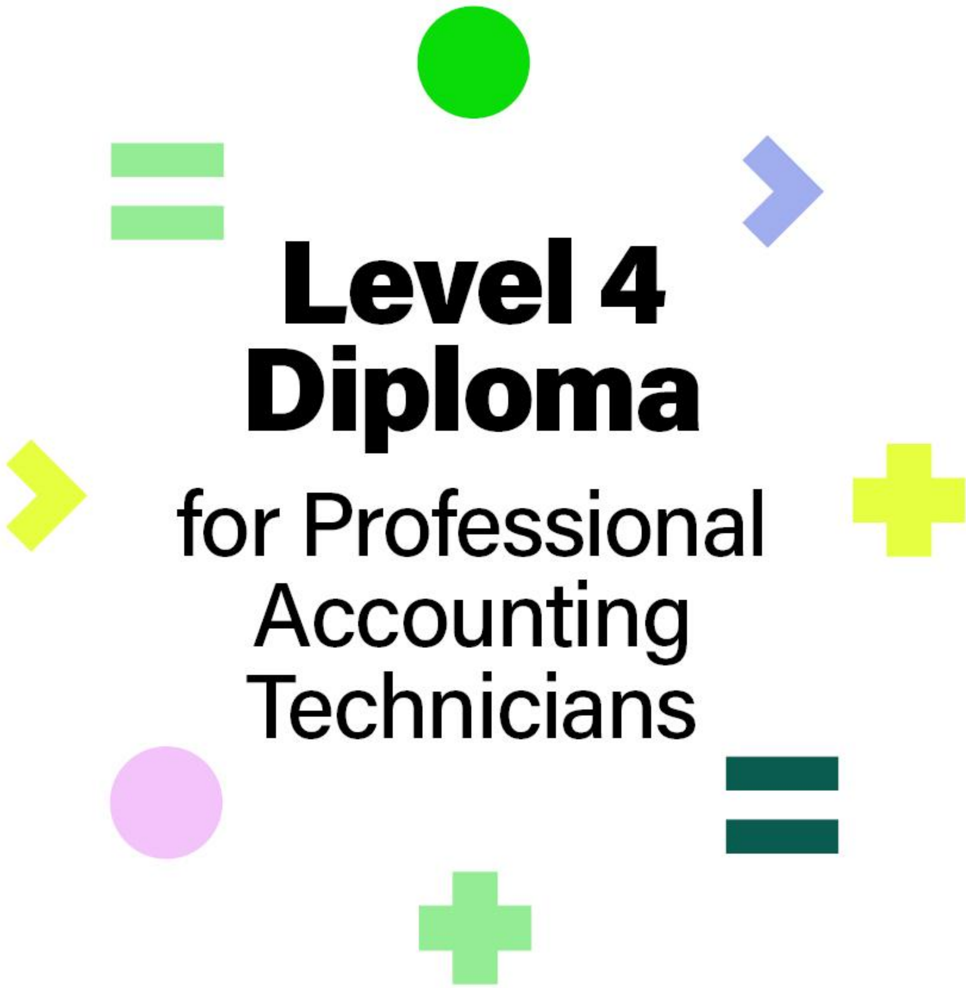
aat Accountants for the real world

Level 4 Diploma for Professional Accounting Technicians

Qualification specification

Version 3.0 published June 2026



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This qualification is approved and regulated by:

- the Office of Qualifications and Examinations Regulation (Ofqual) in England and internationally
- the Council for the Curriculum Examinations and Assessment (CCEA) in Northern Ireland
- Qualifications Wales (C00/5360/0).

Qualification accreditation number: 610/5263/2

This qualification applies only to students registered with AAT from **1 September 2026.**

Change control

Version no.	Page(s)	Changes made	Date
1.0	N/A	First publication	07/02/2025
1.1	32 – 40	**Section 11:** Financial Accounting Changes highlighted in blue	24/10/2025
	67	**Section 11:** Principles of Taxation Changes highlighted in blue	
	93 – 94	**Section 13:** Equity, Diversity, Inclusion, Belonging (EDIB) and accessibility. Statement updated.	
2.0	11, 17 – 18, 21, 41, 43, 81, 83 – 87, 90 - 91	**Section 5:** Reduction in Guided Learning Hours (GLH) and Total Qualification Time (TQT). **Section 9:** Assessment marking update **Section 10:** % weighting of units towards qualification grade **Section 11:** Financial Accounting, Audit and Internal Controls, Advanced Business Awareness Inclusions / exclusions highlighted in lavender	21/11/2025
3.0	25 - 90	Removal of highlighted changes (v1.1 and v2.0) throughout document. **Section 11:** Inclusion of ‘Glossary of terms’ for each unit (after Learning Outcomes). **Section 11:** Principles of Taxation (alignment to Finance Act 2026) - inclusions / exclusions highlighted in red	05/06/2026

1. About AAT

AAT works across the globe with nearly 137,000 members and students in 114 countries. Our members are represented at every level of the finance and accounting world, including students studying for a career in finance, people already working in accountancy and self-employed business owners.

AAT members are ambitious, focused accounting professionals. Many of our members occupy senior, well-rewarded positions with thousands of employers – from blue-chip corporate giants to public sector institutions.

AAT qualifications are universally respected and internationally recognised. Organisations hire AAT qualified members for their knowledge, skills, diligence and enthusiasm because AAT represents the highest standards of professionalism.

In short, an AAT qualification is a route to some of the most in-demand skills in the world and provides our students and members with a professional status to be proud of.

Find out more about AAT

2. Ethics: we set and raise standards

AAT is about more than qualifications. AAT is well recognised and respected as a professional membership body throughout a wide range of businesses and requires its members to take a professional and ethical approach throughout their accountancy and finance careers.

It is because of our exceptionally high standards and the professionalism of our members that AAT members are so highly regarded. This is a benefit to us as a professional body and to our members.

We publish the **AAT Code of Professional Ethics**, which sets out a code of fundamental ethical principles and supporting guidance, and is based on the IFAC Code of Ethics for Professional Accountants. The decisions that an accounting technician makes in the course of their professional life can have real ethical implications, and this is where the Code can help. It:

- sets out the required standards of professional behaviour with guidance to help our members achieve them
- helps our members to protect the public interest
- helps our members to maintain AAT's good reputation and public confidence.

To reflect the realities of the workplace, we have embedded ethical dilemmas and decision making throughout the content of AAT's qualifications and assessments. This will help to set our students on the right path as they embark on careers as accountancy or finance professionals.

3. Student registration: support every step of the way

Registering with AAT is essential if students wish to study an AAT qualification. Once students have registered and purchased access to their desired qualification, they will be able to:

- sit AAT assessments
- access AAT support resources to supplement the qualification learning and aid career progression.

AAT registration is a one-off fee, giving students access to the purchased qualification for the lifespan of the qualification. Additional fees will apply for sitting AAT assessments.

We support and develop our students through more than 500 AAT approved training providers across the world. We also have an extensive branch network where students can access support and training and meet other AAT students and professional members in their local area.

Prospective students wishing to register for the **Level 4 Diploma for Professional Accounting Technicians** can register online, from **1 September 2026**.

Students are advised to register with an AAT approved training provider before registering with AAT. On registration, an email confirming their registration and AAT registration number will be sent.

Find out more about the benefits of registering with AAT

4. Choosing to study the AAT Level 4 Diploma for Professional Accounting Technicians

4.1. Who should choose to study this qualification?

The Level 4 Diploma for Professional Accounting Technicians offers technical training in accounting and is ideal for anyone wishing to pursue a career in accountancy or finance.

The purpose of the qualification is to enhance the skills developed from the Level 3 Diploma in Accounting enabling students to maximise their employment opportunities.

By studying this qualification, students will acquire professional accountancy and financial skills that will be useful throughout their careers, including:

- drafting financial statements
- having the knowledge and skills to use complex management accounting techniques
- the ability to analyse internal control systems as part of the audit process
- carry out tax calculations for UK taxpayers and companies
- the ability to analyse and interpret financial and accounting information to assist with decision making
- how to use complex business concepts and practices to support informed decisions, improve organisational effectiveness, and contribute to sustainable business practices.

The Level 4 Diploma for Professional Accounting Technicians is suitable for those who:

- have completed their Level 3 Diploma in Accounting and would like to continue to build their accounting skills
- are already working in finance and would like a formal recognition of their skills
- would like to go on to become an **AAT full member** and/or study for chartered accountant status
- would like to start their own business through the **AAT licensed members scheme**
- are self-motivated and have a questioning mindset.

4.2. Why choose this qualification?

Students should choose the Level 4 Diploma for Professional Accounting Technicians as it provides the real-world skills needed by employers and maximises opportunities for employment within a wider accountancy context.

In developing this qualification, AAT has carried out extensive consultation with and received input from a wide variety of stakeholders, including industry experts, employers and training providers.

AAT qualifications benefit from being globally recognised and they are valued by leading employers, from small high street firms to large accountancy businesses. They offer students flexible study options, with over 500 AAT approved training providers around the world.

4.3. What does the qualification cover?

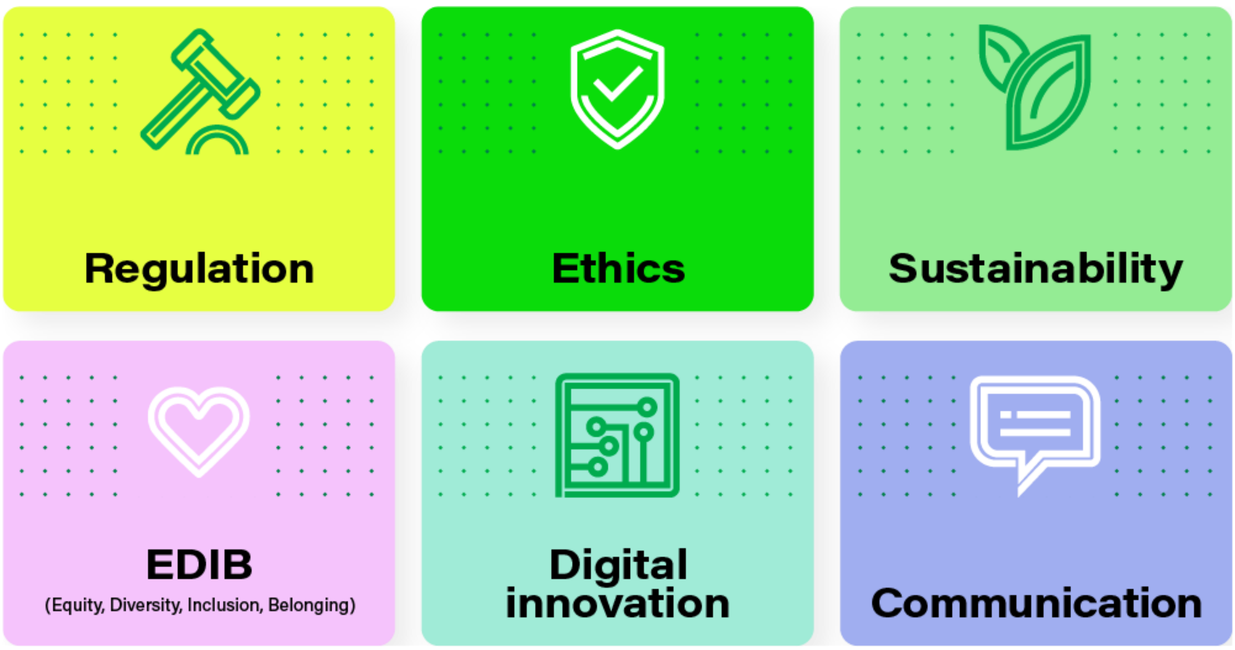
The **Level 4 Diploma for Professional Accounting Technicians** will enable students to become confident with a wide range of financial and management accounting skills and applications, and will gain competencies in drafting financial statements, reviewing and reporting audit findings, and constructing and presenting complex management accounting reports.

Students will also gain a sound understanding of the UK tax regime and will be able to carry out key tax calculations for both individual UK taxpayers and for companies. Finally, students will be equipped with practical business skills through study of strategy and decision making, personal effectiveness, professional ethics, and sustainable business practices.

Alongside these core skills, six **green themes** run through the qualification, ensuring students develop the broader skills and awareness needed to thrive in a fast-changing world. These future-focused themes go beyond technical knowledge, embedding practical mindsets that prepare students to:

- navigate complex legal and regulatory landscapes
- think critically, resolve conflicts, and uphold the highest ethical standards
- champion sustainability in business
- foster equity, diversity, inclusion and belonging
- harness digital innovation for smarter decisions
- communicate financial information with clarity and confidence.

Together, these themes form a powerful foundation for a career that is not only successful, but impactful.



This qualification includes five mandatory units:

- Financial Accounting
- Management Accounting
- Audit and Internal Controls
- Principles of Taxation
- Advanced Business Awareness.

These units reflect topics included in previous qualification suites, to ensure standards are maintained over time, whilst also aligning in full to the **Professional Accounting Technicians occupational standard.**

4.4. What will this qualification lead to?

The primary and most important outcome of the **Level 4 Diploma for Professional Accounting Technicians** is that it can lead to a wide variety of highly skilled accountancy and finance jobs, some of which include:

- Accountant
- Assistant Auditor
- Accounts Payable and Expenses Supervisor
- Assistant Financial Accountant
- Assistant Management Accountant
- Commercial Analyst
- Finance Adviser
- Junior Analyst
- Professional Accounting Technician

5. About the Level 4 Diploma for Professional Accounting Technicians

Qualification name	**AAT Level 4 Diploma for Professional Accounting Technicians**
Qualification number	610/5263/2
Level	4
Guided learning hours (GLH)	400
Total qualification time (TQT)	900
Credits	90

5.1. Guided learning hours (GLH)

The total GLH value for this qualification is 400 hours.

The GLH value for a qualification is an estimate of the amount of time a student spends learning under the supervision of a teacher or tutor. This might include lectures, tutorials or supervised study carried out either face-to-face or remotely. Time spent by tutors, teachers or external experts assessing student performance is also included. It doesn't include time that students spend on unsupervised preparation or study.

The GLH value is set and recommended as appropriate by AAT, but some students may need more or less support to achieve the qualification. The GLH value is not a compulsory measure for all students. Training providers have the flexibility to offer the qualification in the hours required by their own students, within the constraints of any funded provision requirements.

5.2. Total Qualification (TQT) value

The TQT value for this qualification is 900 hours.

The TQT is also a measure of how long it takes to complete a qualification, but it includes both guided learning hours and unsupervised learning.

Any independent study time, or any additional work by the student that is directed by, but not under the supervision of, a tutor, is included in the TQT value. This might include working through e-learning at home, or time spent on independent research.

5.3. Are there are any pre-requisites for this qualification?

AAT does not set any prerequisites for this qualification.

However, for the best chance of success, we recommend that students begin their studies with a good standard of English and maths, ideally at Level 2 or equivalent. Professional accountants work at the very heart of a business and are expected to be able to communicate information clearly and appropriately to a given audience. Ideally, students should have also completed the AAT Level 2 and Level 3 qualifications.

5.4. Transitional arrangements

Students who have already started an AAT qualification should try to complete their studies on their current programme where possible.

If this is not possible, transitional arrangements may be available. In some cases, students may be able to transfer results for current units to similar units in an updated qualification, although this will be strictly time limited.

More details on transitional arrangements can be found on the **Level 4 Diploma for Professional Accounting Technicians: timeline and delivery resources** webpage.

5.5. Recognition of prior learning (RPL)

If a student can demonstrate that they already have the knowledge and skills to meet the requirements for a unit assessment, they may be eligible for RPL. This must be arranged through a registered AAT training provider and mapping of the student's skills and knowledge must be uploaded to AAT's assessment platform.

There are restrictions on the number of units that may be claimed by RPL to ensure that at least 50% of the qualification will always be externally assessed. Where RPL is successfully claimed for a unit assessment, the student will be given a maximum pass mark for that assessment and this mark will be used in determining the final qualification grade. To achieve a higher mark, the assessment must be taken as normal.

6. Exemptions

6.1. Exemptions from AAT assessments

Exemptions may be offered to students who can provide evidence of gaining a previous, relevant qualification. If eligible, students may be exempt from sitting some AAT assessments. This includes students who have completed a recognised accounting or finance-related degree with one of AAT's partner universities.

There are restrictions on how many exemptions are allowed within each qualification. Fees will be charged for exemptions. Exemptions will carry a maximum pass into the overall grade of the qualification.

More information on exemptions will be published in due course.

6.2. Exemptions from chartered accountancy bodies

For students who wish to become chartered accountants, the study of AAT qualifications may also offer exemptions from the exams required by a range of chartered accountancy bodies.

More information on exemptions to chartered accountancy bodies will be published in due course.

6.3. Exemptions from the first year of university

AAT qualifications are a great alternative to university, but some students may wish to go on and study for a degree. A number of institutions, including universities, offer exemptions for AAT qualified members. Students should contact the individual institutions to confirm their exemption policies. UCAS tariff points may be available for AAT qualifications although UCAS points will not automatically offer entry to some HE courses. Further information on UCAS may be found on the **UCAS website**.

7. Employer involvement

7.1. Employer involvement throughout qualification lifecycle

AAT qualifications are recognised and valued by employers as vocational and technical qualifications that prepare students for the world of work and for working specifically in accountancy and finance roles.

AAT has worked closely with employers in the development of this qualification to ensure that the qualification demands the skills that an employer would expect of a student at this level.

Evidence of involvement throughout qualification development includes:

- relevant occupational data, indicating roles in demand
- consultation meetings and surveys to provide confirmation that the qualification meets the need in reference to:
  - content included, qualification structure, alignment to the occupational standards
  - size
  - assessment strategy.
- letters of support endorsing AAT qualifications, including how the qualifications address skills shortages in the labour market, plans for offering qualifications within staff / recruitment plans, and accessibility of qualification and assessment delivery.

