incorporate taxation items, which should include corporation taxation for the year, deferred taxation transfers, and an under or over provision from the previous year

Prepare a statement of cash flows for a limited company

You must assess the preparation of cash flows under closed-book conditions.

Learners must:

- ◆ prepare a statement of cash flows, from the financial statements, for two consecutive years of a limited company
- ◆ show the correct treatment of depreciation and non-current asset disposal

Outcome 2

To achieve this outcome, learners need a minimum mark of 70%. You should allocate 10% of marks to referencing.

You must assess these first three elements under closed book supervised conditions with restricted access to formulae.

Learners must:

- ◆ calculate a minimum of two relevant accounting ratios from each category of profitability (liquidity, efficiency and capital structure), and a minimum of four relevant ratios from investment
- ◆ analyse the financial statements of a limited company, and make recommendations based on those findings
- ◆ identify and describe a minimum of three possible sources of finance, covering short-, medium- and long-term finance appropriate to the company's situation

You should assess the following three elements under open-book conditions.

Learners must explain:

- ◆ how financial statements can be manipulated to produce a desired effect
- ◆ why the statement of financial position may not reflect average values
- ◆ the limitations in using ratio analysis for assessing corporate performance, and the effect that changes in accounting policies, or the use of different accounting policies between entities, can have on the ability to interpret performance

Outcome 3

You should assess the first element under open-book assessment conditions.

Learners must:

- ◆ describe the scope and administration of corporation tax making reference to:
 - UK resident companies
 - due dates of payment
 - self-assessment
 - interest and penalties

You must assess the following three elements under supervised conditions, giving learners access to learning materials only. No worked examples are permitted.

Learners must:

- ◆ calculate taxable total profits (TTP) for a limited company, incorporating other forms of non-trading income (including interest received and/or paid, dividends received and/or paid, property income and chargeable gains), and including accounting for the adjustments to trading profits dealing with:
 - allowable and non-allowable expenditure
 - trading income not shown in the financial statements
 - non-trading income shown in the financial statements
 - allowable expenditure not shown in the financial statements
- ◆ calculate capital allowances, including:
 - the general pool
 - special rate pools
 - short-life assets
 - annual investment allowances
 - first year allowance
- ◆ prepare a corporation tax computation for a medium-sized company using current corporation tax legislation

Outcome 4

To achieve this outcome, learners need a minimum mark of 70%.

You should assess this outcome under open-book conditions.

Learners must:

- ◆ describe what is meant by a conceptual framework for financial reporting
- ◆ explain the qualitative characteristics of useful financial information in relation to:
 - what is meant by relevance and faithful representation, and describe the qualities that enhance these characteristics
 - whether faithful representation constitutes more than compliance with accounting standards
 - what is meant by understandability and verifiability in relation to the provision of financial information
 - the importance of comparability and timeliness to users of financial statements
- ◆ define what is meant by 'recognition' in financial statements, and discuss the recognition criteria
- ◆ apply the recognition criteria to assets, liabilities, income and expenses
- ◆ explain the advantages and disadvantages of historical cost accounting
- ◆ explain why a regulatory framework is needed
- ◆ distinguish between a principles-based and a rules-based framework
- ◆ describe the roles of the Accounting Standards Boards and the International Accounting Standards Boards

Knowledge and skills

The following table shows the knowledge and skills covered by the unit outcomes:

Knowledge	Skills
<p>Outcome 1 Learners should understand how to:</p> <ul style="list-style-type: none"> ◆ account for a range of specialised transactions in accordance with FRS102 ◆ Prepare the financial statements for a single entity, and prepare extracts to the notes to the financial statement for a single entity in accordance with FRS102 	<p>Outcome 1 Learners can:</p> <ul style="list-style-type: none"> ◆ define and account for initial recognition, measurement and disclosure of the following transactions: <ul style="list-style-type: none"> — leases — provisions and events after the reporting period — government grants — long-term contracts ◆ Prepare the following financial statements for a single entity in accordance with FRS102 from a trial balance and supplementary period-end adjustments including taxation: <ul style="list-style-type: none"> — statement of financial position — statement of profit or loss — other comprehensive income — statement of changes in equity ◆ Prepare the notes to the accounts, including: <ul style="list-style-type: none"> — a statement that the financial statements have been prepared in compliance with FRS102 — a summary of significant accounting policies applied — supporting information for items presented in the financial statements — the non-current asset note ◆ prepare a statement of cash flows using the indirect method only and incorporating depreciation and disposal of non-current assets

