



INTERNATIONAL ASSOCIATION OF BOOK-KEEPERS

IAB LEVEL 3 DIPLOMA IN SMALL BUSINESS FINANCIAL MANAGEMENT (Qualification Accreditation Number 500/4021/2)

INTRODUCTION

The overall aim of the qualification is to accredit the knowledge and skills of candidates relevant to the fundamentals of financial management relating to the small enterprise.

Within the qualification, candidates have the opportunity to develop their knowledge and skills associated with the key financial management tasks to be performed by those operating small firms. Specifically, they should be able to perform tasks relating to the keeping of records, VAT, payroll, the preparation and interpretation of final accounts, taxation and reporting to HMRC, costing and pricing of products, management of working capital and financial planning and control.

THE STRUCTURE OF THE QUALIFICATION

The qualification is divided into eight units each with identified Learning Outcomes and Assessment Criteria. To gain the full award, candidates are required to successfully demonstrate their competence in the satisfactory completion of all eight externally set and internally assessed assignments. Each assignment is linked to one of the eight Units – each of which is mandatory if a candidate wishes to gain the full award. Being unitised, candidates may decide that they wish to complete and achieve a pass in some but not all of the eight units. Upon payment of the relevant published fee, such candidates may apply for a Certificate of Achievement for those Units that they have achieved (passed).

ASSESSMENT AND GRADING

All Units have an associated, practical assignment, each one being externally set by the IAB. Each of the eight Units will be internally marked by centres. The IAB will provide centres with the assignment briefs upon registration of candidates. Centres are to mark the assignments for the eight Units in accordance with the published IAB guidance. An independent assessor, who will have been nominated by the centre and approved by the IAB, will mark one of the eight module assignments. This independent assessor will not teach on the course, but will be suitably qualified and experienced. After completion of the marking, assignments are to be submitted to the IAB which will then perform a moderation of the marking to ensure that national standards are applied. A minimum of one assignment of each and every candidate will be selected for moderation. Upon payment of the relevant published fee, those candidates whose assignments are assessed and moderated as below the standard required for a pass to be awarded, are able to attempt further (different) assignments and be re-assessed.

9 CERTIFICATION

Candidates who achieve a Pass grade in each of the Assignments of the eight mandatory Units, will be awarded the IAB Level 3 Diploma in Small Business Financial Management. Certificates of achievement will be awarded upon request and payment of the appropriate fee, to those candidates who achieve pass grades in less than all eight Assignments. Candidate registration lasts for up to three years.

**IAB LEVEL 3 - MODULE 1
DIPLOMA IN SMALL BUSINESS FINANCIAL MANAGEMENT**

UNIT TITLE: Value Added Tax

UNIT CODE: A/102/2735

Aims of the Unit

Upon completion of study for this unit it is intended that the candidate will be able to:

- Apply the basic rules and rates of Value Added Tax (VAT)
- Calculate Value Added Tax (VAT)
- Prepare VAT documentation
- Prepare a VAT Summary
- Complete quarterly VAT Returned for Standard and Cash Accounting

Prior Knowledge and Skills Requirements

There are no formal qualifications required for entry to the qualification at this level. It is, however, desirable that candidates have appropriate literacy and numeracy skills.

| Learning Outcome | Assessment Criteria |
|---|---|
| <p>1 Apply the basic rules and rates of Value Added Tax (VAT)</p> | <p>Understand the basic rules and rates of Value Added Tax (VAT).</p> <p>Understand the different VAT Schemes available and how they work within a small business:</p> <ul style="list-style-type: none"> • Standard Accounting • Cash Accounting • Flat Rate Scheme • Annual Accounting <p>Understand the different rates of VAT:</p> <ul style="list-style-type: none"> • Standard Rate • Reduced Rate • Zero Rate <p>Understand the difference between 'Exempt', 'Zero Rated' and 'Outside the Scope'</p> |
| <p>2 Calculate Value Added Tax (VAT)</p> | <p>Be able to calculate:</p> <ul style="list-style-type: none"> • VAT Output tax in accordance with current VAT rules, from net to gross. • VAT Output tax in accordance with current VAT rules, from gross to net. • VAT Input tax in accordance with current VAT rules, from net to gross. • VAT Input tax in accordance with current VAT rules, from gross to net. <p>With respect to VAT, know how to deal with the following:</p> <ul style="list-style-type: none"> • Cash Discounts • Trade discounts |

