



IAB LEVEL 4 DIPLOMA IN ACCOUNTING TO INTERNATIONAL STANDARDS (Qualification Accreditation Number 500/3370/)

INTRODUCTION

The overall aim of this qualification is to accredit candidates' knowledge and understanding of the fundamental principles concerned in the preparation and publication of financial standards, ensuring they comply with International Accounting Standards and to the UK Accounting Concepts and Policies.

Within the qualification, candidates have the opportunity to gain knowledge of the processes necessary to prepare financial statements for sole traders, partnerships and limited liability businesses and complete the necessary calculations associated with Cash Flow Statements and consolidated financial statements. Candidates will also be able to develop the skills necessary to complete analysis of the organisations financial situation using pre-determined ratios.

The qualification requires candidates to understand the legal structure of a limited liability company and the preparation of the Trading Account, Profit and Loss Account and Balance Sheet, which form the Financial Statements, using UK Accounting Concepts and International Accounting Standards. Various scenarios are covered including the preparation of financial statements for those businesses who operate as a parent company incorporating one subsidiary company.

Accuracy, integrity and security of data should always be uppermost in the candidates mind.

Candidates may use this qualification as the basis of further study of manual systems at Level 5 of the National Occupational Standards, and use it as underpinning knowledge for the study of a Foundation degree in a relevant subject area.

To be awarded the qualification, candidates are required to successfully demonstrate their competence by means of an external examination. It will also provide progression to the NVQ in Accounting at Level 4. Candidates will receive acknowledgement of successful completion of the qualification.

Examination Specification:

The Examination of this qualification will take the form of a formal, externally marked, examination of 3 hours duration. The examinations may take place during set examination periods throughout the year or by an 'on-demand' sitting with eight weeks notice being given to the IAB.

An Answer Book will be provided for candidates to prepare hand written answers to all tasks. Some of the transactions within the examination paper will be presented in a narrative and list format giving a various piece of relevant information as well as a 'diary' of transactions undertaken.

CERTIFICATION

All candidates who achieve a Pass grade will receive a Certificate for the successful completion of IAB Level 4 Diploma in Accounting to International Accounting Standards.

UNIT SPECIFICATIONS
IAB LEVEL 4 DIPLOMA IN ACCOUNTING TO INTERNATIONAL STANDARDS

SINGLE UNIT TITLE: (IAB Code A1)
Prepare and appraise financial statements

Aim

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

- Prepare financial statements for a limited company in a format suitable for internal use
- Understand the significance and scope of the Regulatory Framework
- Understand the purpose of the Conceptual Framework
- Identify users of financial statements
- Prepare financial statements in a published format in accordance with International Accounting Standards requirements
- Prepare a Cash Flow Statement in accordance with International Accounting Standards requirements
- Prepare Consolidate financial statements
- Use accounting ratios and interpret performance

Prior Knowledge and Skills Requirements

Before starting a course of study or training leading to the assessment for this qualification, it is assumed and is advisable that the candidate has already acquired the knowledge and skills as specified in the IAB Level 3 Diploma in Accounting and Advanced Book-keeping or any other compatible qualification. In particular candidates should be proficient in the applications of period end adjustments and the preparation of financial statements for sole traders and partnership organizations.

Learning Outcome	Assessment Criteria
<p>1 Prepare financial statements for a limited company in a format suitable for internal use</p>	<p>Understand the principle of limited liability, the legal status of a limited company and the procedures in forming a limited company.</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Demonstrate an understanding of the term 'limited liability'. • Demonstrate an awareness of the classes of limited company (public and private) • Explain the legal status of a limited company • Demonstrate an awareness of the advantages and disadvantages of a limited company compared to other types of business organisation • Demonstrate a knowledge of formation, procedures and documentation: <ul style="list-style-type: none"> • Prospectus • Memorandum of Association • Articles of Association • Understand the capital structure of a limited company <p>Be able to:</p> <ul style="list-style-type: none"> • Differentiate between shares and debentures as a source of capital • Explain the key features of ordinary shares and preference shares
Learning Outcomes	Assessment Criteria