On an annual basis, employers will be involved in reviewing the qualification to ensure:

- the content subject matter is still relevant
- the qualification is meeting its purpose
- feedback from students, members, training providers and other employers has been considered and updates made, where appropriate.

8. Support for this qualification

8.1. Qualification support

Throughout the life of this qualification, AAT will make available a range of free materials and resources to support tutors and students in delivery and assessment.

In addition to the qualification specification, materials produced for this qualification include:

- practice assessments for each unit
- annual Chief Examiner reports.

Additional materials may also include:

- e-learning
- Green Light tests
- webinars
- tutor-to-tutor sessions at network meetings.

All study support resources can be accessed via the **AAT Lifelong Learning Portal.**

8.2. Published materials

Several commercial publishers produce support materials for AAT qualifications. While AAT ensures that commercial publishers have the information they need to produce materials in good time to support the qualifications, AAT does not formally endorse any specific publisher and it does not review publishers' materials for accuracy.

Tutors are reminded to always refer to the unit content within this specification for what to teach, what will be assessed and to refer to a range of support materials where possible. While published materials can offer excellent support and variety in teaching and learning, they should not be used without reference to this specification.

9. The assessment in detail

9.1. How will students be assessed?

Students must successfully complete five end-of-unit assessments to achieve this qualification. The proportion of this qualification assessed by external assessment is 100%.

All assessments in this qualification:

- are set and marked by AAT (with the exception of RPL, which is marked by the training provider)
- are computer based
- are time-limited
- are scheduled by training providers or assessment venues
- take place either at approved training providers and assessment venues under controlled conditions, or remotely.

9.2. Availability of assessments

All assessments are available to be scheduled on demand throughout the year, except during periods set and communicated by AAT.

9.3. Controlled conditions

AAT has published detailed regulations for training providers and assessment venues regarding how to conduct computer-based assessments.

Training providers and assessment venues must ensure that they comply with the minimum and supporting requirements for the hardware and software used in the delivery of AAT assessments and must ensure that all assessments are delivered securely.

Each training provider and assessment venue must have at least one computer-based assessment (CBA) administrator and at least one invigilator. Training providers and assessment venues must ensure that all assessments are invigilated and conducted in accordance with AAT policies and procedures. To avoid any possible conflict of interest, the CBA administrator(s) and invigilator(s) for an assessment must not be an active AAT student or related to any student taking that assessment and must not be or have been a tutor involved in preparing students for any of the units that are being assessed.

AAT requirements and regulations for how to conduct assessments within this qualification are detailed in the **Instructions for conducting AAT computer based assessments (CBAs)** guidance document.

9.4. Sitting the assessment

All assessments in this qualification are computer based, with time restrictions. Details on assessment duration for each unit have been included in Section 11: Units.

Students will be presented with a range of question types and formats in the assessment. These may include multiple-choice questions, numeric gap-fill questions, or question types that replicate workplace activities such as completing an extended trial balance. While tasks generally do not have to be completed in a specific order, students are encouraged to proceed through them in the order in which they are presented.

Students should familiarise themselves with the assessment platform environment, including question types that will be included in the live assessments by using the practice assessments accessed via the **AAT Lifelong Learning Portal**.

9.5. Remote invigilation for AAT assessments

For most assessments, AAT also offers assessment sittings remotely, where students and their screen are recorded directly in the assessment platform. This is then reviewed by an invigilator. It allows students to:

- take assessments at home or another secure location of their choice e.g., the workplace
- take assessments at any time (as most are available for scheduling every day)
- have a more flexible approach to sitting their assessments and completing their qualification.

Further information on remote invigilation for AAT assessments can be found on the dedicated **RI webpage**.

9.6. Marking

All assessments in this qualification are marked by AAT, with the exception of RPL, and are wholly computer marked. Computer marking is completed within the assessment software in accordance with an objective marking scheme devised during assessment development.

9.7. Results

From the first assessment date, results will be held for up to 15 working days to ensure enhanced quality assurance checks are completed and that marking logic is working correctly. The results release for all assessments will resume to being available via MyAAT by the end of the next working day, once a statistically reliable number of assessments have been submitted.

Students will be advised on what percentage of the marks available they achieved in their assessments.

AAT's feedback service provides a simple summary of students' performance in each assessment. The feedback statement confirms their overall result and a breakdown of performance by task. Students will also be able to see marks available and marks achieved against each task position.

Feedback statements are automatically generated and are designed to help students identify their strengths and any topic areas requiring further study. The student is presented with a short descriptor for each task to describe their performance in that task against the topics assessed. There are four feedback descriptors. Each descriptor provides an indication of how the student has performed in that task and includes generic advice on how to proceed with their studies or continuing professional development (CPD).

9.8. Re-sits

Students should only be entered for an assessment when they are well prepared, and they are expected to pass the assessment. Where a student is unsuccessful in an assessment attempt, they should discuss their results with their tutor and revise appropriately before retaking the assessment.

This qualification is not subject to re-sit restrictions.

9.9. Enquiries and appeals

If the student thinks that their assessment outcome does not reflect their performance, they can submit an enquiry. Full details of the process can be found on AAT's dedicated **enquiries and appeals webpage**. AAT's results enquiry service includes a check of all procedures leading to the issue of the outcome, checking that all parts of the assessment were marked, that the marks were totalled correctly and that the marks were recorded correctly. Students may also request to have the original marking reviewed, to check that the agreed mark scheme was applied correctly.

The appeals process can be followed if a student is not satisfied with the outcome of their enquiry or Malpractice Review Panel (MRP) decision. The appeals process checks all aspects of the original enquiry review or MRP hearing and checks that all AAT procedures have been correctly followed.

Enquiries and appeals can be made by a student or by their training provider or employer on their behalf; enquiries and appeals for a group of students can also be made by a training provider.

There is an administrative fee for enquiries and appeals. All paid fees will be refunded if the outcome of the enquiry or appeal is in favour of the student.

10. Grading

To achieve the qualification and to be awarded a grade, students must pass **all** mandatory assessments.

Students will be awarded a grade based on performance across the qualification. Unit assessments are not individually graded. These assessments are given a mark that is used in calculating the overall grade.

10.1. How the overall grade is determined

Students will be awarded an overall qualification grade (Distinction, Merit, and Pass).

Students who do not achieve the qualification will not receive a qualification certificate and will be shown as unclassified. This is indicated below for illustrative purposes only.

The raw marks of each assessment will be converted into a percentage mark and rounded up or down to the nearest whole number. For example, 75.5% would be rounded up to 76%, whereas 82.1% would be rounded down to 82%. This percentage mark is then weighted according to the weighting of the unit assessment within the qualification. The resulting weighted assessment percentages are combined to arrive at a percentage mark for the whole qualification.

Grade definition	Percentage threshold
Distinction	90–100%
Merit	80–89%
Pass	70–79%
Unclassified	0–69% Or failure to pass one or more assessment/s

Example of Pass

Assessment	Contribution of assessment to qualification grade	Percentage achieved	Weighted percentage contribution to grade
Financial Accounting	25%	75%	18.8%
Management Accounting	25%	71%	17.8%
Audit and Internal Controls	15%	79%	11.8%
Principles of Taxation	15%	82%	12.3%
Advanced Business Awareness	20%	76%	15.2%
Total			**76%***

*has been rounded to nearest whole number

Example of Merit

Assessment	Contribution of assessment to qualification grade	Percentage achieved	Weighted percentage contribution to grade
Financial Accounting	25%	87%	21.8%
Management Accounting	25%	90%	22.5%
Audit and Internal Controls	15%	82%	12.3%
Principles of Taxation	15%	80%	12%
Advanced Business Awareness	20%	78%	15.6%
Total			**84%***

*has been rounded to nearest whole number

Example of Distinction

Assessment	Contribution of assessment to qualification grade	Percentage achieved	Weighted percentage contribution to grade
Financial Accounting	25%	90%	23%
Management Accounting	25%	96%	24%
Audit and Internal Controls	15%	89%	13.3%
Principles of Taxation	15%	91%	13.6%
Advanced Business Awareness	20%	86%	17.2%
Total			**91%**

*has been rounded to nearest whole number

10.2. Can students improve their grades?

Any student wishing to improve their grade can do so by re-sitting their assessment(s).

Only a student's highest result will count towards their grade. If a student re-sits but, in doing so, achieves an assessment result that would lower their overall grade, their previous higher result will remain valid and will be used to determine their overall grade for the qualification.

It's important to recognise that students achieving a Pass are already demonstrating a high level of competence, as AAT maintains a pass mark of 70% across all assessments.

10.3. Grading descriptors

Pass	Merit	Distinction
Demonstrates understanding of the legal and ethical frameworks, duties, and appropriate planning and control systems which apply to the accounting function in a limited company. Refers to these in supporting the actions that they would take in a given context.	Demonstrates good understanding of the legal and ethical frameworks, duties, and appropriate planning and control systems which apply to the accounting function in a limited company. Applies these successfully in range of contexts.	Demonstrates sound understanding of the legal and ethical frameworks, duties, and appropriate planning and control systems which apply to the accounting function in a limited company, supported by evidence of breadth and depth of reading and/or experience. Synthesizes and applies these successfully in a wide range of contexts.
Demonstrates understanding of theories and concepts in accounting, including professional ethics and sustainability.	Demonstrates good understanding of a range of theories and concepts in accounting, including professional ethics and sustainability. Applies this understanding successfully in a range of contexts.	Demonstrates sound understanding of a wide range of theories and concepts in accounting, including professional ethics and sustainability. Applies this understanding successfully in range of complex contexts.

Demonstrates understanding of the wider professional accounting landscape, including the role of accountancy in sustainability, the impact of digital innovation and changes in accounting practice, and the importance of personal effectiveness within this wider landscape.	Demonstrates a good understanding of the wider professional accounting landscape, including the role of accountancy in sustainability, the impact of digital innovation and changes in accounting practice, and the importance of personal effectiveness within this wider landscape. Applies this understanding successfully in a range of contexts.	Demonstrates sound understanding of the wider professional accounting landscape, including the role of accountancy in sustainability strategy, the impact of digital innovation and changes in accounting practice, and the importance of personal effectiveness within this wider landscape. Applies this understanding successfully in range of complex contexts.
Selects and appraises a range of appropriate statistical, management and financial accounting tools and techniques to prepare financial statements and single limited company accounts with a good degree of accuracy.	Selects and appraises a wide range of appropriate statistical, management and financial accounting tools and techniques to prepare financial statements and single limited company accounts with a high degree of accuracy.	Selects and provides a detailed appraisal of a wide range of appropriate statistical, management and financial accounting tools and techniques to prepare financial statements and single limited company accounts with a high degree of accuracy.
Performs complex calculations for tax, financial and management accounting purposes and records these in a range of financial statements and forecasts.	Performs a range of complex calculations for tax, financial and management accounting purposes and records these with a high degree of accuracy in a range of financial statements and forecasts.	Performs a wide range of complex calculations for tax, financial and management accounting purposes, justifies their selection and records these with a high degree of accuracy in a range of financial statements and forecasts.

Uses statistical techniques to analyse and evaluate complex data and information to arrive at conclusions that support management decision making and performance management.	Uses a range of statistical techniques to analyse and evaluate complex data and information to arrive at justified conclusions that support management decision making and performance management.	Uses a wide range of statistical techniques to analyse and evaluate complex data and information to arrive at justified conclusions that fully support management decision making and performance management.

11. Units

All units in this qualification comply with the requirements set out in the Conditions of Recognition published by the regulators in England, Wales and Northern Ireland and follow a standard format. The unit specification gives guidance on the requirements of the unit for students, tutors, assessors and those responsible for monitoring standards. Each unit contains a range of sections, as outlined in below.

Unit title

This qualification, and its component units, is regulated. The unit title shown is the regulated title of the unit.

Unit level

All units and qualifications are assigned a level using the level descriptors that apply to regulated qualifications in England, Wales and Northern Ireland. There are nine levels of achievement, from Entry level to level 8. All units in this qualification are Level 4.

GLH value

The GLH value is defined as all the times when a tutor, trainer or facilitator is present to give specific guidance. This definition includes lectures, tutorials, and supervised study. It also includes time spent by staff marking assignments or homework where the student is not present.

Assessment methodology

All units will be independently assessed.

Unit reference number

This number is set by Ofqual, the independent regulator for England, and is unique to the unit.

Introduction

The unit introduction gives the reader an appreciation of the unit in the context of the vocational setting of the qualification, as well as highlighting the focus of the unit. It gives the reader a snapshot of the unit and the key knowledge, skills and understanding gained while studying the unit.

Learning outcomes

The learning outcomes of a unit set out what a student is expected to know, understand or be able to do as a result of their learning.

Glossary of terms

The glossary provides definitions for key words and phrases used throughout the scope of content section to support clear and consistent understanding.

Scope of content

The scope of content identifies the breadth of knowledge, skills and understanding needed to achieve each of the learning outcomes. The content provides the range of subject material for the programme of learning and specifies the skills, knowledge and understanding required for achievement of the unit.

Content structure

Each learning outcome is stated in full.

Topic areas specify the standard that a student is expected to meet in order to demonstrate that the learning outcome has been achieved. These may be shown as ‘Learners need to understand’ for an understanding topic area or ‘Learners need to be able to’ for a skills topic area. Some learning outcomes may include both understanding and skills elements.

Each topic area is then expanded into key concepts related to that learning outcome.

Each concept is then further expanded into indicative content where applicable.

Relationship between content and assessment

Students must have the opportunity to cover all the unit content. It is not a requirement of the unit specification that all the content is assessed. However, the indicative content will need to be covered in a programme of learning for students to be able to meet the standard determined in the scope of content.

Delivering this unit

This section includes guidance on how the unit content can be delivered. Tutors are encouraged to develop their own approach depending on the needs of their students but may wish to incorporate some of the ideas included. Tutors may wish to go beyond the scope of the content in order to aid understanding and provide context but must always ensure first that all required content is covered according to the depth and breadth indicated in the scope of content.

Test specification for unit assessment

The test specification for the unit assessment gives details about the assessment method, marking type and duration of the assessment. The contribution that each learning outcome makes to the overall mark for the unit assessment is also provided.

Financial Accounting

Unit level	GLH value	Credit value	Unit reference number	Assessment
4	80	23	F/651/4652	Unit assessment

Introduction

This unit provides students with the skills and knowledge for drafting the financial statements of single limited companies. It ensures that students will have a proficient level of knowledge and understanding of international accounting standards, which will then be applied when drafting the financial statements. Students will be able to prepare a statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows for a limited company. Students will also have a sound appreciation of the regulatory and conceptual frameworks that underpin the preparation of limited company financial statements.

On successful completion of this unit, students would be expected to draft the financial statements of single limited companies with little supervision.

Students will also acquire the tools and techniques required to analyse and interpret financial statements of limited companies by means of ratio analysis for the purposes of assisting outside user groups in their decision making, thereby fulfilling a useful role within an accounting team.

Learning outcomes

1. Understand the reporting frameworks that underpin financial reporting
2. Understand the accounting process
3. Understand accounting standards for non-current assets
4. Understand other accounting standards
5. Prepare financial statements
6. Interpret financial statements using ratio analysis

Glossary of terms

A

Accounting estimates: Accounting estimates are used where an accounting policy requires that items be measured at monetary amounts that cannot be observed directly and must instead be estimated. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information. Accounting estimates may change if the underlying circumstances change or new information arises. By its nature, a change in an accounting estimate does not relate to prior periods and is not the correction of an error.

Accounting policies: Specific principles, bases, conventions, rules, and practices applied in preparing financial statements.

Accrued expense: An expense that has been incurred but not yet paid for or recorded in the accounts.

Accrued income: Income that has been earned but for which payment has not yet been received.

Accumulated depreciation: The total amount of depreciation expense that has been recorded against an asset since it was acquired.

Aggregation: The adding together of assets, liabilities, equity, income, expenses or cash flows that share characteristics and are included in the same classification.

Amortisation: The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Asset: A present economic resource controlled by the entity as a result of past events.

B

Bank reconciliation: A bank reconciliation compares the cash book balance to the balance on the bank statement.

Best estimate: Management's most realistic estimate based on their judgement, past experience, and advice from experts if needed. It also takes into account any new information that becomes available after the reporting date.

C

Carrying amount: The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses. Alternative term: carrying value.

Cash: Cash on hand and demand deposits.

Cash equivalents: Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows from financing activities: Cash flows arising from activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Cash flows from investing activities: Cash flows arising from the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Cash flows from operating activities: Cash flows arising from the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

Company: An incorporated business that has shareholders who have limited liability for the debts of the business. Companies can be:

(a) **Private company limited by shares (Ltd):** Shareholders have to be invited to purchase shares in the company.

(b) **Public limited company (plc): S**hares may be advertised for sale to the public.

Comparative information: Corresponding figures from prior periods presented for comparison.

Contingent asset: A possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent liability:

(a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) A present obligation that arises from past events but is not recognised because

- it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

Contract: An agreement between two or more parties that creates enforceable rights and obligations.

Control account reconciliation: A control account is an account in the general ledger that summarises a set of subsidiary ledgers. A reconciliation compares the control account balance to the total of the subsidiary ledger balances.

Cost (of inventories): The original purchase price of inventories plus any costs of conversion (direct labour and production overhead) and other costs incurred in bringing the inventories to their present location and condition.

Cost model: After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Costs to sell: Costs incurred on the disposal of an asset, such as legal costs, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale.

Current assets: An asset that meets the following criteria:

(a) the entity expects to realise the asset, or intends to sell or consume it, in its normal operating cycle

(b) it holds the asset primarily for the purpose of trading

(c) it expects to realise the asset within twelve months after the reporting period, or

(d) the asset is cash or a cash equivalent.