Knowledge	Skills
<p>Outcome 2 Learners should understand how to:</p> <ul style="list-style-type: none"> ◆ analyse and interpret financial statements to address users' and stakeholders' needs ◆ explain the limitations of financial statements ◆ explain the limitations of interpretation techniques ◆ identify and explain possible sources of finance 	<p>Outcome 2 Learners can:</p> <ul style="list-style-type: none"> ◆ analyse the financial statements using ratios for: <ul style="list-style-type: none"> — profitability — efficiency — liquidity — capital structure — investor ratios ◆ explain how financial statements can be manipulated to produce a desired effect ◆ explain why the statement of financial position may not reflect average values ◆ explain the limitations in using ratio analysis for assessing corporate performance ◆ explain the effect that changes in accounting policies, or using different accounting policies between entities, can have on the ease of interpreting performance ◆ identify and describe possible sources of short-, medium- and long-term finance available to companies

Knowledge	Skills
<p>Outcome 3 Learners should understand how to:</p> <ul style="list-style-type: none"> ◆ apply corporation tax legislation to calculate basic taxable trading profit, and the corporation tax payable, for a limited company 	<p>Outcome 3 Learners can:</p> <ul style="list-style-type: none"> ◆ describe the scope and administration of corporation tax, making reference to: <ul style="list-style-type: none"> — UK resident companies — due date of payment — self-assessment — interest and penalties ◆ calculate TTP for a limited company, including dealing with the adjustments to trading profits and incorporating other forms of non-trading income ◆ prepare a corporation tax computation for a medium-sized limited company, using current corporation tax legislation
<p>Outcome 4 Learners should understand how to:</p> <ul style="list-style-type: none"> ◆ discuss the need for a conceptual framework and the characteristics of useful information 	<p>Outcome 4 Learners can:</p> <ul style="list-style-type: none"> ◆ explain what a conceptual framework for financial reporting is ◆ explain the qualitative characteristics of useful financial information in relation to: <ul style="list-style-type: none"> — what is meant by relevance and faithful representation, and describe the qualities that enhance these characteristics — whether faithful representation constitutes more than compliance with accounting standards — what is meant by understandability and verifiability in relation to the provision of financial information — the importance of comparability and timeliness to users of financial statements

Knowledge	Skills
<p>Outcome 4 (continued)</p> <ul style="list-style-type: none">◆ discuss and apply recognition and measurement in financial statements ◆ explain the regulatory framework for accounting	<p>Outcome 4 (continued)</p> <ul style="list-style-type: none">◆ define what is meant by ‘recognition’ in financial statements and discuss the recognition criteria◆ apply the recognition criteria to:<ul style="list-style-type: none">— assets— liabilities— income— expenses◆ explain the advantages and disadvantages of historical cost accounting ◆ explain why a regulatory framework is needed◆ distinguish between a principles-based and a rules-based framework◆ describe roles of the Accounting Standards Boards and the International Accounting Standards Boards

Meta-skills

Throughout the unit, learners develop meta-skills to enhance their employability in the accounting sector.

Self-management

This meta-skill includes:

- ◆ focusing: researching and presenting information on a given brief; filtering and sorting the information needed to prepare financial statements and associated reports

Social intelligence

This meta-skill includes:

- ◆ communicating: receiving and conveying accounting information; using relevant communication methods to convey the information to an intended audience; interpreting financial information to convey to their audience; storytelling to bring information to life

Innovation

This meta-skill includes:

- ◆ sense-making: filtering and sorting a large amount of information and raw data and presenting this data in accordance with statutory and generally accepted formats

Literacies

Learners develop core skills in the following literacies.

Numeracy

Learners develop these key skills in the accounting profession by performing accounting calculations, and working with percentages and formulae.

Communication

Learners develop communication skills by providing advice and communicating accounting information.

Digital

Learners develop digital skills and computer literacy by using information and communications technology (ICT).