<p>1 Prepare financial statements for a limited company in a format suitable for internal use (continued)</p>	<ul style="list-style-type: none"> • Show an appreciation of the following terms that apply to share capital: <ul style="list-style-type: none"> • Authorised Share Capital • Issued Share Capital • Called Up Capital • Uncalled Capital • Paid Up Capital • Share Premium • Bonus issue of shares • Rights issue of share • Explain the meaning of the terms 'Reserves' and differentiate between 'Capital Reserves' and 'Revenue Reserves' • Differentiate between interest paid to debenture holders and dividends paid to share holders • Account for: <ul style="list-style-type: none"> • Debenture interest paid • Debenture interest accrued • Interim dividend paid <p>Understand that the profits of a limited company and that tax is payable in the form of Corporation Tax.</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Account for a year end Corporation Tax provision • Account for an over-provision or under-provision of Corporation Tax brought forward from a previous financial period. <p>Understand the form and function of financial statements prepared on behalf of a limited company.</p> <p>Be able to prepare financial statements in a format designed for internal use, applying accounting adjustments and appropriate profit in accordance with the proposals of the Company Directors.</p> <p>Be able to prepare an Income Statement suitable for internal use (to include the appropriation of profit). The Statement should show:</p> <ul style="list-style-type: none"> • Items of income, cost and expense • Net Profit or loss in year • Transfers to general or specific reserves • Interim dividends paid • Retained profit brought forward • Retained profit at year end <p>Be able to prepare a Balance Sheet</p>
<p>2 Understand the significance and scope of the Regulatory Framework</p>	<p>Understand that the keeping of financial records and preparation of financial statements for a limited company is subject to a much stricter legal framework than is the case for other types of business organisation.</p>
<p>Learning Outcomes</p>	<p>Assessment Criteria</p>

<p>2 Understand the significance and scope of the Regulatory Framework (continued)</p>	<p>Be able to:</p> <ul style="list-style-type: none"> • Identify the main sources of legislation within the legal framework. • Demonstrate a knowledge of the accounting principles embodied within the legislation, in particular the concepts of: <ul style="list-style-type: none"> • Going Concern • Consistency • Prudence • Accruals • Separate Valuation <p>Understand the purpose of Accounting Standards.</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Demonstrate a knowledge and understanding of the standard setting process. • Identify who must prepare financial statements in accordance with International Accounting Standards • Identify the various bodies involved in the International Standard setting process • Demonstrate an awareness of the function of each of the bodies within the standard setting process • Have a knowledge of the steps within the standard setting process from the identification of accounting topics for development to the publication of an accounting standard • Demonstrate an awareness of the requirement to prepare financial statements that are true and fair.
<p>3 Understand the purpose of the Conceptual Framework</p>	<p>Understand the purpose of the Conceptual Framework issued by the IASB and be aware of the topic areas within the Conceptual Framework.</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Demonstrate an awareness of the purpose of the Conceptual Framework and know who the framework is designed to assist • Demonstrate a knowledge and understanding of the topic areas of which the Conceptual Framework comprises: <ul style="list-style-type: none"> • The objectives of financial statements • Fundamental principles and underlying assumptions • Qualitative characteristics of financial statements • The elements of financial statements • Recognition of the elements of financial statements • Measurement in financial statements • Concepts of capital maintenance (not examinable)
<p>Learning Outcomes</p>	<p>Assessment Criteria</p>

<p>4 Identify users of financial statements</p>	<p>Understand how financial statements are designed to focus on the information needs of user groups.</p> <p>Know who uses financial statements and the scope of their interest</p> <p>Be able to identify the main users of financial statements and indicates the scope of their interest.</p>
<p>5</p> <p>Prepare financial statements in a published format in accordance with International Accounting Standards requirements</p>	<p>Understand that financial statements prepared for publication, on behalf of a limited company, must conform to a format prescribed by Accounting Standards.</p>