Current liabilities: A liability that meets the following criteria:

(a) the entity expects to settle the liability in its normal operating cycle

(b) it holds the liability primarily for the purpose of trading

(c) the liability is due to be settled within twelve months after the reporting period, or

(d) it does not have the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period.

Current value: A measurement basis that provides monetary information about assets, liabilities and related income and expenses, using information updated to reflect conditions at the measurement date. This includes:

(a) **Fair value:** the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

(b) **Value in use:** the present value of the cash flows, or other economic benefits, that an entity expects to derive from the use of an asset and from its ultimate disposal.

(c) **Current cost**: the cost of an equivalent asset, or the consideration that would be received for an equivalent liability at the measurement date.

Customer: A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

D

Daybook: Books of prime entry. They are the first place that transactions are recorded. The daybook totals are posted to the general ledger on a regular basis.

Depreciable amount: The cost of an asset less its residual value.

Depreciation: The systematic allocation of the depreciable amount of an asset over its useful life.

Depreciation charge: The amount of depreciation expense allocated to a specific accounting period.

Derecognition: The removal of all or part of a recognised element from the financial statements.

Development: The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

Diminishing balance depreciation: A depreciation method where the asset depreciates by a fixed percentage of its remaining carrying value each year.

Disaggregation: The separation of an item into component parts that have characteristics that are not shared.

Doubtful debts: Debts that are considered unlikely to be collected. These can be:

(a) **General doubtful debts:** an estimated amount of receivables that a business expects may not be collected, based on historical data and overall economic conditions.

(b) **Specific doubtful debts:** identified amounts that a business expects may not be collected from particular customers.

E

Elements of the financial statements: Assets, liabilities, equity, income or expenses.

Enhancing qualitative characteristics: The usefulness of financial information is enhanced if it has these four characteristics:

(1) **Comparability:** it enables users to identify and understand similarities in, and differences among, items.

(2) **Verifiability:** different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

(3) **Timeliness:** having information available to decision-makers in time to be capable of influencing their decisions.

(4) **Understandability**: classifying, characterising and presenting information clearly and concisely makes it understandable.

Equity: The residual interest in the assets of the entity after deducting all its liabilities. Alternative term: Capital

Events after the reporting period: Events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. There are two types of events:

(1) **Adjusting events:** those that provide evidence of conditions that existed at the end of the reporting period.

(2) **Non-adjusting events:** those that are indicative of conditions that arose after the reporting period. Non-adjusting events can be material or immaterial. Material non-adjusting events are those that could reasonably be expected to influence decisions made by the primary users of the financial statements.

Expenses: Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.

Expenses classified by function: One of the two acceptable methods for presenting the statement of profit or loss. The entity aggregates expenses according to their function (for example, cost of sales, distribution costs and administrative expenses).

Expenses classified by nature: One of the two acceptable methods for presenting the statement of profit or loss. The entity aggregates expenses according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs).

F

Fair value: The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial statements: Formal records of the financial performance and position of a business. Alternative term: Final accounts, Year end accounts.

First-In First-Out (FIFO): An inventory valuation method where the oldest inventory items are recorded as used/sold first.

Fundamental qualitative characteristics: If financial information is to be useful, it must have these two characteristics:

(1) **Relevance:** it is capable of making a difference in the decisions made by users. The information may have predictive value, meaning it can be used to predict future outcomes, or confirmatory value, meaning it can be used to confirm something that happened in the past.

(2) **Faithful representation:** it is complete, neutral and free from error.

G

Gain on disposal: When the proceeds from the disposal of a non-current asset are greater than its carrying amount.

General partnership: An unincorporated business that is owned by two or more people. Alternative term: Partnership.

Going concern: The entity has neither the intention nor the need to enter liquidation or to cease trading. If such an intention or need exists, the financial statements may have to be prepared on a different basis.

H

Historical cost: A measurement basis that provides monetary information about assets, liabilities and related income and expenses, using information derived, at least in part, from the price of the transaction or other event that gave rise to them. This means that elements are included in the accounts at the original cost incurred or amount received. This may be adjusted over time, for example, by depreciation.

I

Impairment loss: The amount by which the carrying value of an asset exceeds its recoverable amount.

Income: Increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims.

Incremental borrowing rate: The interest rate a lessee would have to pay to borrow money to obtain an asset similar to the one it is leasing. This rate considers the loan's term, the asset's value, and the economic conditions.

Initial cost (of property, plant and equipment): The original purchase price of a the asset plus any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended, and any estimated cost of dismantling and removing the item and restoring the site on which it is located.

Intangible assets: An identifiable non-monetary asset without physical substance.

Interest rate implicit in a lease: The discount rate at which the present value of the minimum lease payments and the residual value would be equal to the fair value of the leased asset.

Internally generated brands: A brand is any distinctive feature such as a name, term, design or symbol that identifies goods or services. When these are created through an entity's own marketing and development activities, they are known as internally generated brands.

Internally generated goodwill: The value that arises from an entity's internal operations, such as its reputation, customer relationships and employee skills. This is not recognised as an asset in financial statements because it is not an identifiable resource that can be measured reliably.

Inventories: Assets that are either:

(a) held for sale in the ordinary course of business

(b) in the process of production for such sale, or

(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Irrecoverable debts: Amounts owed to a business that it believes will never be paid.

J, K

No terms.

L

Lease: A contract that conveys the right to use an asset for a period of time in exchange for consideration.

Lease for which the underlying asset is of low value: A lease of an asset that is low value when new, for example tablet and personal computers, small items of office furniture and telephones.

Lease term: The non-cancellable period for which a lessee has the right to use the leased asset.

Lessee: An entity that obtains the right to use an asset for a period of time in exchange for consideration.

Lessor: An entity that provides the right to use an asset for a period of time in exchange for consideration

Liability: A present obligation of the entity to transfer an economic resource as a result of past events.

Limited liability partnership (LLP): An incorporated business that has at least two members who have limited liability for the debts of the business.

Liquidation: The process of winding up a company, selling its assets and distributing the proceeds.

Loan capital: Borrowed funds that a business must repay under agreed terms.

Loss on disposal: When the proceeds from the disposal of a non-current asset are less than its carrying amount.

M

No terms.

N

Net realisable value (NRV): The estimated selling price of inventories in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Non-current assets: All assets other than current assets.

Non-current liabilities: All liabilities other than current liabilities.

Notes: Information in financial statements provided in addition to that presented in the primary financial statements. Alternative term: Disclosures.

O

Obligating event: An event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

(a) **Legal obligation:** an obligation that derives from a contract, legislation; or other operation of law.

(b) **Constructive obligation:** an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Offsetting: Offsetting means netting off transactions or balances. An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an accounting standard.

Onerous contract: A contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Over provision of tax: Where the previous period’s tax provision was greater than the actual tax liability, so the difference is adjusted in the current period’s tax expense.

P

Performance obligations: A promise in a contract with a customer to transfer to the customer either:

(a) a good or service (or a bundle of goods or services) that is distinct, or

(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Performance obligations satisfied at a point in time: If a performance obligation is not satisfied over time, an entity satisfies the performance obligation at a point in time.

Performance obligations satisfied over time: An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs

(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced, or

(c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Prepaid expense: An expense that has been paid for in advance for goods or services to be received in the future.

Prepaid income: Cash received in advance for goods or services that have not yet been delivered or performed. Alternative term: deferred income.

Primary financial statements: The statement(s) of financial performance, the statement of financial position, the statement of changes in equity and the statement of cash flows.

Prior period errors: Omissions or misstatements in previous financial statements due to failure to use reliable information available at the time.

Property, plant and equipment (PPE): Tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and are expected to be used during more than one period.

Prospective application: Applying a change in accounting estimate or policy in the current period and future periods, without adjusting prior periods.

Provision: A liability of uncertain timing or amount. A provision should be recognised when:

(a) an entity has a present obligation (legal or constructive) as a result of a past event

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and

(c) a reliable estimate can be made of the amount of the obligation.

Q

No terms.

R

Recognition: The process of capturing for inclusion in the financial statements an item that meets the definition of one of the elements of financial statements.

Recoverable amount: The higher of an asset's 'fair value less costs to sell' and its' value in use'.

Research: Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

Reserves: Equity balances representing accumulated profits or other comprehensive income not distributed as dividends.

Residual value: The estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Restructuring: A programme that is planned and controlled by management, and materially changes either:

(a) the scope of a business undertaken by an entity, or

(b) the manner in which that business is conducted.

Retrospective application: Applying a new accounting policy as though it had always been in place.

Retrospective restatement: Correcting prior period errors by adjusting comparative amounts as if the error had never occurred.

Revaluation decrease: This occurs when the carrying amount of an asset is decreased as a result of revaluation.

Revaluation model: After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluation surplus: This occurs when the carrying amount of an asset is increased as a result of a revaluation.

Revenue: Income arising in the course of an entity’s ordinary activities.

Right-of-use asset: An asset that represents a lessee’s right to use an asset for the lease term.

S

Short-term lease: A lease that, at the commencement date, has a lease term of 12 months or less.

Sole trader: An unincorporated business that is owned and run by one person.

Statement of cash flow: A financial statement that provides information about a company's cash inflows and outflows over a specified period.

Statement of changes in equity: A financial statement that shows the changes in a company's equity balances over a specified period.

Statement of financial performance: An entity may present its statement(s) of financial performance as either:

(a) a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections, or

(b) a statement of profit or loss and a separate statement presenting comprehensive income.

See also: Statement of profit or loss and other comprehensive income.

Statement of financial position: A financial statement that summarises the assets, liabilities, and equity of a business at a specific point in time.

Statement of profit or loss and other comprehensive income: A financial statement that summarises the performance of a business for a specified period. It shows the overall profit or loss and other gains or losses that affect the company's equity, such as revaluation gains or losses. See also: Statement of financial performance.

Straight-line depreciation: A depreciation method where the asset's depreciable amount is spread evenly over its useful life.

Suspense account: An account used to temporarily hold a difference where the trial balance does not balance, until the cause of the imbalance can be identified and resolved.

T

Tangible asset: An identifiable non-monetary asset with physical substance.

The accounting equation: The accounting equation is assets - liabilities = capital.

Transaction price: The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

U

Under provision of tax: Where the previous period's tax provision was lower than the actual tax liability, so the difference is adjusted in the current period's tax expense.

Underlying principles of accounts preparation: The overriding principles that are applied when preparing financial statements:

(a) **Accruals:** this treatment depicts the effects of transactions in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period.

(b) **Business entity:** this principle states that a business is separate from its owners, and therefore needs to keep separate records.

(c) **Consistency:** refers to the use of the same methods for the same items, either from period to period within a reporting entity or in a single period across entities.

(d) **Going concern:** the entity has neither the intention nor the need to enter liquidation or to cease trading. If such an intention or need exists, the financial statements may have to be prepared on a different basis.

(e) **Materiality:** all material information should be included in the final accounts. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions of users.

(f) **Money measurement:** this principle states that only transactions that can be measured in monetary terms should be recorded in the final accounts.

(g) **Prudence:** the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or income or the overstatement of liabilities or expenses.

Unit cost (inventories): An inventory valuation method where inventory is valued by identifying the cost of the specific items that remain in inventory. This is used when items are not interchangeable and it is therefore possible to identify them separately.

Useful life: The period over which an asset is expected to be available for use by an entity; or the number of production units expected to be obtained from the asset by an entity.

V

Value in use: The present value of future cash flows expected from using an asset and ultimately disposing of it.

Variable consideration: The part of the transaction price that can vary. Entities must estimate the amount of variable consideration they expect to be entitled to and include it in the transaction price.

W

Weighted Average Cost (AVCO): An inventory valuation method where inventory is valued at its average cost.

X, Y, Z

No terms.

Scope of content

This section illustrates the depth and breadth of content to be delivered for this unit. All areas indicated in the table below must be covered in teaching.

Learners may not be assessed on all content, or on the full depth or breadth of a piece of content. Content assessed may change over time to ensure validity of assessment.

1. Understand the reporting frameworks that underpin financial reporting	
1.1	**The regulatory framework that underpins financial reporting**
	Learners need to understand: 1.1.1 types of business organisations: - sole traders - general partnerships - limited liability partnerships - companies 1.1.2 types of limited company: - private company limited by shares (Ltd) - public limited company (plc) 1.1.3 how the financial statements of limited companies differ from those of sole traders and general partnerships 1.1.4 users of financial statements: - information requirements of users - the extent to which financial statements meet users' needs 1.1.5 the forms of equity, reserves and loan capital 1.1.6 sources of regulation: - company law - International Financial Reporting standards 1.1.7 duties and responsibilities of the directors in respect of financial statements.
1.2	**The International Accounting Standards Board (IASB) Conceptual Framework**
	Learners need to understand: 1.2.1 the role of the IASB conceptual framework 1.2.2 the objective of financial statements 1.2.3 the qualitative characteristics of useful financial information: - fundamental - enhancing 1.2.4 the going concern assumption 1.2.5 the elements of the financial statements: - definition - recognition - derecognition - measurement.

2. Understand the accounting process		
2.1	**Double-entry bookkeeping**	
	Learners need to understand: 2.1.1 the accounting equation 2.1.2 use of daybooks 2.1.3 different ledgers and how they interact 2.1.4 control account reconciliations 2.1.5 bank reconciliations 2.1.6 the suspense account 2.1.7 year-end adjustments: - accruals and prepayments of income and expenditure - irrecoverable debts - doubtful receivables.	Learners need to be able to: 2.1.8 process adjustments - year-end adjustments - correction of errors 2.1.9 verify balances using relevant sources of information.
2.2	**The purpose of financial statements**	
	Learners need to understand: 2.2.1 the purpose of the financial statements: - the statement of profit or loss and other comprehensive income - the statement of financial position - the statement of cash flow - the statement of changes in equity 2.2.2 the relationship between the financial statements 2.2.3 the underlying principles in the preparation of accounts: - accruals - business entity - consistency - going concern - materiality - money measurement - prudence.	Learners need to be able to: 2.2.4 identify underlying principles being applied in: - scenarios - accounting standards.

3. Understand accounting standards for non-current assets		
3.1	**IAS 16 Property, plant and equipment (PPE)**	
	Learners need to know: 3.1.1 the definition of PPE 3.1.2 the recognition criteria for PPE 3.1.3 the measurement of PPE after initial recognition: - cost model - revaluation model 3.1.4 how to determine initial cost 3.1.5 the accounting entries for additions of PPE 3.1.6 the treatment of subsequent expenditure on PPE 3.1.7 depreciation of PPE: - the requirement to depreciate - useful life - residual value - depreciable amount - depreciation methods - carrying amount - accounting entries for depreciation - application to each class of assets - requirement for review 3.1.8 revaluation of PPE: - the amount to which an asset may be revalued - the meaning of revaluation increases or decreases - accounting entries on revaluation (when accumulated depreciation is eliminated against the asset's gross carrying amount and the asset is restated to its revalued amount) - accounting entries post-revaluation - application to each class of assets - requirement for review 3.1.9 derecognition/disposals of PPE: - when derecognition occurs	Learners need to be able to: 3.1.12 calculate: - cost - depreciable amount - depreciation using the straight-line method - depreciation using the diminishing balance method - accumulated depreciation - carrying amount - revalued amounts - revaluation increases and decreases - transfers from revaluation surpluses - gains or losses on disposal 3.1.13 process accounting entries for PPE: - additions (initial cost or subsequent expenditure) - depreciation - revaluations including post-revaluation entries - disposals 3.1.14 prepare a reconciliation of the carrying amount at the beginning and end of a period.

	- accounting entries for disposals (including assets that have been revalued) 3.1.10 how PPE is reflected in the financial statements 3.1.11 the disclosures required for PPE.	
3.2	**IAS 38 Intangible assets**	
	Learners need to understand: 3.2.1 the meaning of intangible assets 3.2.2 the recognition criteria for intangible assets 3.2.3 measurement of intangible assets after initial recognition: - cost model - revaluation model 3.2.4 how to determine the initial cost of intangible assets 3.2.5 the accounting entries for additions of intangible assets 3.2.6 the treatment of: - internally generated goodwill - internally generated brands 3.2.7 the treatment of research and development: - the meaning of research - the meaning of development - the circumstances in which development costs are capitalised 3.2.8 amortisation of intangible assets - the requirement to amortise - useful life - residual value - depreciable amount - amortisation methods - carrying amount - accounting entries for amortisation - requirement for review 3.2.9 derecognition/disposals of intangibles: - when derecognition occurs - accounting entries for disposals 3.2.10 how intangible assets are reflected in the financial statements	Learners need to be able to: 3.2.12 calculate: - cost - depreciable amount - amortisation using the straight-line method - amortisation using pattern of consumption of benefits - accumulated amortisation - carrying amount - gains or losses on disposal 3.2.13 process accounting entries for intangible assets: - additions - amortisation - disposals.

	3.2.11 the disclosures required for intangible assets.	
3.3	**IAS 36 Impairment of assets**	
	Learners need to understand: 3.3.1 the meaning of: - impairment - recoverable amount - fair value - costs to sell - value in use 3.3.2 the requirement to assess whether an asset has been impaired 3.3.3 the indicators of impairment - external sources - internal sources 3.3.4 the accounting entries for an impairment loss (including previously revalued assets) 3.3.5 how impairments are reflected in the financial statements 3.3.6 the disclosures required for impairment losses.	Learners need to be able to: 3.3.7 calculate impairment losses 3.3.8 process accounting entries for impairment losses.

4. Understand other accounting standards		
4.1	**IAS 8 Basis of Preparation of Financial Statements**	
	Learners need to understand: 4.1.1 the meaning of: - accounting policies - accounting estimates - prior period errors - retrospective application - retrospective restatement - prospective application 4.1.2 the requirement to: - present fairly the financial position, financial performance and cash flow - make a statement of compliance with IFRS - assess going concern - use the accruals basis of accounting 4.1.3 how management develop an accounting policy	Learners need to be able to: 4.1.11 calculate the effect of: - changes in an accounting policy - changes in an accounting estimate - prior period errors 4.1.12 process accounting entries for: - changes in an accounting policy - changes in an accounting estimate - prior period errors.