| Learning Outcome | Assessment Criteria |
|------------------|---------------------|
| | |

| Learning Outcome | Assessment Criteria |
|---|--|
| 3 Prepare VAT documentation | <p>Be able to prepare sales invoices from relevant source documents, showing VAT calculations and incorporating Cash Discounts.</p> <p>Understand the need to check invoices received against the original purchase order.</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Check the goods or services received against the purchase order • Check the calculations of the Net Price of goods or services for accuracy • Check the VAT calculations including those where a cash discount has been offered. |
| 4 Prepare a VAT Summary | <p>From information provided, be able to extract figures to a VAT Summary prior to the completion of the VAT Return.</p> |
| 5 Complete quarterly VAT Returns for Standard and Cash Accounting | <p>Understand the timescales involved in the completion of the VAT Return.</p> <p>Understand the difference between the figures produced for Cash Accounting and Standard Accounting.</p> <p>Be able to use the VAT Summary for the completion of the VAT Return</p> |

**IAB LEVEL 3 - MODULE 2
DIPLOMA IN SMALL BUSINESS FINANCIAL MANAGEMENT**

UNIT TITLE: Recording business financial transactions

UNIT CODE: T/102/2734

Aims of the Unit

Upon completion of study for this unit it is intended that the candidate will be able to:

- Process receipts and payments
- Enter records in an analysed Cash Book for both cash and bank transactions
- Process Petty Cash transactions
- Record debtor and creditor transactions
- Reconcile supplier's statements
- Prepare a Bank Reconciliation Statement

Prior Knowledge and Skills Requirements

There are no formal qualifications required for entry to the qualification at this level. It is, however, desirable that candidates have appropriate literacy and numeracy skills.

| Learning Outcome | Assessment Criteria |
|---|---|
| 1 Process receipts and payments | <p>Understand the importance, in the interests of security, of the need to bank 'monies' regularly.</p> <p>Understand the methods of making and receiving payments:</p> <ul style="list-style-type: none"> • Cash (notes and coins) • Cheque • EFTPOS (debit and credit card transactions) • Standing order and direct debit • BACS <p>Be able to make payments:</p> <ul style="list-style-type: none"> • In cash (notes and coins) • By cheque (including the completion of cheques) <p>Be able to process receipts by using a Paying-In slip for notes and coins</p> |
| 2 Enter records in an analysed Cash Book for both cash and bank transactions. | <p>Understand the purpose of the analysed Cash Book.</p> <p>Be able to enter:</p> <ul style="list-style-type: none"> • Receipts and payment transactions through a columnar/ analysed Cash Book including the use of a VAT column. • Extend receipts/payments to appropriate analysis columns including the use of Discounts Allowed and Discounts Received. • Calculate and show the bank and cash balances at the end of the month. |

| Learning Outcome | Assessment Criteria |
|---|---|
| 3 Process Petty Cash Transactions | <p>Understand the form and function of the Imprest Petty Cash using system</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Prepare a petty cash voucher • Enter petty cash transactions in a Petty Cash Book, analysing Expenditure and taking VAT into account. • Balance off the Petty Cash Book • Compare the Petty Cash Book balance to the cash held in the Petty Cash box • Restore the petty cash to the Imprest Balance |
| 4 Record debtor and creditor transactions | <p>Understand the need to keep accurate records of all debts owed to and by a business.</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Keep analysed Day Books to record all invoices and credit notes sent to customers • Keep analysed Day Books to record all invoices and credit notes received from suppliers • Calculate the total amount owed by customers (debtors) after taking any receipts into account • Calculate the total amount due to suppliers (creditors) after taking any payments made into account |
| 5 Reconcile supplier's statements | <p>Understand the need to check a supplier's statement against invoices and credit notes received, and payments made.</p> <p>Be able to prepare a reconciliation of a Supplier Statement:</p> <ul style="list-style-type: none"> • Compare the invoices and credit notes as received from the supplier, and any payments made to the supplier, with their Statement of Account. • Account for any differences between the two sets of records • Prepare a Statement reconciling the business records to the Supplier's Statement. • Identify invoices falling due for payment • Prepare a Remittance Advice Note |
| 6 Prepare a Bank Reconciliation Statement | <p>Understand the purpose of the Bank Reconciliation Statement and reconcile the closing balance of the Cash Book (Bank column) to the Bank Statement closing balance.</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Compare the Bank Current Account balance in the Analysed Book to the Bank Statement and identify differences between the two sets of records • Update the Cash Book • Prepare a Bank Reconciliation Statement |