	<p>Be able to:</p> <ul style="list-style-type: none"> • Demonstrate a knowledge of the objectives of financial statements prepare for publication • Demonstrate a knowledge of the range of financial statements prepared for publications and be aware of their purpose: <ul style="list-style-type: none"> • Income Statement • Statement of changes in Equity • Cash Flow Statement • Balance Sheet • Prepare financial statements (Income Statement and Balance Sheet) for publication from a list of ledger account balances, or from information provided in an Extended Trial Balance format, applying appropriate accounting adjustments. The Statements are to be prepared in accordance with IAS1 requirements. • Support accounting adjustments applied in preparing financial statements (Income Statement and Balance Sheet) with appropriate Journal entries. <p>NOTE:</p> <p>(1) Whilst candidates should have knowledge of the purpose of the Statement of Change in Equity they will not be examined on its preparation. They should, however, be able to prepare a Workings Statement analysing the retained earnings figures appearing on the Balance Sheet.</p> <p>For example:</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td></td> <td style="text-align: right;">£000</td> </tr> <tr> <td>Retained Profit b/fwd</td> <td style="text-align: right;">X</td> </tr> <tr> <td>Add: Operating profit (this year)</td> <td style="text-align: right;">X</td> </tr> <tr> <td>Less: Transfers to Reserves</td> <td style="text-align: right;">X</td> </tr> <tr> <td>Less: Interim dividend paid</td> <td style="text-align: right;">X</td> </tr> <tr> <td>Retained Profit (Balance Sheet)</td> <td style="text-align: right;">X</td> </tr> </table> <p>(2) Candidates will be provided with pro-formas form use in completing tasks relating to the preparation of the Income Statement and Balance Sheet.</p> <p>(3) Candidates will NOT be required to prepare statutory notes to the accounts, they should, however, prepare workings where appropriate.</p>		£000	Retained Profit b/fwd	X	Add: Operating profit (this year)	X	Less: Transfers to Reserves	X	Less: Interim dividend paid	X	Retained Profit (Balance Sheet)	X
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<p>Learning Outcomes</p>	<p>Assessment Criteria</p>												
<p>6 Prepare a Cash Flow Statement in accordance with International Accounting Standards requirements</p>	<p>Understand the purpose of the Cash Flow Statement.</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Explain the purpose of a Cash Flow Statement • Prepare a Cash Flow Statement in accordance with IAS7 requirements, applying the indirect method. Account for: <ul style="list-style-type: none"> • Cash flows from operating activities 												

	<ul style="list-style-type: none"> • Cash flows from investing activities • Net increase/(decrease) in cash and cash equivalents • Cash and cash equivalents at beginning of period • Cash and cash equivalents at end of period. <p>NOTE: Candidates will be provided with a pro forma Cash Flow Statement, showing standard headings, for use in completing questions examining this topic areas of the syllabus.</p>
7 Prepare Consolidate financial statements	<p>Understand the legal and professional requirements relevant to the preparing of consolidate financial statements.</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Demonstrate a knowledge of the objectives and requirements of the following accounting standards: <ul style="list-style-type: none"> • IAS27 – Consolidate and Separate Financial Statements • IFRS3 – Business Combinations • IAS28 – Investments in Associates <p>Understand the purpose of preparing consolidate accounts.</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Prepare financial statements (Consolidated Balance Sheet and Consolidate Income Statement) on behalf of a group (parent company and a subsidiary undertaking). • Explain the term 'control' in the context of a parent company and subsidiary relationship. • Demonstrate knowledge of the circumstances in which an undertaking is deemed to be the parent of another • Explain the purpose of preparing consolidates accounts for a group • Demonstrate the level of knowledge and understanding required to prepare a Consolidated Balance Sheet by: <ul style="list-style-type: none"> • Establishing the group structure • Establishing the net assets of a subsidiary (at the date of acquisition and Balance Sheet date) • Calculating Goodwill on acquisition (including the calculation of Goodwill in circumstances where a fair value on consolidation adjustment is necessary). • Calculating minority interest • Calculating group retained earnings (including the calculation of the group share of post acquisition profits of the subsidiary)
Learning Outcomes	Assessment Criteria
7 Prepare Consolidate financial statements (continued)	<ul style="list-style-type: none"> • Demonstrate the level of understanding required to prepare a Consolidate Income Statement by: <ul style="list-style-type: none"> • Applying the single entity principle to items if income and expense • Adjusting for intra group items – intra group sales, intra group interest and intra group dividends. • Accounting for the profit for the period attributable to the equity holders of the parent company • Accounting for the profit for the period attributable to minority