<table>
<tr><td></td><td>4.1.4 the need for consistency in selecting and applying accounting policies
4.1.5 the circumstances in which:
- an accounting policy may be changed
- a change in accounting estimate may be required
4.1.6 how to apply:
- changes in accounting policy
- changes in accounting estimates
4.1.7 how accounting errors are corrected
4.1.8 the accounting entries required for:
- changes in an accounting policy
- changes in an accounting estimate
- prior period errors
4.1.9 the disclosures required for:
- changes in an accounting policy
- changes in an accounting estimate
- prior period errors
4.1.10 how changes in an accounting policy, changes in an accounting estimate or a prior period error are reflected in the financial statements.</td><td></td></tr>
<tr><td>4.2</td><td colspan="2">IAS 2 Inventories</td></tr>
<tr><td></td><td>Learners need to understand:
4.2.1 the meaning of:
- inventories
- net realisable value
4.2.2 the measurement of inventories
- costs included
- costs excluded
- use of unit cost for identifiable units
- formulas that may be used to assign cost for items that are ordinarily interchangeable
▪ first in, first out (FIFO)
▪ weighted average cost
- requirement to use the same cost formula for inventories having a similar nature and use
4.2.3 the circumstances in which the cost of inventories may not be recoverable
4.2.4 the basis on which inventory may be</td><td>Learners need to be able to:
4.2.9 calculate:
- the amount to be included as cost of inventory using
▪ unit cost
▪ FIFO
▪ weighted average cost
- the net realisable value of inventory
- carrying amounts for inventory
- the amounts to be written down
4.2.10 process accounting entries for:
- purchasing inventory
- selling inventory
- writing inventory down to net realisable value
- closing inventory.</td></tr>
</table>

<table>
<tr><td></td><td>written down to net realisable value
4.2.5 the recognition as an expense of:
- the carrying amounts of inventories which are sold
- the amounts of any write-down of inventories to net realisable value
4.2.6 the accounting entries for:
- purchasing inventory
- selling inventory
- writing inventory down to net realisable value
- closing inventory
4.2.7 how inventory is reflected in the financial statements
4.2.8 the disclosures required for inventory.</td><td></td></tr>
<tr><td>4.3</td><td colspan="2">IAS 10 Events after the reporting period</td></tr>
<tr><td></td><td>Learners need to understand:
4.3.1 the meaning of:
- events after the reporting period
- adjusting events
- non-adjusting events
- material non-adjusting events
4.3.2 the requirement to adjust financial statements for adjusting events
4.3.3 the prohibition of adjustments to financial statements for non-adjusting events
4.3.4 the prohibition of the recognition of dividends declared after the reporting period as a liability
4.3.5 the prohibition of preparing accounts on a going concern basis if there is an intention to liquidate or cease trading
4.3.6 the requirement to disclose:
- the date when financial statements are authorised for issue
- material non-adjusting events</td><td>Learners need to be able to:
4.3.7 Identify:
- events after the reporting period
- adjusting events
- non-adjusting events
- material non-adjusting events.</td></tr>
<tr><td>4.4</td><td colspan="2">IAS 37 Provisions, contingent liabilities and contingent assets</td></tr>
<tr><td></td><td>Learners need to understand:
4.4.1 the meaning of:
- a provision
- a liability</td><td>Learners need to be able to:
4.4.11 identify amounts to be included as provisions
4.4.12 process accounting entries for provisions.</td></tr>
</table>

	- an obligating event - a legal obligation - a constructive obligation - a contingent liability - a contingent asset - an onerous contract - restructuring 4.4.2 the recognition criteria for provisions 4.4.3 that provisions cannot be recognised for future operating losses 4.4.4 how a constructive obligation to restructure arises 4.4.5 the measurement of provisions using best estimate 4.4.6 that provisions may only be used for expenditures for which it was originally recognised 4.4.7 that contingent liabilities and contingent assets are not recognised 4.4.8 the accounting entries for: - creating provisions - using provisions when expenditure is incurred - increasing, decreasing or releasing provisions 4.4.9 how provisions are reflected in the financial statements 4.4.10 the disclosure requirements for: - provisions - contingent assets - contingent liabilities.	
4.5	**IFRS 16 Leases**	
	Learners need to understand: 4.5.1 the meaning of: - a lease - the lessor - the lessee - a right of use asset - the lease term - a short-term lease - a lease for which the underlying asset is of low value - the interest rate implicit in a lease	Learners need to be able to: 4.5.6 calculate: - lease liabilities - right of use assets - depreciation - finance charges 4.5.7 identify the amounts to be included in the lessee's financial statements.

	- the lessee's incremental borrowing rate 4.5.2 the initial measurement of: - lease liabilities - right-of-use assets 4.5.3 the subsequent measurement of: - lease liabilities ▪ payments in arrears ▪ payments in advance - right of use assets 4.5.4 the accounting entries made by the lessee 4.5.5 recognition exemptions.	
4.6	**IFRS 15 Revenue from contracts with customers**	
	Learners need to understand: 4.6.1 the meaning of: - a contract - a customer - income - revenue 4.6.2 the five step approach: - identifying the contract - identify performance obligations - determining the transaction price - allocating the transaction price to performance obligations - satisfaction of performance obligations 4.6.3 methods used to estimate variable consideration 4.6.4 that estimated variable consideration is only included in the transaction price if it is highly probable that there will be no reversal in cumulative revenue recognised 4.6.5 the allocation of discounts 4.6.6 how to determine whether performance obligations are satisfied: - over time - at a point in time 4.6.7 how revenue is recognised when performance obligations are satisfied: - over time - at a point in time.	Learners need to be able to: 4.6.8 calculate transaction prices 4.6.9 allocate transaction prices to performance obligations 4.6.10 calculate amounts to be recognised as revenue.

4.7	**IAS 12 Income taxes**	
	Learners need to understand: 4.7.1 that Corporation Tax is paid by companies on profit 4.7.2 that Corporation Tax is estimated at each year-end 4.7.3 that the amount eventually agreed with HMRC may be different to the estimate in the accounts 4.7.4 the accounting entries for: - the current period tax estimate - adjustments relating to prior periods: ▪ under provision ▪ over provision 4.7.5 how current period estimates or prior period tax adjustments are reflected in the financial statements.	Learners need to be able to: 4.7.6 calculate the amount of any prior period adjustment 4.7.7 process accounting entries for: - current period estimates - prior period adjustments.

5	**Prepare financial statements**
5.1	**IFRS 18 Presentation and Disclosure in Financial Statements**
	Learners need to understand: 5.1.1 that a complete set of financial statements consists of: (a) a statement of financial performance (b) a statement of financial position (c) a statement of changes in equity (d) a statement of cash flows (e) notes, and (f) comparative information for the preceding period. 5.1.2 the requirement to: - refer to the items (a) to (d) above and their comparative information as the *primary financial statements* - present information in the primary financial statements and disclose information in the notes - present or disclose only material information 5.1.3 the requirement to: - clearly identify the financial statements, distinguished from other information - clearly identify each financial statement and the notes - display prominently the name, reporting period, currency and level of rounding - complete a set of financial statements at least annually - maintain consistency in presentation and classification - provide comparative information for all amounts shown in the current financial statements

<table>
<tr><td></td><td colspan="2">
- classify and aggregate items based on shared characteristics
- disaggregate items that are not based on shared characteristics
- not offset assets and liabilities or income and expenses.
</td></tr>
<tr><td>5.2</td><td colspan="2">Draft statements of profit or loss and other comprehensive income using IFRS 18</td></tr>
<tr><td></td><td>Learners need to understand:
5.2.1 the information to be included in the statement of profit or loss and other comprehensive income
5.2.2 that expenses may be classified by their nature or by their function.
5.2.3 that the totals for each of the following items must also be disclosed in a single note when expenses are classified by function:
- depreciation
- amortisation
- impairment losses and reversals of impairment losses
- write-downs and reversals of write-downs of inventories.
</td><td>Learners need to be able to:
5.2.4 use the expenses classified by function method to prepare:
- statements of profit or loss and other comprehensive income
- extracts from statements of profit or loss and other comprehensive income.
</td></tr>
<tr><td>5.3</td><td colspan="2">Draft statements of financial position using IFRS 18</td></tr>
<tr><td></td><td>Learners need to understand:
5.3.1 the information to be included in the statement of financial position
5.3.2 how to classify:
- assets as current and non-current
- liabilities as current and non-current.
</td><td>Learners need to be able to:
5.3.3 prepare:
- statements of financial position
- extracts from statements of financial position.
</td></tr>
</table>

<table>
<tr><td rowspan="2">5.4</td><td colspan="2">Draft statements of changes in equity using IFRS 18</td></tr>
<tr><td>Learners need to understand:
5.4.1 the information to be included in statements of changes in equity.</td><td>Learners need to be able to:
5.4.2 prepare:
- statements of changes in equity
- extracts from statements of changes in equity.</td></tr>
<tr><td rowspan="2">5.5</td><td colspan="2">Draft statements of cash flows using IAS 7</td></tr>
<tr><td>Learners need to understand:
5.5.1 the benefits of cash flow information
5.5.2 the meaning of:
- cash
- cash equivalents
- cash flows
- operating activities
- investing activities
- financing activities
5.5.3 that cash flows should be classified as operating, investing and financing activities
5.5.4 that statements of cash flows may be prepared using the direct method or the indirect method
5.5.5 the information to be included in statements of cash flows prepared using the indirect method.</td><td>Learners need to be able to:
5.5.6 use the indirect method to prepare:
- statements of cash flows
- extracts from statements of cash flows.</td></tr>
<tr><td colspan="3">6 Interpret financial statements using ratio analysis</td></tr>
<tr><td rowspan="2">6.1</td><td colspan="2">Calculate ratios relating to profitability, liquidity, efficient use of resources and financial position</td></tr>
<tr><td colspan="2">Learners need to be able to:
6.1.1 calculate the following ratios:
- profitability:
▪ Return on capital employed (ROCE) = profit before financing and income taxes / capital employed x 100 (where capital employed = total equity + non-current liabilities)
▪ Return on equity = profit after income taxes / total equity x 100
▪ Gross profit margin = gross profit / revenue × 100
▪ Operating profit margin = operating profit /revenue x 100
▪ Expense / revenue percentage = specified expense / revenue × 100
- liquidity:
▪ Current ratio = current assets / current liabilities (Answer equals X:1)
▪ Quick ratio or ‘acid test’ ratio = (current assets – inventories) / current liabilities (Answer equals X:1)
- efficient use of resources:</td></tr>
</table>

<table>
<tr><td></td><td colspan="2">▪ Inventory turnover = cost of sales / inventories (Answer equals X times)
▪ Inventory holding period (days) = inventories / cost of sales × 365
▪ Trade receivables collection period (days) = trade receivables / revenue × 365
▪ Trade payables payment period (days) = trade payables / cost of sales × 365
▪ Working capital cycle (days) = Inventory holding period(days) + trade receivables collection period (days) - trade payables payment period (days)
▪ Asset turnover (net assets) = revenue / (total assets - current liabilities) (Answer equals X times)
▪ Asset turnover (non-current assets) = revenue / non-current assets (Answer equals X times)
- financial position:
▪ Interest cover = profit before financing and income taxes / interest expense (Answer equals X times)
▪ Gearing = total debt / (total debt + total equity) × 100 (where total debt is all non-current liabilities only).</td></tr>
<tr><td>6.2</td><td colspan="2">Interpret and analyse ratios</td></tr>
<tr><td></td><td>Learners need to understand:
6.2.1 the meaning of each ratio
6.2.2 whether a ratio is better or worse as compared to a comparative ratio
6.2.3 the meaning of the changes in ratios
6.2.4 the factors that influence ratios and how they interrelate.
6.2.5 the actions that could be taken to improve the ratios and the impact that these could have
6.2.6 the limitations of ratio analysis.</td><td>Learners need to be able to:
6.2.7 identify reasons for changes in ratios
6.2.8 identify consequences of changes in ratios
6.2.9 identify how to improve ratios.</td></tr>
</table>

Delivering this unit

Students are encouraged to attempt the practice assessments to familiarise themselves with the pro forma statements and the formats of the workings. Tutors could create several variations of practice questions to incorporate a range of adjustments.

In relation to the study of the reporting frameworks and accounting standards, tutors could ask students to write out the key definitions and accounting treatments as bullet points on cards to form a concise set of notes, which could then be used as a quick reference guide. Students could also give presentations on accounting standards, either individually or as part of a group, and be questioned on these by their peers in order to assess their level of understanding.

Tutors could present students with real-life scenarios and facilitate group discussions on how to apply the appropriate accounting standard, or they could require students to prepare a written response that could then be marked, or peer-reviewed by other students. Students who are in employment could also research the accounting treatments used by clients or by the company they are working for and discuss these with other members of the accounting team.

For the analysis and interpretation of financial statements, students could be asked to work in groups or participate in a tutor-led discussion to consider the meaning of each ratio (profitability, liquidity, use of resources and financial position), whether a particular ratio trend is better or worse, and potential causes of ratio movements.

Students could give presentations on the overall performance of a company or certain aspects of this based on case studies. Tutors could encourage students to analyse and interpret financial statements from their own financial environment or industry and discuss their findings with their employer. Students may also find it beneficial to appraise the performance of real-life companies, with PLCs' financial statements readily available on the internet.

Test specification for Financial Accounting unit assessment

Assessment method	Marking type	Duration of assessment
Computer based assessment	Wholly computer marked	2 hours 30 minutes

Learning outcomes	Weighting
1. Understand the reporting frameworks that underpin financial reporting	5%
2. Understand the accounting process	10%
3. Understand accounting standards for non-current assets	15%
4. Understand other accounting standards	20%
5. Prepare financial statements	30%
6. Interpret financial statements using ratio analysis	20%
Total	**100%**

Management Accounting

Unit level	GLH value	Credit value	Unit reference number	Assessment
4	110	22	H/651/4653	Unit assessment

Introduction

The role of the management accountant is becoming ever more central to the success of an organisation. Delivering relevant and business focused information to support the operational activities of the organisation is vital so that it can meet its objectives. This unit encompasses the key areas of planning, control, decision making and liquidity management.

This unit will allow students to understand how the budgetary process is undertaken. Students will be able to construct budgets and then identify and report both on areas of success and on areas that should be of concern to key stakeholders. Students will also gain the skills required to critically evaluate organisational performance.

Students will be equipped with the knowledge and skills across a range of areas that will help to enhance the control environment of the organisation. Appreciating the range of methods available and understanding how and when it is appropriate to use each of them, will allow them to advise a business in a range of situations.

Students will also gain an appreciation of the methods used to deal with the issues surrounding both short-term and long-term decision making. Understanding the techniques available for both forms of decision making and the fundamental differences between them is key to providing the organisation with appropriate information on which to make decisions.

The success of any organisation is not just reliant on its profitability but also on the effective management of its cashflow. This unit provides students with the skills to both monitor and manage liquidity.

Learning outcomes

1. Understand and implement the organisational planning process
2. Use cost and management accounting techniques to aid control
3. Use techniques to aid short-term and long-term decision making
4. Understand and manage organisational liquidity

Glossary of terms

A

Absorption costing: A costing method that includes all costs (both fixed and variable) in the cost of a product.

Accounting Rate of Return (ARR): An investment appraisal method that measures the average annual accounting profit from a project as a percentage of the initial or average investment.

Activity-based costing: A costing method that assigns overhead costs to products based on the activities required to produce them.

B

Bank (and other) loans: Borrowed sums of money that are expected to be paid back with interest over a specified period.

Bank deposit accounts: Bank accounts that earn interest on the funds held in the account.

Bank overdraft: A facility allowing a bank account holder to withdraw more money than is available in their account, up to an agreed limit, often with interest charged on the overdrawn amount.

Bonds: Debt securities issued by Governments or companies to raise capital, with a promise to repay the principal along with interest on specified dates.

Budget committee: A group of individuals responsible for creating, reviewing, and approving the budget for an organisation. This committee typically includes senior management and department heads.

Budget cycle: The recurring process of planning, preparing, approving, implementing, and reviewing budgets.

Budget flexing: The process of adjusting a budget to match actual activity levels, to allow fairer comparison between actual and budgeted performance.

Budget methods: Budgets may be prepared in the following ways:

(a) **Incremental:** This method involves taking the previous year's budget and adding a certain percentage to account for inflation or growth.

(b) **Zero-based:** This method starts each budget from scratch, with every expense requiring justification.

(c) **Rolling:** This method continuously updates the budget by adding a new period as the current period ends.

Budget revision: An adjustment to an existing budget when assumptions or conditions change. It ensures the budget reflects updated information.

C

Capital cost: Expenditure on the purchase or improvement of non-current assets.

Contribution: The amount remaining from sales revenue after deducting variable costs, contributing towards covering fixed costs and generating profit. The calculation is Sales - Variable Costs.

Cost gap: The difference between the current estimated production cost of a product and its target production cost.

D

Direct cost: Costs that can be directly attributed to the production of one product.

Directors' loans: Loans from the directors of a company that are used to help finance the business.

Discounted cash flows: A valuation method that estimates the present value of future cash flows by applying a discount rate. It is used to determine how much future cash flows are worth today.

E

Economies of scale: The cost advantages that an organisation obtains due to increased levels of production, for example due to bulk discounts and operational efficiencies.

Exchange rates: The value of one currency in terms of another currency. For example, how many Euros could be purchased for one GB Pound.

F

Fixed cost: Costs that remain the same in total, regardless of how many units of a product are produced.

G

Gearing: The ratio of a company's debt to its equity.

H

No terms.

I

Indirect cost: Costs that cannot be directly attributed to the production of one product. Alternative term: Overheads.