**IAB LEVEL 3 - MODULE 3
DIPLOMA IN SMALL BUSINESS FINANCIAL MANAGEMENT**

UNIT TITLE: Completing PAYE documents

UNIT CODE: F/102/2736

Aims of the Unit

Upon completion of study for this unit it is intended that the candidate will be able to:

- Calculate gross pay
- Process the payroll for PAYE
- Complete procedures for starters and leavers
- Understand different methods of payments
- Complete Month End routines
- Complete basic Year End routines

Prior Knowledge and Skills Requirements

There are no formal qualifications required for entry to the qualification at this level. It is, however, desirable that candidates have appropriate literacy and numeracy skills.

| Learning Outcome | Assessment Criteria |
|--------------------------------|--|
| 1 Calculate gross pay | <p>Understand what constitutes gross pay for income tax and National Insurance Contributions (NIC).</p> <p>Be able to calculate Gross Pay for the week, month or year based on</p> <ul style="list-style-type: none"> • Annual Salary • Basic weekly or monthly pay • Hourly rate <p>Be able to calculate:</p> <ul style="list-style-type: none"> • Overtime from information on timesheets or clock/swipe cards • Commission and bonuses • Holiday Pay, including treatment for income tax and NICs |
| 2 Process the payroll for PAYE | <p>Understand the PAYE system for processing the payroll for income tax and NIC.</p> <p>Be able to process the payroll using the HMRC Calculators and Database or using the manual tables.</p> <p>Be able to calculate and process:</p> <ul style="list-style-type: none"> • the payment of SSP • the deduction of Student Loan Repayments <p>Have an understanding of the other Statutory Additions e.g. Statutory Maternity Pay (SMP), Statutory Adoption Pay (SAP), Statutory Paternity Pay (SPP), and Paternity Leave entitlement.</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Prepare a payslip • keep internal records relating to the payroll for each pay period e.g. Wage Book or Summary |
| Learning Outcome | Assessment Criteria |
| 3 Complete procedures for | Understand the need to keep records of starting and leaving dates for |

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| starters and leavers. | <p>all employees.</p> <p>Understand the use of forms P45 and P46 and the relevant procedures to adopt.</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Check a P45 from a starter • Prepare a P45 for a leaver |
| 4 Understand different methods of payment | <p>Understand the different methods of paying net wages and salaries and be able to discuss their strengths and weaknesses</p> <ul style="list-style-type: none"> • Cash and cheques • Automated Bank Transfers including BACStel • Using a Bureau • Signatories and Authorisations |
| 5 Complete Month End routines | <p>Know and understand the deadlines, requirements and the procedures for monthly and quarterly payments to the Collector of Taxes.</p> <p>Be able to calculate monthly/quarterly amounts due to the Collector of Taxes.</p> <p>Understand the use of the following forms:</p> <ul style="list-style-type: none"> • P32 • P30b <p>Be able to complete:</p> <ul style="list-style-type: none"> • Form P32 both manually and using the HMRC CD Rom. • Payslip P30b |
| 6 Complete basic Year End routines. | <p>Know and understand the deadlines, requirements and procedures for the following:</p> <ul style="list-style-type: none"> • Reconciliation of cumulative pay records to year end balances • Reconciliation of tax and NI contributions (P11 Deductions sheets) with payments made to the Collector of Taxes (P30b) <p>Be able to extract information from Weekly/ Monthly working sheets to compile Year-End returns to HMRC:</p> <ul style="list-style-type: none"> • P14/60 including provision to all employees • P35 <p>Understand on-line filing of P14 and P35</p> |