Delivery of unit

This is a mandatory unit in HND Accounting. You can deliver it on a stand-alone basis or partially integrate it with other parts of the award.

While the exact time allocated to the unit is at your centre's discretion, the notional time for delivery and assessment is 160 hours. The amount of time you allocate to each outcome is at your centre's discretion.

Additional guidance

The guidance in this section is not mandatory.

Approaches to delivery

You can teach outcome 4 at any time, but we recommend that you deliver it throughout the unit to allow learners to reflect on conceptual frameworks and the associated concepts and standards.

Approaches to assessment

You can use a range of instruments to assess this unit, including case study scenarios or individual tasks asking learners produce business reports, presentations or digital account records, where practical.

We recommend that you assess outcomes 1 to 3 in numerical order.

In outcome 1, you can assess all or elements of the accounting for specialised transactions along with the financial statements to reduce the assessment burden. Similarly, you could assess cash flow statements at the same time or separately from the other financial statements. However you choose to assess the different outcomes, you should take into consideration the assessment load at any one time.

You could assess elements of outcome 4 reflectively, asking learners to reflect on how they have applied concepts and standards during their preparation of statutory financial statements. This could be an individual or a group task.

Equality and inclusion

This unit is designed to be as fair and as accessible as possible with no unnecessary barriers to learning or assessment.

You should take into account the needs of individual learners when planning learning experiences, selecting assessment methods or considering alternative evidence.

Guidance on assessment arrangements for disabled learners and/or those with additional support needs is available on the [assessment arrangements](#) web page.

Information for learners

Financial Reporting and Corporation Tax (SCQF level 8)

This information explains:

- ◆ what the unit is about
- ◆ what you should know or be able to do before you start
- ◆ what you need to do during the unit
- ◆ opportunities for further learning and employment

Unit information

This unit develops your knowledge and understanding of the principles and standards that are applied when preparing limited company financial statements for annual reporting purposes, and the application of corporation tax legislation on a limited company.

Before you start the unit, you must have completed one or more financial accounting qualifications at SCQF level 7 or have relevant accounting experience.

When you complete this unit, you may be able to progress to further study or employment in this area.

In outcome 1, you learn about current UK accounting standards, as far as they affect the presentation and terminology of financial statements. You use this knowledge, together with your knowledge about preparing financial statements, to prepare financial statements for a limited company for publication, following the requirements of current UK accounting standard (FRS102) and the Companies Acts, including:

- ◆ a statement of comprehensive income
- ◆ a statement of financial position
- ◆ a statement of changes in equity with associated notes to the accounts
- ◆ a cash flow statement

Outcome 2 looks at the analysis of financial statements using accounting ratios, covering:

- ◆ profitability
- ◆ liquidity
- ◆ efficiency
- ◆ capital structure
- ◆ investment

Based on your analysis, you identify appropriate recommendations for the company and suitable sources of long-term finance. You also consider the limitations of financial statements and their interpretation.

NextGen: HN published prototype unit specification for use in pilot delivery only (version 3.0)
September 2024

In outcome 3, you look at how to apply corporation tax legislation to calculate the following for a limited company:

- ◆ basic taxable trading profit
- ◆ taxable total profits (TTP)
- ◆ corporation tax payable

In outcome 4, you consider the conceptual framework and characteristics of useful accounting information, recognition and measurement in financial statements, and the regulatory framework for accounting.

Throughout the unit you develop meta-skills to enhance your employability in the accounting sector. Meta-skills include self-management, social intelligence and innovation.

Administrative information

Published: September 2024 (version 3.0)

Superclass: AK

History of changes

Version	Description of change	Date
2.0	Expanded on and specified guidance on assessment conditions for both outcomes. Outcome 1, part 1: changed 'advise on' to 'account for' in 'Accounting for leases', 'Accounting for provisions and events after the reporting period and 'Long-term contracts'. Amended conditions of assessment for the discursive elements. Outcome 2: re-ordered outcome elements to help present additional information on assessment conditions clearly	March 2024
3.0	Outcome 4: Guidance updated to include guidance on group task.	September 2024

Note: please check [SQA's website](#) to ensure you are using the most up-to-date version of this document.