Inflation: The percentage rise in prices over time.

Interest charges: The cost of borrowing money, usually calculated as a percentage of the principal amount borrowed.

Internal Rate of Return (IRR): The discount rate at which NPV = 0. It represents the expected rate of return of a project.

(a) If IRR > required return, accept the project.

(b) If IRR < required return, reject it.

Irrecoverable debts: Debts that are unlikely to be collected.

J, K

No terms.

L

Learning effect: The improvement in performance and efficiency that occurs as a result of practice and experience.

Life cycle costing: A costing method that takes into account all of the costs of a product over its entire lifetime.

Limiting factor (constraint): Any condition or resource that restricts an organisation's ability to achieve its objectives.

Liquid assets: Cash and assets that can quickly be converted into cash.

Liquidity: The ability of an organisation to pay its debts as they fall due.

M

Mechanisation: The use of machinery to perform tasks that were previously done manually, often leading to increased efficiency and productivity.

Mortgage: A loan secured against property.

Moving average: A technique that smooths fluctuations in time-series data by averaging values over a specified number of periods. It helps reveal underlying trends.

N

Net Present Value (NPV): The present value of cash inflows minus the present value of cash outflows. It tells you whether a project creates value:

(a) Positive NPV = the investment increases wealth

(b) Negative NPV = the investment reduces wealth

Non-liquid assets: Assets that cannot be quickly converted into cash.

O

Opportunity costs: The potential profits that are foregone by choosing one alternative over another.

Optimum production plan: A strategic plan that aims to maximise contribution by determining the best combination of products to produce.

Overcapitalisation: This occurs when a business has more capital than it needs for its operations. This is an inefficient use of its funds which can damage profits.

Overtrading: This occurs when a business expands its operations beyond its available working capital. This can lead to cash flow problems, as it may not have enough funds to support its increased level of activity.

P

Participatory alternatives to budgeting: Budgeting approaches differ based on the level of involvement of the staff members responsible for delivering the budget during its preparation.

(a) **Top-down approach:** The budget is produced by the top levels of management with little involvement from lower levels of staff.

(b) **Bottom-up approach:** The budget is produced by lower levels of staff before being approved by management.

Payback period: The length of time it takes for an investment's cumulative cash inflows to recover the initial investment, without considering the time value of money.

Portfolio effect: The impact of diversification on the risk and return of an investment portfolio. By holding a variety of assets, investors can reduce the overall risk of their portfolio.

Principal budget factor: The main factor that restricts an organisation's ability to achieve higher levels of performance or profitability. This is the initial item around which the budget is constructed.

Profit distributions: Withdrawal of an organisation's profits by its owners, such as dividends or drawings.

Prompt payment discounts (PPD): A discount offered to customers for paying invoices within an agreed shorter time period than the standard payment terms.

Property (investment): Land and/or buildings owned primarily to earn income or gain value over time.

Q

No terms.

R

Relevant costing:

(a) A decision-making technique that focuses on the future incremental cashflows that will arise from the decision.

(b) A relevant cost is a future, incremental cost that will only be incurred as a result of the decision.

(c) A relevant revenue is a future, incremental income that will only be earned as a result of the decision.

Return on investment: The profit generated from an investment expressed as a percentage of the initial cost of the investment.

Revenue cost: All other expenditure incurred by a business that is not capital expenditure.

S

Scarce resource: Resources that are limited in availability.

Seasonal variation: Regular fluctuations around the trend that occur over a period of a year or less.

Semi-variable cost: Costs that contain a fixed element and a variable element.

Shares: Units of ownership in a company paid for by the shareholders.

Simple regression equation: A statistical formula that models the relationship between one dependent variable and one independent variable. It is often written as $y = a + bx$.

Standard cost card: A document showing the expected cost of producing one unit of product.

Standard costing: A costing method that uses predetermined costs for materials, labour, and overheads. These standard costs are compared to actual costs to analyse variances.

Standards: Standard costs are the costs per unit that are used when preparing the budget. There are four types of standards that may be used:

(1) **Basic standard:** this is based on historic data which may well be out of date but allows for comparisons over a long period of time.

(2) **Current standard:** this reflects the level that can be expected under current operating conditions.

(3) **Target standard:** this represents the level that the organisation wants to achieve.

(4) **Ideal standard:** this represents the perfect level of performance under ideal conditions. It assumes no inefficiencies, waste, or downtime.

Stepped cost: Costs that remain fixed within a certain level of activity but increase by a fixed amount once a level of activity is crossed.

T

Target cost: The maximum production cost that a product can incur to achieve a desired profit at a market-driven selling price.

Target costing: A pricing strategy where the selling price is determined by market conditions, and the desired profit margin is subtracted to arrive at the target cost.

Time lags: The difference in timing between a sale or purchase and its cash inflow or outflow.

Time series: A sequence of data points measured at regular time intervals, used to identify patterns such as trends or seasonal variations.

Time value of money: The idea that money today is worth more than the same amount of money in the future. This happens for two key reasons:

(1) Money today can be invested to make it grow.

(2) Money buys less in the future because prices tend to rise over time.

Total cost of financing: The total cost of borrowing money, including any arrangement fees, interest charges and the repayment of the principal amount borrowed.

Trend: The long-term direction in which data points are moving over time. It shows whether values are increasing, decreasing, or remaining stable.

Types of budget: The following are different types of budget that may be prepared:

(a) **Fixed budget:** a budget that remains unchanged regardless of changes in the volume of units produced.

(b) **Flexed budget:** a budget that is adjusted based on the actual volume of units produced.

(c) **Cash budget:** a budget that estimates cash inflows and outflows over a specified period.

U

No terms.

V

Value analysis: A systematic review of existing products or services that focuses on whether the desired quality could be achieved at a lower cost.

Variable cost: Costs that increase in proportion to the number of units produced.

Variance: The difference between actual performance and budgeted performance. For example, sales price variance is the difference between the actual selling price and the budgeted selling price of goods sold. Variances can be:

(a) **Adverse:** where actual costs are higher than budgeted costs or actual sales are lower than budgeted sales, resulting in a negative impact on profit.

(b) **Favourable**: where actual costs are lower than budgeted costs or actual sales are higher than budgeted sales, resulting in a positive impact on profit.

W

Working capital: The period of time between paying suppliers for the purchase of inventory and receiving money from customers for the sale of the items.

X

No terms.

Y

Yield: The income generated from an investment expressed as a percentage of the investment's current market value.

Z

No terms.

Scope of content

This section illustrates the depth and breadth of content to be delivered for this unit. All areas indicated in the table below must be covered in teaching.

Learners may not be assessed on all content, or on the full depth or breadth of a piece of content. Content assessed may change over time to ensure validity of assessment.

<table>
<tr><th colspan="3">1. Understand and implement the organisational planning process</th></tr>
<tr><td rowspan="2">1.1</td><td colspan="2">The budgetary process</td></tr>
<tr><td colspan="2">Learners need to understand:
1.1.1 purposes of a budget
1.1.2 the budget cycle
1.1.3 sources of data for budgeting
1.1.4 the role of the budget committee
1.1.5 the participatory alternatives:
- top-down
- bottom up.</td></tr>
<tr><td rowspan="2">1.2</td><td colspan="2">Types of budgets and recommendations for their use</td></tr>
<tr><td>Learners need to understand:
1.2.1 types of budget:
- fixed
- flexed
- cash
1.2.2 the features of the following budget methods:
- incremental
- zero-based
- rolling
1.2.3 the comparative advantages of each budget method
1.2.4 the circumstances in which each budget method should be recommended.</td><td>Learners need to be able to:
1.2.5 prepare operating budgets incorporating the following costs and revenue:
- direct
- indirect
- fixed
- variable
- semi-variable
- stepped
- capital
- revenue
1.2.6 prepare production budgets incorporating the following schedules:
- production plan:
▪ inventory
▪ sales
- material usage
- material purchases
- labour costs
- labour hours
- plant utilisation
1.2.7 prepare cash flow forecasts/budgets allowing for:
- time lags</td></tr>
</table>

		- changes in receivables - changes in payables - changes in inventory. - prompt payment discounts - irrecoverable debts - exchange rate movements - taxation - non-current assets - loans - profit distributions - inflation.
1.3	**Forecasting techniques**	
	Learners need to understand: 1.3.1 the elements of a time series 1.3.2 the simple regression equation.	Learners need to be able to: 1.3.3 use moving averages to calculate the seasonal variations and trend from a time series 1.3.4 use the simple regression equation to calculate total cost 1.3.5 calculate forecasts of future performance based on historical data.
1.4	**Budgeting where resource constraints exist**	
	Learners need to understand: 1.4.1 the principal budget factor 1.4.2 the concept of scarce resources 1.4.3 the concept of contribution 1.4.4 when contribution should be used as part of the decision-making criteria.	Learners need to be able to: 1.4.5 identify budget limiting factors: - market share - access to finance - shortage of production resources - plant capacity - factory space 1.4.6 calculate the maximum level of production where a constraint exists 1.4.7 calculate the contribution per unit of a scarce resource 1.4.8 calculate the optimum production plan where there is one scarce resource 1.4.9 calculate total profit or contribution based on the optimum production plan.

1.5	Impact of internal and external factors	
	Learners need to understand: 1.5.1 the key planning assumptions used in the budget 1.5.2 the potential threats to budget achievement - market trends - competition - external events 1.5.3 when a budget revision is appropriate.	Learners need to be able to: 1.5.4 advise on the reliability of forecasts 1.5.5 calculate the impact of changes to planning assumptions 1.5.6 recalculate budgets accordingly.

2. Use cost and management accounting techniques to aid control		
2.1	Flexed budgets	
	Learners need to understand: 2.1.1 the purpose of budget flexing as part of the control process 2.1.2 the limitations of budget flexing.	Learners need to be able to: 2.1.3 flex budgets, adjusting each element of the budget according to the original budget assumptions about revenue and cost behaviour 2.1.4 provide potential reasons for variances (either calculated or given).
2.2	Standard costing	
	Learners need to understand: 2.2.1 different types of standards: - basic - current - target - ideal 2.2.2 the purpose of standard cost cards 2.2.3 why variances occur 2.2.4 courses of action to be taken to address divergences from standard 2.2.5 the interaction of variances 2.2.6 how different types of standards can impact the level of the variance 2.2.7 how the use of standard costing can complement budgetary control.	Learners need to be able to: 2.2.8 calculate the value of items to be included in standard cost cards 2.2.9 calculate variances for revenue and costs: - sales price - sales volume - total material variance - material price - material usage - total labour variance - labour rate - labour efficiency - labour idle time - total variable overhead variance - variable overhead price - variable overhead efficiency - total fixed overhead variance - fixed overhead expenditure - fixed overhead volume

		2.2.10 provide potential reasons for variances.
2.3	**Activity-based costing**	
	Learners need to understand: 2.3.1 the circumstances where activity-based costing would be most appropriate 2.3.2 the benefits of activity-based costing over traditional absorption costing 2.3.3 issues surrounding the introduction of activity-based costing 2.3.4 the potential implications for unit selling prices and profitability where activity-based costing leads to a different unit cost.	Learners need to be able to: 2.3.5 calculate product costs using activity-based costing 2.3.6 calculate product costs using traditional absorption costing 2.3.7 compare product costs under activity-based costing to those under traditional absorption costing.
2.4	**Target costing**	
	Learners need to understand: 2.4.1 principles underpinning target costing 2.4.2 the concept of value analysis 2.4.3 actions to take to reduce cost gaps.	Learners need to be able to: 2.4.4 calculate: - target costs - a cost gap.
2.5	**Life cycle costing**	
	Learners need to understand: 2.5.1 principles underpinning life cycle costing 2.5.2 how the use of life cycle costing can benefit an organisation 2.5.3 the concepts of: - economies of scale - mechanisation - the learning effect.	Learners need to be able to: 2.5.4 identify the components of the life cycle cost of a product 2.5.5 calculate the discounted and non-discounted life cycle cost of a product 2.5.6 interpret the results of calculations of life cycle costs.

3. Use techniques to aid short-term and long-term decision making		
3.1	**Comparison of short-term and long-term decisions**	
	Learners need to understand: 3.1.1 the fundamental differences between short-term and long-term decision making: - time frame - capital investment - risk.	
3.2	**Relevant costing**	
	Learners need to understand: 3.2.1 how to identify relevant costs 3.2.2 the concept of opportunity costs 3.2.3 factors to be considered when a business decides to: - make or buy products - supply or buy-in services - continue or discontinue products - continue or discontinue services.	Learners need to be able to: 3.2.4 calculate relevant: - costs - revenues.
3.3	**Discount cash flows**	
	Learners need to understand: 3.3.1 the concept of the time value of money 3.3.2 the benefits of discounted cash flows over non-discounted cash flows.	Learners need to be able to: 3.3.3 calculate discounted cash flows.
3.4	**Appraisal methods for long-term decisions**	
	Learners need to understand: 3.4.1 long term investment appraisal methods: - Net Present Value (NPV) - Internal Rate of Return (IRR) - Accounting Rate of Return (ARR) - payback period: ▪ non discounted ▪ discounted 3.4.2 strengths and weaknesses of each method.	Learners need to be able to: 3.4.3 calculate net present values 3.4.4 use the IRR formula 3.4.5 calculate the ARR of projects 3.4.6 calculate the payback period of projects 3.4.7 compare NPV, IRR, ARR and payback period to support decision making.

<table>
<tr><th colspan="3">4. Understand and manage organisational liquidity</th></tr>
<tr><td>4.1</td><td colspan="2">Liquidity fundamentals</td></tr>
<tr><td></td><td colspan="2">Learners need to understand:
4.1.1 the importance of cash budgeting in the management of liquidity
4.1.2 strengths and weakness of cash budgets as a monitoring tool for organisations
4.1.3 the importance of ensuring organisations can meet their financial obligations
4.1.4 impacts of not meeting financial obligations
4.1.5 signs of:
- overtrading
- overcapitalisation
4.1.6 the difference between liquid and non-liquid assets.</td></tr>
<tr><td>4.2</td><td colspan="2">Working capital management</td></tr>
<tr><td></td><td>Learners need to understand:
4.2.1 the working capital cycle.</td><td>Learners need to be able to:
4.2.2 calculate:
- trade receivables (collection period) days = trade receivables/revenue x 365
- trade payables (payment period) days = trade payables/cost of sales x 365
- inventory (holding period) days = inventories/cost of sales x 365
- working capital cycle (days) = inventory days + trade receivable days - trade payable days.</td></tr>
<tr><td>4.3</td><td colspan="2">Financing options</td></tr>
<tr><td></td><td>Learners need to understand:
4.3.1 the financing options available:
- bank loans
- bank overdrafts
- directors’ loans
- mortgages
- shares
4.3.2 the advantages and disadvantages of each alternative financing option
4.3.3 the typical terms and conditions of financing options
4.3.4 the impact on gearing and liquidity of financing options.</td><td>Learners need to be able to:
4.3.5 calculate interest charges
4.3.6 calculate the total cost of financing
4.3.7 identify the most appropriate financing option.</td></tr>
</table>

4.4	**Investment options**	
	Learners need to understand: 4.4.1 the investment options available: - bank deposit accounts - bonds - property - shares 4.4.2 the advantages and disadvantages of each investment option 4.4.3 the typical terms and conditions of investment options 4.4.4 the relationship between risk, reward and liquidity 4.4.5 the portfolio effect of diversifying investments.	Learners need to be able to: 4.4.6 calculate the return on investment 4.4.7 calculate the yield 4.4.8 identify the most appropriate investment option.

Delivering this unit

To deliver this unit effectively, tutors need to encourage students to appreciate the role that the management accounting function now plays in working in partnership with operational teams within an organisation to drive business improvement. Students need to appreciate that the systems and techniques they are learning have direct application to business performance.

Tutors are encouraged to deliver the unit in the order that the learning outcomes are listed within the specification. Tutors will then be able to build up students' knowledge in a manner that has a logical flow, which should in turn lead to improved understanding and engagement.

Each of the learning outcomes could be delivered through scenarios that have been specifically written to highlight how the techniques aid improved performance but also challenge the systems. For example, a scenario on activity-based costing (ABC) that covered three products showing a significantly higher cost, a significantly lower cost and one relatively unchanged cost would allow a group discussion on the relative merits and demerits of ABC.

Test specification for Management Accounting unit assessment

Assessment method	Marking type	Duration of assessment
Computer based assessment	Wholly computer marked	2 hours

Learning outcomes		Weighting
1	Understand and implement the organisational planning process	25%
2	Use cost and management accounting techniques to aid control	35%
3	Use techniques to aid short-term and long-term decision making	20%
4	Understand and manage organisational liquidity	20%
Total		**100%**

Audit and Internal Controls

Unit level	GLH value	Credit value	Unit reference number	Assessment
4	75	15	J/651/4654	Unit assessment

Introduction

This unit teaches students about the role and importance of internal controls within an organisation. Students will explore the purpose and components of internal controls and understand how they impact organisations. All organisations must guard against fraud through good internal control systems. A key aim of this unit is to provide students with the tools to identify fraud risks and assess how internal controls can be used to mitigate those risks.

Students will cover the concepts and principles of audit and assurance, gaining a clear understanding of the regulatory environment and the role of corporate governance. The unit distinguishes between internal and external audits and explains the broader context within which audits are conducted and the standards that guide these processes.

The unit will provide students with an awareness of the audit process from planning and risk assessment to the final completion and production of the audit report. Understanding the audit risk model and the concept of materiality will enable students to contribute effectively to the planning of audits.

Students will understand how internal controls influence audit approaches and learn to evaluate and test these controls effectively. This includes determining when to use a combination of tests of controls and substantive procedures, or substantive procedures alone, ensuring that audits are thorough and reliable.

Furthermore, the unit explores various audit assertions and procedures, sampling techniques, and methods for obtaining sufficient and appropriate audit evidence. Students will be able to identify suitable audit procedures and understand the reliability and relevance of different sources of audit evidence, including digital techniques.