interests

NOTE:

- (1) Candidates will NOT be required to prepare a Consolidated Cash Flow Statement or notes to the financial statements**
- (2) Candidates may be set questions requiring them to prepare either a Consolidated Balance Sheet or a Consolidated Income Statement on behalf of a group (parent company with one subsidiary) but not both financial statements.**
- (3) Candidates will be provided with pro-formas, showing standard headings, for use in completing questions examining this topic areas of the syllabus.**
- (4) Where there are intra group sales it will be assumed that all goods transferred have been sold outside the group by the year end and that all intra group debts have been settled. As a result:**
- (a) There will be requirement to account for unrealised profit in Inventories held at Balance Sheet date**
- (b) There will be no requirement to adjust the closing consolidated cost of sales value in respect of unrealised profit.**
- (c) There will be no requirement to account for intra group indebtedness at Balance Sheet date.**

Understand the conditions in which one company is regarded as being an associate of another company.

Be able to:

- Differentiate between:
 - An investment
 - Exercising control
 - Exercising significant influence
- Identify the equity percentage holding range that is normally accepted as the basis for assuming that significant influence exists.
- Demonstrate knowledge of how in a investment company's individual accounts (Balance Sheet and Income Statement) the investment in, and dividend income from, an associate company are treated.

Learning Outcomes	Assessment Criteria
7 Prepare Consolidate financial statements (continued)	<ul style="list-style-type: none"> • Demonstrate knowledge of the principle of equity accounting used in preparing consolidated accounts where a company is an associate of either a parent or subsidiary company. <p><i>NOTE: Candidates may be required to demonstrate knowledge and understanding of accounting for investments in associates but will NOT be required to prepare financial statements for a business combination which include an associate company</i></p>
8 Use Accounting Ratios and interpret performance	<p>Understand how Accounting Ratios are used in analysis of financial statements as the basis of trend analysis, inter-firm comparison, control and decision making.</p> <p>Be able to make ratio calculations in respect of:</p> <ul style="list-style-type: none"> • Profitability <ul style="list-style-type: none"> • Return on Capital Employed • Net Profit margin • Asset turnover • Gross Profit margin • Liquidity and asset utilisation <ul style="list-style-type: none"> • Current ratio • Acid test (quick asset) ratio • Trade Receivables ratio (collection period) • Trade Payables ratio (payment period) • Inventories turnover • Investor Ratios <ul style="list-style-type: none"> • Earnings per share • Price earnings ratio • Dividend cover • Risk <ul style="list-style-type: none"> • Gearing • Interest cover <p>Be able to:</p> <ul style="list-style-type: none"> • Express ratios in their normal form • Display ratios in table format • Demonstrate an awareness of the limitations of ratios • Appraise and comment on the financial performance of a business organisation following a ratio analysis exercise.

UNIT ASSESSMENT

Candidates may sit the Examination of this Unit on either the specific dates set and published by the IAB or on dates set by Centres on an 'On-demand' basis.