**IAB LEVEL 3 - MODULE 4
DIPLOMA IN SMALL BUSINESS FINANCIAL MANAGEMENT**

UNIT TITLE: Final Accounts and their interpretation

UNIT CODE: J/102/2737

Aims of the Unit

Upon completion of study for this unit it is intended that the candidate will be able to:

- Make accounting adjustments
- Prepare a Trading and Profit and Loss Account and Balance Sheet for small business (sole trader)
- Understand the distinctions between Gross Profit, Net Profit and cash-in-hand.
- Calculate and use basic Accounting Ratios to assess the performance of a small business

Prior Knowledge and Skills Requirements

There are no formal qualifications required for entry to the qualification at this level. It is, however, desirable that candidates have appropriate literacy and numeracy skills.

| Learning Outcome | Assessment Criteria |
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| <p>1 Make accounting adjustments</p> | <p>Understand the source of information required for the preparation of Financial Statements for management use.</p> <p>Understand the principle of accounting for prepayments and accruals, stock, depreciation and bad debts.</p> <p>Be able to prepare a List of Balances from the book-keeping system.</p> <p>Be able to calculate adjustments for the following:</p> <ul style="list-style-type: none"> • Accruals • Prepayments • Depreciation • Provision for Doubtful Debts • Stock <p>Be able to prepare a List of Balances after making accounting adjustments.</p> |
| <p>2 Prepare a Trading and Profit and Loss Account and Balance Sheet for a small business (sole trader).</p> | <p>Understand the form and function of the Trading Account, Profit and Loss Account and the Balance Sheet.</p> <p>Understand the legal requirement to prepare year end accounts and recognise the value of financial statements to the 'trader'.</p> <p>From a List of Balances adjusted for accruals, prepayment etc., be able to:</p> <ul style="list-style-type: none"> • Prepare a Trading Account • Recognise the Trading Account as being an account used to calculate the Gross Profit of a trading organisation. • Prepare a Profit and Loss Account • Recognise the Profit and Loss Account as being an account used to calculate the Net Profit of a trading organisation or service provider. |
| Learning Outcome | Assessment Criteria |

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| <p>2 Prepare a Trading and Profit and Loss Account and Balance Sheet for a small business (sole trader). continued</p> | <ul style="list-style-type: none"> • Prepare a Balance Sheet • Recognise the Balance Sheet as being a statement of the assets, capital and liabilities of a business entity |
| <p>3 Understand the distinctions between Gross Profit, Net Profit and Cash-in-Hand</p> | <p>Be able to explain the difference between:</p> <ul style="list-style-type: none"> • Gross Profit and Net Profit • Profit and Cash-in-Hand |
| <p>4 Calculate and use basic Accounting Ratios to assess the performance of a small business.</p> | <p>Understand how basic Accounting Ratios are used in analysis of financial statements as the basis of financial control and decision making.</p> <p>Be able to make ratio calculations in respect of:</p> <ul style="list-style-type: none"> • Working Capital • Profitability <ul style="list-style-type: none"> • Return on Capital Employed • Net Profit margin • Gross Profit margin • Liquidity <ul style="list-style-type: none"> • Acid test ratio |

**IAB LEVEL 3 - MODULE 5
DIPLOMA IN SMALL BUSINESS FINANCIAL MANAGEMENT**

UNIT TITLE: The small business and HMRC

UNIT CODE: L/102/2738

Aims of the Unit

Upon completion of study for this unit it is intended that the candidate will be able to:

- Understand the reporting procedure between small businesses and HMRC
- Calculate Capital Allowances
- Complete a Self-Assessment tax return
- Calculate the tax payable by an individual or sole trader
- Understand the concepts of differing business entities

Prior Knowledge and Skills Requirements

There are no formal qualifications required for entry to the qualification at this level. It is, however, desirable that candidates have appropriate literacy and numeracy skills.