Finally, the unit focuses on reviewing and reporting audit findings. Students will learn to assess audit findings, identify deficiencies in internal controls, and report these findings to management and audit committees.

Students will require an understanding of Financial Accounting, as this knowledge will be used during the practical application of audit techniques.

Learning outcomes

1. Understand the role of internal controls within an organisation
2. Understand the audit and assurance framework
3. Understand the planning and risk assessment process for audit engagements
4. Evaluate internal control systems as part of the audit process
5. Understand procedures for obtaining sufficient and appropriate evidence
6. Review and report findings

Glossary of terms

A

Analytical procedures: Evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. These procedures involve investigating relationships that are inconsistent with other relevant information or that differ significantly from expected values.

Appropriateness (of audit evidence): The measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.

Assertions about balances: Assertions are used by the auditor to consider the different types of potential misstatements that may occur. The following assertions are relevant to balances in the financial statements:

(a) **Existence**: assets, liabilities and equity interests exist.

(b) **Rights and obligations**: the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.

(c) **Completeness:** all assets, liabilities and equity interests that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.

(d) **Accuracy, valuation and allocation**: assets, liabilities and equity interests have been included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments have been appropriately recorded, and related disclosures have been appropriately measured and described.

(e) **Classification**: assets, liabilities and equity interests have been recorded in the proper accounts.

(f) **Presentation**: assets, liabilities and equity interests are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.

Assertions about transactions: Assertions are used by the auditor to consider the different types of potential misstatements that may occur. The following assertions are relevant to transactions in the financial statements:

(a) **Occurrence:** transactions and events that have been recorded or disclosed have occurred, and such transactions and events pertain to the entity.

(b) **Completeness:** all transactions and events that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.

(c) **Accuracy:** amounts and other data relating to recorded transactions and events have been recorded appropriately, and related disclosures have been appropriately measured and described.

(d) **Cut-off:** transactions and events have been recorded in the correct accounting period.

(e) **Classification:** transactions and events have been recorded in the proper accounts.

(f) **Presentation:** transactions and events are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.

Assurance: An assurance engagement always consists of these five elements:

(1) Three party relationship between the responsible party, the intended user and the practitioner.

(2) Subject matter being examined.

(3) Suitable criteria to examine it against.

(4) Sufficient appropriate evidence.

(5) Written assurance report giving an opinion on the subject matter.

Audit: An official examination of an entity's financial statements by an independent auditor.

Audit committee: A sub-committee of the board of directors responsible for overseeing the financial reporting process, the audit process, and the entity's internal controls.

Audit evidence: Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based.

Audit report: A report issued by an auditor after examining an entity's financial statements. The report provides the auditor's opinion on whether the financial statements present a true and fair view of the entity's financial position and performance in accordance with the applicable financial reporting framework.

Audit risk: The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of inherent risk, control risk and detection risk.

Auditor: The person, persons or firm conducting the audit, usually consisting of the engagement partner or other members of the engagement team.

Auditor liability: The legal liability that auditors owe to the entity being audited and other parties that may rely on the financial statements of the audited entity.

B

No terms.

C

Comply or explain principle: A principle where companies must either comply with Corporate Governance principles or explain why they do not.

Components of internal control: The system designed, implemented and maintained by those charged with governance, management and other personnel, to provide reasonable assurance about the achievement of an entity's objectives. This is made up of five components:

(1) **Control environment:** the governance and management functions and the attitudes, awareness, and actions of those charged with governance and management concerning the entity's system of internal control, and its importance in the entity.

(2) **The entity's risk assessment process:** their process for identifying and analysing risks to achieving the entity's objectives.

(3) **The entity's process to monitor the systems of internal control:** a continual process to evaluate the effectiveness of the entity's system of internal control, and to take necessary remedial actions on a timely basis.

(4) **The information system and communication:** activities, policies, and accounting and supporting records, designed to record transactions, capture relevant information and resolve incorrect postings.

(5) **Control activities:** policies, procedures, and mechanisms that management implements to ensure that the entity's objectives are achieved and risks are mitigated.

Control objectives: The aim or purpose of a particular aspect of controls. Control objectives relate to risks that controls seek to mitigate.

Control procedure: The specific actions taken or procedures implemented to mitigate risks and achieve control objectives.

Control risk: The risk that a misstatement that could occur in an assertion about a class of transactions, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's controls.

Corporate governance: The system of rules, practices, and processes by which an entity is directed and controlled. It involves balancing the interests of an entity's many stakeholders.

D

Deficiencies in internal control: This exists when:

(a) a control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis, or

(b) a control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.

Detection risk: The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

Digital techniques: The use of computer-based applications and methodologies to perform audit tasks. For example:

(a) **Test data:** a set of dummy transactions that auditors use to evaluate the effectiveness of controls within an application program.

(b) **Integrated test facilities:** creating a dummy entity within a database to process test transactions alongside live data in a real-time environment without disrupting normal operations.

(c) **Audit software:** tools that the auditor may use to carry out substantive testing and/or tests of controls.

(d) **Data analytic tools:** the extraction of data from very large databases (data mining), and the application of analytical tools to this raw data to identify trends, or other relationships between the data.

E

Expectation gap: The difference between what the public expects from the auditing profession and the level of assurance that the auditing profession actually provides.

External auditor: An independent professional or firm hired by an entity to examine its financial statements and provide an opinion on whether they present a true and fair view.

F

Faithful representation: The concept that financial statements should accurately reflect the condition of an entity, including being complete, neutral and free from error.

Financial statements: Formal records of the financial performance and position of an entity. Alternative term: Final accounts, Year end accounts.

Fraud: The intentional act of deceiving or misrepresenting information to gain an unfair or unlawful advantage. Fraud typically involves one or both of the following:

(a) **Fraudulent financial reporting:** presenting a false picture of a company's performance or position.

(b) **Misappropriation of assets:** stealing or misusing company assets, such as cash, inventory, or equipment.

G, H

No terms.

I

Independence: Free from external influences or biases that could affect an auditor's impartiality.

Inherent risk: The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

Internal auditor: An employee, or an independent audit firm commissioned by the entity, who performs independent and objective evaluations of the entity's internal controls, risk management, and governance processes.

J, K

No terms.

L

Limited assurance: A lower level of assurance compared to reasonable assurance.

M

Management: The person or persons with executive responsibility for the conduct of the entity’s operations.

Materiality: Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality thresholds: Industry guidelines that are used to calculate materiality, often based on a percentage of revenue, profit or assets.

Misstatement: A difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

N

Negative assurance: A negatively worded statement that nothing has come to the auditor's attention to indicate that the subject matter is not presented fairly.

Negligence: The failure of an auditor to exercise the level of care and skill that a reasonably competent auditor would exercise under similar circumstances.

Non-sampling risk: The risk that the auditor reaches an incorrect conclusion for any reason not related to sampling risk.

Non-statistical sampling: Any other approach to sampling that does not have the characteristics of statistical sampling.

O

No terms.

P

Performance materiality: An amount set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Pervasive: Pervasive effects on the financial statements are those that, in the auditor's judgment:

(a) are not confined to specific elements, accounts or items of the financial statements;

(b) if so confined, represent or could represent a substantial proportion of the financial statements; or

(c) in relation to disclosures, are fundamental to users' understanding of the financial statements.

Positive assurance: A positively worded statement that the subject matter being examined is presented fairly in all material respects in accordance with the suitable criteria.

Presents fairly: Information is shown truthfully, accurately, and without misleading bias, so a reasonable person can rely on it to understand the situation being described.

Professional indemnity insurance: Insurance that protects professionals, such as auditors, against claims of negligence.

Professional judgement: The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.

Professional scepticism: An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

Q

No terms.

R

Reasonable assurance: A high level of assurance, but not an absolute one.

Related party: A person (or a close family member) or entity who has control or joint control of the reporting entity, has significant influence over the reporting entity; or is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

Related party transactions: Transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Remote auditing: An audit approach in which some or all audit activities are performed off-site using digital technologies, rather than through the auditor's physical presence at the client's location.

S

Sampling methods: Methods used to select a sample for testing:

(a) **Stratification**: Dividing the population into subgroups and sampling within each subgroup.

(b) **Value-weighted selection:** A statistical sampling method where the probability of selecting an item is proportional to its monetary value.

(c) **Random selection:** Selecting items using random number generators or tables.

(d) **Systematic selection:** Selecting items using a fixed interval from a randomly selected starting point.

(e) **Monetary unit sampling:** A type of value-weighted selection in which each individual monetary unit (e.g. each pound) in a population is considered a sampling unit.

(f) **Haphazard selection:** Selecting items without any systematic method.

(g) **Block selection:** Selecting consecutive items in a block.

Sampling risk: The risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure.

Statistical sampling: An approach to sampling that has the following characteristics:

(a) random selection of the sample items; and

(b) the use of probability theory to evaluate sample results, including measurement of sampling risk.

Substantive procedures: Audit procedures designed to detect material misstatements at the assertion level.

Sufficiency (of audit evidence): The measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence.

T

Tests of control: Audit procedures designed to obtain sufficient appropriate audit evidence as to the operating effectiveness of an entity's internal controls.

Those charged with governance: The person or persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.

True and fair view: The financial statements accurately reflect the entity's financial position, performance, and cash flows, and are free from material misstatements.

(a) **True:** The financial information is accurate and based on reliable data.

(b) **Fair:** The financial information is presented impartially and without bias. It provides a balanced view that is not misleading to users of the financial statements.

Types of internal control: The types of procedures implemented in the accounting function. These include:

(a) **Authorisation and approval:** Authorisation typically takes the form of an approval by a higher level of management to verify that a transaction is valid.

(b) **General IT controls:** Foundational technology-related controls that support the reliability and integrity of IT systems and data.

(c) **Information processing controls:** Checking that data has been processed accurately.

(d) **Organisational controls:** Controls related to the structure of the organisation, ensuring that there are clear lines of authority and responsibility.

(e) **Personnel controls:** Hiring qualified and trustworthy employees, providing them with adequate training, and ensuring they understand their roles and responsibilities, and following disciplinary procedures where necessary.

(f) **Physical or logical controls:** Controls that involve securing physical assets and IT systems to prevent theft, damage, loss, or unauthorised access.

(g) **Reconciliations:** Controls that compare two sets of data to ensure they are complete, accurate, and consistent. When differences arise, they must be investigated and resolved.

(h) **Segregation of duties:** Dividing responsibilities among different individuals to reduce the risk of error or fraud.

(i) **Supervision:** Overseeing the activities of employees to ensure that they are performing their duties correctly and in compliance with policies and procedures.

(j) **Verifications:** Controls that check the accuracy, authenticity, or validity of transactions by reviewing supporting documents.

U

No terms.

V

Verification techniques: Techniques used by the auditor to gather evidence. These include:

(a) **Inspection:** examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset.

(b) **Observation:** looking at a process or procedure being performed by others.

(c) **External confirmation:** evidence obtained by the auditor as a direct written response to the auditor from a third party.

(d) **Recalculation:** checking the mathematical accuracy of documents or records, either manually or electronically.

(e) **Reperformance:** the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.

(f) **Analytical procedures:** evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.

(g) **Enquiry:** seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity. These may be formal written enquiries or informal oral enquiries.

W, X, Y, Z

No terms.

Scope of content

This section illustrates the depth and breadth of content to be delivered for this unit. All areas indicated in the table below must be covered in teaching.

Learners may not be assessed on all content, or on the full depth or breadth of a piece of content. Content assessed may change over time to ensure validity of assessment.

1.	Understand the role of internal controls within an organisation
1.1	**Internal controls and their impact on the organisation**
	Learners need to understand: 1.1.1 the purpose of internal controls: - facilitate operations - safeguard assets - prevent and detect fraud - ensure quality of internal and external reporting - compliance with laws and regulations 1.1.2 the components of internal control: - the control environment - the entity's risk assessment process - the entity's process to monitor the system of internal control - the information system and communication - control activities 1.1.3 the types of internal controls used in different parts of the accounting function: - authorisation and approval - general IT controls - information processing controls - organisational - personnel - physical or logical controls - reconciliations - segregation of duties - supervision - verifications 1.1.4 the limitations of internal controls 1.1.5 how different types of internal controls suit different types of organisations: - size (small and medium, large) - nature (cash-based, credit-based, online).
1.2	**Control objectives, risks and procedures**
	Learners need to understand: 1.2.1 control objectives for accounting systems: - sales - purchases

<table>
<tr><td></td><td colspan="2">

- payroll
- inventory
- non-current assets
- bank and cash

1.2.2 risks within accounting systems
1.2.3 control procedures for accounting systems.
</td></tr>
<tr><td>1.3</td><td colspan="2">Managing fraud risk</td></tr>
<tr><td></td><td>

Learners need to understand:

1.3.1 the common types of fraud within a business:
- fraudulent financial reporting
- misappropriation of assets

1.3.2 the fraud risk assessment process:
- identify the risk
- evaluate the risk
- respond to the risk
  - manage
  - mitigate
- ensure legal and regulatory compliance
- monitor, review and report

1.3.3 implications for an organisation if fraud occurs:
- financial
- non-financial.
</td><td>

Learners need to be able to:

1.3.4 identify the circumstances when fraud may occur

1.3.5 evaluate the impact of fraud on an organisation:
- financial
- non-financial

1.3.6 assess how internal controls can be used in preventing and detecting fraud.
</td></tr>
</table>

<table>
<tr><td colspan="2">2. Understand the audit and assurance framework</td></tr>
<tr><td>2.1</td><td>The concepts and principles of audit and assurance</td></tr>
<tr><td></td><td>

Learners need to understand:

2.1.1 the meaning of audit
2.1.2 the meaning of assurance
2.1.3 the audit expectation gap
2.1.4 the difference between reasonable and limited assurance
2.1.5 the difference between positive and negative expression of assurance
2.1.6 the benefits gained from assurance
2.1.7 the meaning of:
- true and fair view
- presents fairly
- faithful representation as applied to the external audit

2.1.8 the importance of professional scepticism and professional judgement
2.1.9 that an external audit concludes with an audit report.
</td></tr>
</table>

2.2	**The regulatory environment in the UK**
	Learners need to understand: 2.2.1 the approach to the regulation of audits 2.2.2 the use of audit standards 2.2.3 the role of the: - accountancy profession in the regulation of audits - International Auditing and Assurance Standards Board (IAASB) - International Sustainability Standards Board (ISSB) 2.2.4 the role of the Companies Act: - the requirement for a statutory audit - directors' responsibilities - auditors' responsibilities 2.2.5 that negligent misstatement is a form of negligence 2.2.6 the auditor's liability to: - the company - shareholders - third parties 2.2.7 the requirement for professional indemnity insurance. **Excluded:** references to specific auditing standards
2.3	**The role of corporate governance in the audit and assurance process**
	Learners need to understand: 2.3.1 that the UK Corporate Governance Code contains the principles of: - board leadership and company purpose - division of responsibilities - audit, risk and internal control 2.3.2 the comply or explain principle 2.3.3 the responsibilities of management in relation to: - operational decisions - fraud and error - the financial statements 2.3.4 the responsibilities of internal and external auditors in relation to: - fraud and error - the financial statements 2.3.5 the importance of an effective audit committee.

<table>
<tr><td>2.4</td><td>The role of internal audit</td></tr>
<tr><td></td><td>Learners need to understand:
2.4.1 the difference between internal and external audit
2.4.2 the benefits of internal audit
2.4.3 the functions of internal audit:
- reviewing systems of internal control
- conducting special investigations
- reviewing compliance with external regulation
- reviewing processes for value for money
- reviewing the risk management process
- reviewing sustainability practices
2.4.4 the risks associated with a lack of independence.</td></tr>
</table>

<table>
<tr><td>3.</td><td colspan="2">Understand the planning and risk assessment process for audit engagements</td></tr>
<tr><td>3.1</td><td colspan="2">The concept of audit risk</td></tr>
<tr><td></td><td>Learners need to understand:
3.1.1 components of the audit risk model:
- inherent risk
- control risk
- detection risk:
▪ sampling
▪ non-sampling
3.1.2 how auditors manage detection risk
3.1.3 the factors that affect inherent risk and control risk
3.1.4 how analytical procedures can be used to identify potential understatement or overstatement of items in the financial statements
3.1.5 that misstatements in the financial statements can arise from either fraud or error
3.1.6 the two types of fraud that are relevant to the auditor:
- misstatements resulting from fraudulent financial reporting
- misstatements resulting from misappropriation of assets.</td><td>Learners need to be able to:
3.1.7 identify audit risks
3.1.8 identify analytical procedures that could expose understatement or overstatement of items in the financial statements.</td></tr>
</table>

3.2	**The concept of materiality**
	Learners need to understand: 3.2.1 the difference between performance materiality and materiality for the financial statements as a whole 3.2.2 the role of materiality in planning an audit and evaluating misstatements 3.2.3 methods used to calculate materiality thresholds 3.2.4 the difference between material and material and pervasive.

4.	**Evaluate internal control systems as part of the audit process**	
4.1	**Internal controls and their impact on the audit approach**	
	Learners need to understand: 4.1.1 why auditors need to understand the company's internal controls 4.1.2 the differences between tests of controls and substantive procedures.	Learners need to be able to: 4.1.3 determine when to use a mixture of tests of controls and substantive procedures or substantive procedures only 4.1.4 identify how errors and irregularities can be mitigated by control procedures. 4.1.5 identify suitable tests of control for accounting systems.

5.	**Understand procedures for obtaining sufficient and appropriate evidence**	
5.1	**Audit assertions and audit procedures**	
	Learners need to understand: 5.1.1 assertions about transactions: - occurrence - completeness - accuracy - cut off - classification - presentation 5.1.2 assertions about balances: - existence - rights and obligations - completeness - accuracy, valuation and allocation - classification - presentation.	Learners need to be able to: 5.1.3 identify suitable audit procedures to test financial statement transactions and balances: - non-current assets - inventory - receivables - cash and bank - borrowings - payables - provisions - revenue - purchases - payroll and other expenses.

<table>
<tr><td>5.2</td><td colspan="2">Sampling techniques</td></tr>
<tr><td></td><td>Learners need to understand:
5.2.1 statistical and non-statistical sampling methods
5.2.2 the advantages and disadvantages of different sampling methods:
- stratification
- value-weighted selection
- random selection
- systematic selection
- monetary unit sampling
- haphazard selection
- block selection.</td><td>Learners need to be able to:
5.2.3 distinguish between sampling methods and when they should be used
5.2.4 identify factors affecting sample sizes.</td></tr>
<tr><td>5.3</td><td colspan="2">Methods used to obtain audit evidence</td></tr>
<tr><td></td><td>Learners need to understand:
5.3.1 types of verification techniques:
- inspection
- observation
- external confirmation
- recalculation
- reperformance
- analytical procedures
- enquiry
5.3.2 the reliability and relevance of different sources of audit evidence.</td><td>Learners need to be able to:
5.3.3 identify when it is appropriate to use each type of verification technique.</td></tr>
<tr><td>5.4</td><td colspan="2">Use of digital techniques in auditing</td></tr>
<tr><td></td><td colspan="2">Learners need to understand:
5.4.1 types of digital techniques:
- test data
- integrated test facilities
- audit software
- data analytic tools
5.4.2 how digital techniques are used to test controls and interrogate the organisation’s files
5.4.3 the benefits and drawbacks of:
- digital techniques
- remote auditing.</td></tr>
</table>

<table>
<tr><th colspan="3">6. Review and report findings</th></tr>
<tr><td>6.1</td><td colspan="2">Matters to be referred to senior colleagues</td></tr>
<tr><td></td><td colspan="2">Learners need to be able to:
6.1.1 assess misstatements for materiality
6.1.2 identify deviations from an organisation’s prescribed procedures
6.1.3 identify matters:
- unauthorised transactions
- non-routine transactions
- related party transactions
- transactions above or below market rates
- suspected fraud.</td></tr>
<tr><td>6.2</td><td colspan="2">Report audit findings</td></tr>
<tr><td></td><td>Learners need to understand:
6.2.1 elements of a report on deficiencies in internal control
6.2.2 that deficiencies in internal control are reported to:
- management
- the audit committee.</td><td>Learners need to be able to:
6.2.3 identify the consequences of deficiencies in internal controls and how the deficiencies can be remedied
6.2.4 report findings.</td></tr>
</table>

Delivering this unit

To deliver this unit effectively, tutors should first ensure that students understand that all organisations are at risk of theft and fraud. This can be done by sharing personal experiences within a group, as well as through media reports. As reports in the national media focus on major cases, it may be appropriate to review local court cases and media to find smaller, more common cases of fraud. Ensuring that students understand that the risk is always present is key to ensuring that they look at controls rigorously.

Tutors also need to help students recognise the importance of audit and assurance to businesses and wider society as an effective part of the governance process. This unit is designed as an introduction to audit, and tutors should be mindful that not all learners will be working in an audit role. Even so, they may have experience of other assurance engagements, or they may have worked for an organisation that was being audited.

Access to accounting systems in the workplace or the learning provider environment may provide students with the opportunity to undertake an audit in a real-world environment, such as a café or shop. Students could be encouraged to undertake an audit and report to management on the issues identified, thereby providing practical experience rather than relying on case studies to facilitate learning. Experience of conducting audit interviews and reporting will also provide students with the opportunity to develop wider communication skills.

The audit topics can be delivered in conjunction with the Level 4 Financial Accounting unit. As the students learn about an accounting adjustment, such as a property revaluation, it would be helpful for them to think about how they would audit that adjustment, considering the available evidence.

Contemporary digital tools have transformed the audit process through the use of artificial intelligence (AI), predictive analytics, and the general automation of the whole audit process from planning through to reporting. Access to data analytics technology and audit software can assist in teaching this unit, as it will help students understand how this is vital in the modern audit.

Test specification for Audit and Internal Controls unit assessment

Assessment method	Marking type	Duration of assessment
Computer based assessment	Wholly computer marked	2 hours

Learning outcomes	Weighting
1. Understand the role of internal controls within an organisation	30%
2. Understand the audit and assurance framework	15%
3. Understand the planning and risk assessment process for audit engagements	10%
4. Evaluate internal control systems as part of the audit process	10%
5. Understand procedures for obtaining sufficient and appropriate evidence	25%
6. Review and report findings	10%
Total	100%

Test specification for Audit top-up assessment *

Assessment method	Marking type	Duration of assessment
Computer based assessment	Wholly computer marked	1 hour 30 minutes

Learning outcomes	Weighting
1. Understand the role of internal controls within an organisation **This learning outcome is not assessed in the top-up assessment.**	**0%**
2. Understand the audit and assurance framework	21%
3. Understand the planning and risk assessment process for audit engagements	14%
4. Evaluate internal control systems as part of the audit process	14%
5. Understand procedures for obtaining sufficient and appropriate evidence	36%
6. Review and report findings	14%
Total	**100%**

*This assessment will **only** be available to some students transitioning between qualification suites. More details on transitional arrangements can be found on the **Level 4 Diploma for Professional Accounting Technicians: timeline and delivery resources** webpage.

Principles of Taxation (FA2026)

Unit level	GLH value	Credit value	Unit reference number	Assessment
4	75	15	K/651/4655	Unit assessment

Introduction

This unit introduces students to taxation for taxpayers in the United Kingdom (UK).

It introduces students to the different types of income that a UK taxpayer may have, including income from employment, self-employment, property and investments. Students will be able to calculate each type of income. Students will also be able to identify appropriate use of losses. Deductions and reliefs that apply to Income Tax are covered so that students can compute the Income Tax liability for a UK taxpayer. Students will also be able to calculate National Insurance contributions on relevant types of income. The unit also introduces students to Capital Gains Tax where they will be able to calculate chargeable gains and losses, use losses and the annual exempt amount efficiently and calculate Capital Gans Tax liabilities. Students will also be able to apply the badges of trade and to understand factors that determine whether an individual is employed or self-employed.

Students will calculate Corporation Tax for companies including income from trading, property and interest as well as chargeable gains for companies. They will be able to consider the appropriate use of losses. They will understand the treatment of qualifying charitable donations.

Students will understand the administrative requirements of UK tax law, including the implications of errors in tax returns, late filing of returns, late payment of tax and not retaining records for the required period.

Students will understand the ethical issues facing UK taxpayers and the responsibilities that an agent has in giving advice on tax issues to business clients. Students will also be able to identify tax planning opportunities, while understanding the importance of maintaining ethical standards.

This unit is based on Finance Act 2026 and will be assessed from January 2027.

Learning outcomes

1. Understand the United Kingdom (UK) tax system and ethical behaviour
2. Calculate Income Tax and National Insurance contributions
3. Identify types of income
4. Calculate Capital Gains Tax payable by UK taxpayers
5. Prepare tax computations for trading companies
6. Understand administrative requirements of the UK’s tax regime
7. Understand tax planning opportunities

Glossary of terms

A

Abatement of the personal allowance: The gradual reduction of an individual's UK personal allowance once their adjusted net income exceeds a specified threshold.

Accruals basis: An accounting method where income and expenses are recorded when they are earned or incurred, regardless of when the money is actually received or paid.

Adjusted net income: Total income (before the deduction of the personal allowance), minus gross gift aid donations and gross personal pension contributions. This figure is used to determine whether the taxpayer's personal allowance is abated and whether they need to pay the high income child benefit charge.

Allowable deductions (from employment income): Expenses that employees can deduct from their taxable employment income. They must be incurred wholly, exclusively, and necessarily in the performance of their duties.

Allowable loss: When a chargeable asset is sold for less than its cost.

Annual exempt amount: The amount of capital gains that an individual can make each tax year without paying Capital Gains Tax.

Annual investment allowance (AIA): A capital allowance that enables a business to deduct 100% of the cost of qualifying plant and machinery up to an annual limit from its taxable profits in the year the expenditure is incurred.

Appropriations of profit: How the profits of a partnership are shared amongst the partners.

Assessable benefits: Non-cash benefits provided to employees, such as company cars or private medical insurance.

B

Badges of trade: A set of criteria used by HMRC to determine whether an activity constitutes trading.

Balancing adjustment: Balancing adjustments ensure that over the life of the asset, the total tax relief given equals the actual cost to the business. Balancing adjustments will be required when:

(a) there is cessation of trade

(b) assets are disposed of that are not in the main/general or special rate pool

(c) a disposal from the main/general or special rate pool result in a negative balance in the pool.

C

Capital allowances: An allowance that can be deducted when calculating a business's taxable profits, related to certain types of capital expenditure.

Capital expenditure: Expenditure on the purchase or improvement of non-current assets.

Capital gains tax: A UK tax incurred by individuals on gains made on the disposal of capital assets that have increased in value.

Cash basis: An accounting method where income and expenses are recorded only when they are actually received or paid.

Chargeable assets: All assets other than exempt assets.

Chargeable disposal: The sale, gift or transfer of an asset that triggers a capital gain.

Chargeable gain: When a chargeable asset is sold for more than its cost.

Chargeable person: An individual, partners in a partnership, or a company that disposes of a chargeable asset.

Chattels: Tangible, movable property.

Class 1A NICs: A UK tax incurred by employers on the provision of assessable benefits.

Class 4 National Insurance Contributions (NIC): A UK tax incurred by self-employed individuals on their trading profits.

Connected persons: An individual is connected to the following persons for the purposes of Capital Gains Tax:

(a) their spouse or civil partner

(b) their relatives*

(c) relatives of their spouse or civil partner.

* Relatives are:

- brothers or sisters
- ancestors (e.g., parents, grandparents)
- lineal descendants (e.g., children, grandchildren)
- spouses and civil partners of any of the above relatives.

Construction Industry Scheme (CIS): A system where contractors deduct tax from payments made to subcontractors and pass it to HMRC. The deductions count as an advance payment towards the subcontractor's Income Tax and National Insurance.

Corporation Tax: A UK tax incurred by companies on their taxable total profits.

D

Deductible expenditure: Expenses that can be deducted from a business's income when calculating taxable profit. If these expenses have been deducted in the accounting profit, no adjustment will be required. Alternative term: Allowable expenditure

Disclosures - prompted and unprompted: When a taxpayer discloses an error to HMRC, those disclosures are classified into two categories:

(1) **Unprompted disclosure:** when a taxpayer tells HMRC about an error before they have any reason to believe HMRC has discovered or is about to discover the issue.

(2) **Prompted disclosure:** when a taxpayer tells HMRC about an error after HMRC has initiated contact, such as writing to inform the taxpayer of a compliance check or investigation.

Dividend allowance: The amount of dividend income that an individual can receive in a tax year without paying Income Tax. Alternative term: Dividend nil rate band (DNRB)

Dividend income: Any dividends received that are subject to Income Tax.

E

Employee's National Insurance Contributions (NIC): A UK tax incurred by employees on employment income, deducted at source by their employer. Alternative term: Class 1 Primary NIC.

Employer's National Insurance Contributions (NIC): A UK tax incurred by employers as a result of employing an employee. Alternative term: Class 1 Secondary NIC.

Enquiry window: The period during which HMRC is legally allowed to open an enquiry into a submitted tax return.

Errors: Errors are classified into three categories based on the behaviour of the taxpayer:

(1) **Careless:** an error caused by a failure to take reasonable care.

(2) **Deliberate:** an error where the taxpayer knowingly provides inaccurate information or withholds relevant information.

(3) **Deliberate and concealed:** a deliberate error (see above) where the taxpayer also takes steps to hide the inaccuracy from HMRC.

Exempt assets: Assets that are not subject to UK Capital Gains Tax.

Exempt benefits: Employer-provided benefits that employees do not pay tax on because HMRC grants an exemption.

Exempt income: Income that is not subject to UK income tax.

Extraction of profits: The ways owners take money out of their business, such as salary, benefits, dividends and drawings.

F

First year allowance (FYA): A capital allowance that enables a business to claim an immediate deduction for the cost (or part of the cost) of qualifying plant and machinery in the year the expenditure is incurred.

Full expensing: A type of first year allowance that enables companies to deduct 100% of the cost of qualifying plant and machinery from their taxable profits in the year the expenditure is incurred.

G

General Anti-Abuse Rule (GAAR): A mechanism that allows tax authorities to counteract tax advantages arising from abusive tax arrangements that, while technically legal, are designed primarily to avoid tax and go against the spirit or intent of the law.

Gift aid donations: Donations to charity made under the Gift Aid scheme, which is a UK Government scheme that allows charities to claim back basic-rate income tax on donations made by UK taxpayers.

Gross gift aid donations: The total amount donated to a charity, including both the amount paid by the individual and the basic-rate tax relief added by the Government.

Gross personal pension contributions: Total contributions to a private (non-workplace) pension scheme, including both the amount paid by the individual and the basic-rate tax relief added by the Government.

H

High income child benefit charge: A UK tax charge that requires higher-earning individuals (or their partners) to pay back some or all of the child benefit they receive, depending on their income level. Child benefit is a tax-free Government support paid to anyone responsible for a child.

HM Revenue and Customs (HMRC): The UK Government department responsible for collecting, paying, administering and enforcing taxes.

I

Income tax: A UK tax charged on most types of income earned by individuals.

Income tax liability: The total amount of gross Income Tax due to HMRC, before accounting for any payments made.

Income tax payable: The amount of Income Tax that needs to be paid to HMRC after accounting for any tax already collected at source (e.g. PAYE).

J, K

No terms.

L

Loan relationships: Loan relationship rules determine how companies are taxed on their interest paid and interest received. These rules look at whether the loans are trade-related or non-trade-related loans.

M

Market value: The price which an asset might reasonably be expected to sell for in the open market.

Marriage allowance: An allowance that lets a lower-earning spouse or civil partner transfer an amount of their personal allowance to their partner.

Money laundering: The process by which the proceeds of crime are converted into assets which appear to have a legitimate origin.

N

Non-deductible expenditure: Expenses that cannot be deducted from a business's income when calculating taxable profit. If these expenses have been deducted in the accounting profit, they will need to be added back. Alternative term: Disallowable expenditure.

Non-savings income: Any income subject to Income Tax that is not classified as savings income or dividend income. This includes employment, pension, trading and property income.

O

Occupational pension contributions: Contributions to a workplace pension scheme.

P

Pay As You Earn (PAYE): A UK system where employers deduct income tax and national insurance from employees' wages and pay it directly to the government.

Personal allowance: The amount of income an individual can earn in a tax year without paying Income Tax.

Personal pension contributions: Contributions to a private (non-workplace) pension scheme.

Personal savings allowance: The amount of savings income that an individual can earn in a tax year without paying Income Tax.

Plant and machinery: Assets used by a business to carry out its trade. These are items that perform a function within the business rather than forming part of a building or structure.

Private use assets: A business asset that is used partly for business purposes and partly for personal (private) use.

Property allowance: The amount of property income that an individual can earn in a tax year without paying Income Tax.

Property business finance costs: Interest on mortgages, loans and overdrafts used to fund a property business, plus fees and any other incidental costs for getting or repaying mortgages and loans.

R

Receipts basis: The standard method for taxing employment income, meaning earnings are taxed in the tax year they are received, not when earned.

Rent a room scheme: A UK Government scheme that allows individuals to earn an amount of tax-free income from letting furnished accommodation in their own home.

Revenue expenditure: All other expenditure incurred by a business that is not capital expenditure.

S

Savings income: Any interest received that is subject to Income Tax.

Small pools allowance: A capital allowances rule that enables a business to write off the entire balance of a pool if the value falls below a specified threshold.

Straddle periods: A period during which a taxpayer’s accounting period overlaps two separate tax years.

Structures and buildings: The physical premises or structural elements in which the business operates. These items do not qualify as plant and machinery.

T

Tax agent: An accountant or firm of accountants that is authorised to act on behalf of a taxpayer in dealing with tax matters, including preparing tax returns, providing tax advice, and communicating with HMRC.

Tax avoidance: Interpreting legislation to reduce a tax liability in a way that it was not intended to be applied. This is not illegal but may involve finding loopholes in the law and is often considered unethical.

Tax digitalisation: The process by which tax authorities use digital technologies to collect, process, manage, and monitor tax information electronically, replacing or reducing paper-based and manual tax systems.

Tax evasion: Illegal means by which taxpayers attempt to minimise their tax liability.

Tax planning: A legal and ethical means by which taxpayers can minimise their tax liability, using the law as it was intended to be used.

Taxable income: Any income subject to Income Tax after deducting all allowances and reliefs.

Taxable total profits (TTP): The total amount of profit on which a company must pay Corporation Tax, after all allowable deductions and reliefs have been applied.

Total/net income: The total amount of income from all taxable sources before deducting any allowances or reliefs.

Trading allowance: A tax exemption that allows an individual to earn a specified amount of trading income per tax year without paying tax on it and, in many cases, without needing to register for Self Assessment.

Trading losses: Losses incurred in the ordinary course of business that may be able to be offset against other income or profits, reducing the overall tax liability.

U, V

No terms.

W

Wasting chattels: Chattels with a predictable life of 50 years or less.

Writing down allowances (WDA): The annual tax deductions a business can claim on the unrelieved expenditure in its capital allowance pools for plant and machinery. The amount is calculated by applying the WDA percentage to the remaining tax written-down value.

X, Y, Z

No terms.

Scope of content

This section illustrates the depth and breadth of content to be delivered for this unit. All areas indicated in the table below must be covered in teaching.

Learners may not be assessed on all content, or on the full depth or breadth of a piece of content. Content assessed may change over time to ensure validity of assessment.