| Learning Outcome | Assessment Criteria |
|--|--|
| 1 Understand the concepts of differing business entities | <p>Have an overview of small businesses as business entities which may had differing formats:</p> <ul style="list-style-type: none"> • Sole traders • Partnerships • Limited Companies <p>Understand the procedures to adopt when setting up a business and the need to register with:</p> <ul style="list-style-type: none"> • Companies House • HMRC (for a sole trader) • HMRC (as an employer) |
| 2 Understand the reporting procedure between small businesses and HMRC | <p>Know and understand the deadlines, requirements and procedures for the various reports required from small businesses by HMRC.</p> <p>Understand which expenses are not included in a Self Assessment Return.</p> <p>Be able to distinguish between those expenses which are:</p> <ul style="list-style-type: none"> • business based • personal • part personal |
| 3 Calculate Capital Allowances | <p>Understand and be able to calculate Capital Allowances for the purpose of making the appropriate entries in a Self Assessment Tax Return:</p> <ul style="list-style-type: none"> • Cars • Plant and machinery • Buildings |
| Learning Outcome | Assessment Criteria |
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| <p>4 Complete a Self Assessment Tax Return</p> | <p>Know and understand the deadlines for the completion of a Self Assessment Tax Return to HMRC.</p> <p>Know and understand how to complete a Self Assessment Tax Return:</p> <ul style="list-style-type: none"> • Manually • Using on-line filing |
| <p>5 Calculate the tax payable by an individual who is a sole trader</p> | <p>Understand where to find the information and guidance necessary to make income tax and NIC calculations relevant to a sole trader.</p> <p>Using the Self Assessment Tax Return and HMRC Calculation Guide, be able to calculate the tax and NIC payable where the income from the business is the only source of income for a sole trader.</p> <p>Be able to make an approximate comparison of the tax and NIC liability of a business set up as either a sole trader or a limited company.</p> |

**IAB LEVEL 3 - MODULE 6
DIPLOMA IN SMALL BUSINESS FINANCIAL MANAGEMENT**

UNIT TITLE: Costing and Pricing the product.

UNIT CODE: R/102/2739

Aims of the Unit

Upon completion of study for this unit it is intended that the candidate will be able to:

- Distinguish between fixed costs and variable costs
- Calculate the various costs related to selling price of goods or services
- Carry out simple break-even analysis
- Calculate a selling price by using the mark-up or the margin
- Understand the difference between chargeable hours and total hours worked.

Prior Knowledge and Skills Requirements

There are no formal qualifications required for entry to the qualification at this level. It is, however, desirable that candidates have appropriate literacy and numeracy skills.

| Learning Outcome | Assessment Criteria |
|--|---|
| <p>1 Distinguish between fixed costs and variable costs</p> | <p>Understand and identify what is meant by the following:</p> <ul style="list-style-type: none"> • Materials • Labour • Overhead costs <p>Understand what is meant by:</p> <ul style="list-style-type: none"> • Fixed Costs • Variable Costs <p>Be able to identify examples of both fixed costs and variable costs</p> |
| <p>2 Calculate the various costs related to the selling price of goods or services</p> | <p>Know and understand what is meant by:</p> <ul style="list-style-type: none"> • Administration costs • Production Costs • Selling costs • Distribution Costs <p>Be able to calculate and apportion the relevant costs (from the list above) so as to calculate an overall selling price for goods or services</p> |
| <p>3 Carry out simple break-even analysis</p> | <p>Understand the importance of the Concept of Contribution</p> <p>Be able to calculate the sales volume necessary to match total costs.</p> <p>Understand how Break-Even analysis can be used for pricing and purchasing decisions.</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Compile a Break-Even Chart to show the Break-Even point • Interpret a Break-Even Chart |
| Learning Outcome | Assessment Criteria |

| | |
|---|---|
| <p>4 Calculate a selling price by using the mark-up or the margin</p> | <p>Be able to prepare a quotation for goods or services ensuring accuracy of calculations and completeness of information, from relevant source documentation and information.</p> <p>Be able to use and interpret internal material and documentation, ie:</p> <ul style="list-style-type: none"> • Customer and/or supplier files • Catalogues and price lists • Labour and material costs • Overhead costs <p>Know and understand the difference between a mark-up and a margin.</p> <p>Be able to apply:</p> <ul style="list-style-type: none"> • A profit margin • A mark-up |
| <p>5 Understand the difference between chargeable hours and total hours worked.</p> | <p>Understand the need to calculate the cost of Labour in terms of overall production costs or costs of services.</p> <p>Understand what is meant by the term 'Cost of Labour' in terms of what constitutes the cost of labour.</p> <p>Be able to distinguish between the hours actually worked and those that should be incorporated into the cost of labour.</p> |

**IAB LEVEL 3 - MODULE 7
DIPLOMA IN SMALL BUSINESS FINANCIAL MANAGEMENT**

UNIT TITLE: Managing Working Capital UNIT CODE: J/102/2740

Aims of the Unit

Upon completion of study for this unit it is intended that the candidate will be able to:

- Calculate the level of Working Capital in a business
- Identify and explain the dangers of over-trading
- Understand the effects on cash flow of external and internal events and actions
- Obtain finance

Prior Knowledge and Skills Requirements

There are no formal qualifications required for entry to the qualification at this level. It is, however, desirable that candidates have appropriate literacy and numeracy skills.

| Learning Outcome | Assessment Criteria |
|---|--|
| 1 Calculate the level of Working Capital in a business | Understand what constitutes Working Capital Be able to identify: <ul style="list-style-type: none"> • Current Assets • Liabilities Be able to calculate Working Capital from a Balance Sheet. |
| 2 Identify and explain the dangers of over-trading | Understand the potential risks presented by low or negative working capital. Be able to explain the potential risks and how they may be overcome. |
| 3 Understand the effects on cash flow of external and internal events and actions | Understand the effects on the business of the following: <ul style="list-style-type: none"> • Debtors taking extra credit • An increase in bad debts • Receiving payments by credit card • Loss of Discount Received • Allowing Cash/Settlement discounts • Slow moving stock • Over stocking • Obsolete stock |
| 4 Obtain finance | Understand the cost of finance including underlying costs and interest payable. Understand the difference between APR and AER Be able to make judgements based on various options: |
| Learning Outcome | Assessment Criteria |

**IAB LEVEL 3 – MODULE 8
DIPLOMA IN SMALL BUSINESS FINANCIAL MANAGEMENT**

UNIT TITLE: Financial Planning and Control

UNIT CODE: L/102/2741

Aims of the Unit

Upon completion of study for this unit it is intended that the candidate will be able to:

- Understand what constitutes a Business Plan suitable for submission to external Agencies
- Prepare Financial Forecasts
- Understand the importance of financial reporting
- Monitor actual performance against budget

Prior Knowledge and Skills Requirements

There are no formal qualifications required for entry to the qualification at this level. It is, however, desirable that candidates have appropriate literacy and numeracy skills.

| Learning Outcome | Assessment Criteria |
|---|---|
| <p>1 Understand what constitutes a Business Plan suitable for submission to external Agencies</p> | <p>Understand the benefit of producing financial statements:</p> <ul style="list-style-type: none"> • As working documents • For use by external agencies <p>Understand the main differences between Cash Flow Forecasts and Profit and Loss Forecasts e.g.</p> <ul style="list-style-type: none"> • Loan Repayments • Depreciation • Acquisition and disposal of Assets <p>Understand how to construct a Business Plan in a form that would be generally acceptable to external agencies.</p> |
| <p>2 Prepare Financial Forecasts</p> | <p>Be able to prepare:</p> <ul style="list-style-type: none"> • Cash Flow Forecast • Forecast Trading and Profit and Loss (including non-cash expenditure). |
| <p>3 Understand the importance of Management Accounting</p> | <p>Understand what is meant by Management Accounting.</p> <p>Be able to explain:</p> <ul style="list-style-type: none"> • The advantages of producing financial information • The dangers of the absence of such information |
| <p>4 Monitor actual performance against budget.</p> | <p>Understand how to interpret simple profit and cash flow statements and forecasts.</p> <p>Be able to construct a columnar budget with the facility to compare planned income and expenditure against actual income and expenditure.</p> <p>Be able to identify variations between budget and actuals as a basis for decision making.</p> |