1. Understand the United Kingdom (UK) tax system and ethical behaviour		
1.1	**Objectives and functions of taxation**	
	Learners need to know: 1.1.1 that HMRC are responsible for administering, collecting, and enforcing taxes in the UK 1.1.2 the sources of UK tax law and guidance 1.1.3 the objectives of tax digitalisation. Learners need to understand: 1.1.4 the objectives of a tax system: - raise revenue - wealth redistribution - influence behaviour.	
1.2	**Tax planning, tax avoidance, tax evasion and money laundering**	
	Learners need to understand: 1.2.1 the meaning of: - tax planning - tax avoidance - tax evasion - money laundering 1.2.2 the General Anti-Abuse Rule (GAAR) - purpose - circumstances for application - consequences of application 1.2.3 the consequences of dishonest conduct by tax agents: - notice - penalties.	Learners need to be able to: 1.2.4 identify: - tax planning - tax avoidance - tax evasion - money laundering 1.2.5 identify appropriate actions to take when unethical or illegal behaviour is identified.

2.	**Calculate Income Tax and National Insurance contributions (NICs)**	
2.1	**Calculate taxable income**	
	Learners need to understand: 2.1.1 that the tax year is the period from 6 April in one year to the following 5 April 2.1.2 that tax years are expressed as the two calendar years included in the tax year; e.g.2024/25 2.1.3 that individuals are assessed on their taxable income for a tax year 2.1.4 income included in total/net income - employment - pension (including state pension) - trading - property - savings - UK dividends 2.1.5 that all income is included gross in the Income Tax computation 2.1.6 the classification of income into: - non-savings - savings - dividend 2.1.7 the treatment of jointly owned income-generating assets 2.1.8 exempt income: - prizes/lottery wins/betting wins - income from Individual Savings Accounts (ISAs) - interest on National Savings Certificates - income fully covered by the rent a room scheme 2.1.9 income that does not need to be included: - trading allowance full relief - property allowance full relief 2.1.10 that every individual is entitled to a personal allowance each tax year 2.1.11 the circumstances under which the personal allowance is abated 2.1.12 that adjusted net income is reduced by the gross amount of:	Learners need to be able to: 2.1.14 calculate: - trading income allocated to a tax year in straddle periods - total/net income - gross personal pension contributions - gross gift aid donations - adjusted net income - the personal allowance - taxable income.

	- personal pension contributions - gift aid donations 2.1.13 the marriage allowance - impact on the personal allowance - conditions that must be met.	
	Exclusions: - savings income paid net of tax - government securities/the accrued income scheme - qualifying interest payments - blind person's allowance - married couple's allowance - the income of minor children - Lifetime ISAs - foreign income - taxable and exempt state benefits (unless identified).	
2.2	**Calculate Income Tax payable**	
	Learners need to understand: 2.2.1 that different rates of tax apply to different types of income: - non-savings - savings - dividend 2.2.2 that the Income Tax liability must be calculated on non- savings income first, then savings income and lastly dividend income 2.2.3 Income Tax nil rate bands - personal savings allowance - dividend allowance 2.2.4 amounts that reduce the Income Tax liability: - marriage allowance received - property business finance costs 2.2.5 amounts that increase the Income Tax payable - high income child benefit charge 2.2.6 amounts that reduce the Income Tax payable: - pay as you earn (PAYE) deductions taken at source	Learners need to be able to: 2.2.7 calculate the - adjusted tax bands due to gross gift aid donations or personal pension contributions - marriage allowance received - Income Tax liability - high income child benefit charge - Income Tax payable.

	- construction industry scheme (CIS) deductions taken at source.	
	Exclusions: - annual allowance charge on excess pension contributions - the cap on the property income finance cost tax reducer - calculation of child benefit received.	
2.3	**Calculate National Insurance contributions (NICs) payable**	
	Learners need to understand: 2.3.1 NICs for category A employees: - employee class 1 - employer class 1 - class 1A 2.3.2 the circumstances in which the employment allowance can be claimed. 2.3.3 class 4 NICs	Learners need to be able to: 2.3.4 calculate NICs - employee class 1 - employer class 1 - class 1A - class 4.
	Exclusions: - monthly calculations - annual maximum contributions	
2.4	**Calculate income from employment**	
	Learners need to understand: 2.4.1 the basis of assessment - receipts basis - rules for directors 2.4.2 exempt benefits: - beneficial loans - bicycles/safety equipment - counselling - medical/eye tests - mileage payments at the approved mileage rate - mobile phone - overnight expense allowance - parking - pension contributions - pool cars - relocation - staff entertaining - staff suggestion schemes - training - transport to work - trivial benefits	Learners need to be able to: 2.4.6 calculate: - salary - bonus - benefits - allowable deductions - employment income.

- workplace childcare
- workplace electric vehicle charging points
- workplace meals
- working from home
- workplace sporting/recreational facilities

2.4.3 assessable benefits general rules:

- cost to employer
- employee contributions
- time apportionment

2.4.4 assessable benefits special rules:

- company cars
- private fuel
- vans
- mileage payments above the approved mileage rate
- beneficial loans
  - average
  - strict

2.4.5 allowable deductions:

- wholly, exclusively and necessarily in performance of duties
- pension contributions
- charity donations
- relevant professional fees and subscriptions
- travel expenses
- mileage payments below the approved mileage rate.

Exclusions:

- round sum allowances
- living accommodation
- use/gift of business assets
- redundancy payments
- cars registered prior to 1 January 2021
- easement for Plug-in Hybrid Electric Vehicles (PHEVs).

<table>
<tr><td rowspan="2">2.5</td><td colspan="2">Calculate trading income for sole traders and partners</td></tr>
<tr><td>Learners need to understand:
2.5.1 that the cash basis is the default basis
2.5.2 the circumstances in which the accruals basis may be used
2.5.3 how to adjust accounting profit for tax purposes
- wholly and exclusively
- capital v revenue expenditure
- appropriations of profit by the owner
- approved mileage allowance
- business expenses paid for by owner
- donations
- entertaining
- fines and penalties
- gifts
- interest payable
- leasing of assets
- legal fees
- payments to family members
- private use
- removal of inventory for owner use
- trade and non-trade debts written off or recovered
2.5.4 when claiming the trading allowance instead of expenses is appropriate
2.5.5 the capital allowances applicable to different assets:
- plant and machinery
- structures and buildings
2.5.6 the inclusion of gross or net amounts in capital allowance computations, in accordance with:
- VAT registration status
- blocked expenditure for VAT
2.5.7 within the capital allowances computation, the availability of:
- annual investment allowance (AIA)
- first year allowance (FYA)</td><td>Learners need to be able to:
2.5.18 adjust accounting profit for tax purposes
2.5.19 calculate capital allowances for accounting periods:
- longer than 12 months
- shorter than 12 months
- equal to 12 months
2.5.20 allocate profits between partners
2.5.21 identify how losses are allocated, according to:
- specific instructions
- achieve maximum tax benefit.</td></tr>
</table>

	2.5.8 the pool within the capital allowances computation in which to include asset addition and disposals: - main/general pool - special rate pool 2.5.9 that private use assets are included separately in the capital allowances computation 2.5.10 the writing down allowances (WDAs) available on each pool within the capital allowances computation 2.5.11 the small pools allowance 2.5.12 when balancing adjustments are required for capital allowances 2.5.13 the capital allowances available on structures and buildings 2.5.14 the impact of capital allowances (including balancing adjustments) on the tax adjusted accounting profit 2.5.15 how profits are allocated between partners: - salary - interest on capital - profit sharing ratio 2.5.16 options available to sole traders and partners to relieve trading losses: - carry back - current year - carry forward 2.5.17 how to select the relief that gives the maximum tax benefit for losses.	
	Exclusions: - pre-trading expenditure - lease premiums - fixed rate adjustments for premises used as home - transitioning between cash and accruals basis - short-life assets ~~- integral features~~ ~~- long life assets~~ - special rate pool assets, apart from cars - notional profits and losses for partnerships	

	- limited liability partnerships - opening years loss relief - terminal loss relief - the restriction on relief against non-trading income.	
2.6	**Calculate income from property**	
	Learners need to understand: 2.6.1 that the cash basis is the default basis 2.6.2 the circumstances in which the accruals basis may be used 2.6.3 that income and expenses from all properties are pooled 2.6.4 how to identify allowable and disallowable expenses - wholly and exclusively - property available for letting - interest costs - replacement furniture - mileage allowances 2.6.5 when claiming the property allowance instead of expenses is appropriate 2.6.6 how losses on property may be relieved 2.6.7 rent a room relief: - gross rental income above the threshold - gross rental income below the threshold - impact on property income assessment - impact on losses - shared property.	Learners need to be able to: 2.6.8 calculate profit and losses from property: - cash basis - accruals basis - property allowance - rent a room relief - losses.
	Exclusions: - lease premiums - ~~furnished holiday lets~~ - capital allowances - deposits - transitioning between cash and accruals basis.	

<table>
<tr><th colspan="3">3. Identify types of income</th></tr>
<tr><td>3.1</td><td colspan="2">Employed v self-employed</td></tr>
<tr><td></td><td>Learners need to understand:
3.1.1 the importance of identifying status
3.1.2 the factors used to determine status:
- degree of control
- mutual obligations
- provision of equipment
- degree of financial risk/ability to profit
- ability to provide a substitute
- level of integration
- the employment rights provided.</td><td>Learners need to be able to:
3.1.3 identify:
- factors indicating employment
- factors indicating self-employment
- a valid conclusion on employment or self-employment
- the consequences of the conclusion.</td></tr>
<tr><td></td><td colspan="2">Exclusions:
- personal service companies.</td></tr>
<tr><td>3.2</td><td colspan="2">Badges of trade</td></tr>
<tr><td></td><td>Learners need to understand:
3.2.1 the importance of identifying whether a trade exists
3.2.2 the badges of trade:
- profit-seeking motive
- the number of transactions
- the nature of the asset
- existence of similar trading transactions or interests
- changes to the asset
- the way the sale was carried out
- the source of finance
- interval of time between purchase and sale
- method of acquisition.</td><td>Learners need to be able to:
3.2.3 identify:
- factors indicating a trade exists
- factors indicating a trade does not exist
- a valid conclusion on whether or not a trade exists
- the consequences of the conclusion.</td></tr>
</table>

4. Calculate Capital Gains Tax payable by UK taxpayers		
4.1	**Calculate chargeable gains and allowable losses**	
	Learners need to understand 4.1.1 that individuals are taxed on their gains in a tax year 4.1.2 the meaning of: - chargeable assets - chargeable disposals - chargeable persons - connected persons - gross sale proceeds - market value - net sales proceeds - allowable costs 4.1.3 that exempt assets include: - cars - wasting chattels - gifts to charity - cash - stocks and shares held in an ISA - prizes/lottery wins/betting wins 4.1.4 the situations where market value is used instead of sales proceeds 4.1.5 transfers between spouses 4.1.6 transfers to connected persons 4.1.7 part disposals 4.1.8 non-wasting chattel disposals 4.1.9 plant and machinery disposals.	Learners need to be able: 4.1.10 calculate chargeable gains and allowable losses for: - chargeable assets - part disposals - chattels.
	Exclusions: - assets that are lost, destroyed or damaged - valuation rules for shares - share identification rules - the share pool - bonus issues - rights issues - rollover relief - gift relief - private residence relief.	

4.2	**Calculate Capital Gains Tax payable**	
	Learners need to understand: 4.2.1 the rates applicable to capital gains ~~- residential property~~ ~~- other assets~~ 4.2.2 current year losses 4.2.3 brought forward losses 4.2.4 the restriction for losses from disposals to connected persons 4.2.5 the annual exempt amount.	Learners need to be able to: 4.2.6 calculate chargeable gains and allowable losses - offset current year losses efficiently - offset brought forward losses efficiently 4.2.7 deduct the annual exempt amount efficiently 4.2.8 calculate Capital Gains Tax.
	Exclusions: - the use of trading losses to relieve capital gains - business asset disposal relief - investors relief.	

5.	**Prepare tax computations for trading companies**	
5.1	**Calculate taxable total profits (TTP)**	
	Learners need understand: 5.1.1 the meaning of an accounting period for Corporation Tax purposes: - when an accounting period begins - when an accounting period ends 5.1.2 the allocation of components of TTP when a financial accounting period exceeds 12 months 5.1.3 trading income: - that the accruals basis is used for allocation - allowable and disallowable expenditure - trade interest payable - capital allowances available on plant and machinery - annual investment allowance (AIA) - full expensing - first year allowance (FYA) - additions and disposals in the main/general pool - additions and disposals in the special rate pool - writing down allowances (WDAs)	Learners need to be able to: 5.1.12 adjust accounting profit for tax purposes 5.1.13 calculate capital allowances for accounting periods: - longer than 12 months - shorter than 12 months - equal to 12 months 5.1.14 calculate: - trading income - interest income - property income - chargeable gains - TTP 5.1.15 allocate components of TTP in a long accounting period 5.1.16 identify how losses are allocated according to: - specific instructions - maximum tax benefit.

- the inclusion of gross or net amounts in capital allowance computations, in accordance with: ▪ VAT registration status ▪ blocked expenditure for VAT - small pools allowance - balancing adjustments in the pools - balancing adjustments on fully expensed assets - capital allowances available on structures and buildings 5.1.4 interest income: - that the accruals basis is used for allocation - the meaning of loan relationships - non-trade interest payable - non-trade interest receivable 5.1.5 property income: - that the accruals basis is used for allocation - allowable and disallowable expenditure 5.1.6 chargeable gains: - that the date of disposal is used for allocation - identification of net sales proceeds - identification of allowable costs 5.1.7 qualifying charitable donations (QCDs): - that the date of payment is used for allocation 5.1.8 trading losses: - current year - current year and carry back - carry forward 5.1.9 property losses: - current period then carry forward 5.1.10 capital losses: - current period then carry forward 5.1.11 how to select the relief that gives the maximum tax benefit for losses. **Exclusions** - pre-trading expenditure - lease premiums - short-life assets. - integral features	

- long life assets
- trade interest receivable (learners should assume that all interest receivable is non-trade)
- non-trading deficits on loan relationships
- the disposal of assets on which a super deduction has been claimed
- the disposal of assets acquired pre 1 January 2018
- assets that are lost, destroyed or damaged
- valuation rules for share disposals
- share identification rules for disposals
- the share pool
- bonus issues for shares
- rights issues for shares
- rollover relief
- loss relief where relevant accounting periods are not twelve months
- terminal loss relief.

5.2	**Calculate Corporation Tax payable**	
	Learners need to understand: 5.2.1 that Corporation Tax is calculated for an accounting period 5.2.2 how the calculation of Corporation Tax as impacted by: - the tax year(s) in which the accounting period falls - the size of the company - the length of the accounting period - the number of associated companies.	Learners need to be able to: 5.2.3 calculate Corporation Tax payable.
	Exclusions: - meaning/identification of associated companies - dividend income.	

6.	**Understand administrative requirements of the UK's tax regime**	
6.1	**The administrative requirements of UK tax law**	
	Learners need to understand: 6.1.1 The threshold for making tax digital (MTD) for Income Tax Self-Assessment (ITSA) 6.1.2 filing deadlines: - Income Tax self-assessment - Corporation Tax self-assessment - reporting capital gains on residential property - reporting capital gains on other assets	Learners need to be able to: 6.1.9 calculate amounts of tax due on each date: - payments on account for individuals - balancing payments for individuals - instalment payments for large companies.

	6.1.3 tax payment dates: - Income Tax (including payments on account) - Corporation Tax (small and/or large companies) - Capital Gains Tax (residential and/or other property) 6.1.4 time limits for notifying chargeability to tax - Income Tax - Corporation Tax 6.1.5 time limits for loss relief claims - individual - company 6.1.6 the enquiry window 6.1.7 the time period within which amendments to a tax return can be made 6.1.8 ~~what~~ the records that need to be maintained: - format - time period.	
	Exclusions: - payment of CGT by instalments - time to pay arrangements - the exceptions to payments by instalment for large companies - instalment payments for very large companies - quarter end dates for enquiries into returns filed late.	
6.2	**Penalties for non-compliance**	
	Learners need to understand: 6.2.1 penalties for: - late filing - late payment - failing to notify chargeability - errors in tax returns - not providing records in an enquiry - not retaining proper records 6.2.2 when interest is payable 6.2.3 the meaning of: - careless errors - deliberate errors - deliberate and concealed errors	Learners need to be able to: 6.2.4 calculate penalties for non-compliance.

	- unprompted disclosure - prompted disclosure.	
	~~**Exclusions:**~~ - ~~interest on late payment and penalties.~~	

7. Understand tax planning opportunities		
7.1	**Personal tax planning opportunities**	

	Learners need to understand:
	7.1.1 why an individual may wish to undertake tax planning:
	- make use of:
	  ○ tax exemptions
	  ○ allowances
	- avoid higher rates of taxes
	- avoid abatement of the personal allowance
	- avoid the high income child benefit charge
	- minimise the combined Income Tax liability for a couple
	7.1.2 opportunities that individuals may have to minimise their tax liability:
	- choice of employment benefits
	- pension contributions
	- charity donations
	- use of ISAs
	- choice of investment types
	- marriage allowance
	- transfer of assets between spouses/civil partners
	- choosing which partner purchases income generating assets/joint ownership
	- choosing which partner in a relationship makes charity donations/pension contributions.
		Learners need to be able to:
		7.1.3 identify tax planning opportunities
		7.1.4 calculate tax for different tax planning options
		7.1.5 calculate after tax income for different tax planning options
		7.1.6 calculate tax savings from tax planning opportunities.

7.2	**Business tax planning opportunities**	
	Learners need to understand: 7.2.1 how the choice of business structure may affect: - tax due - after tax income 7.2.2 how the choice of extraction of profits from a company may affect: - tax due - after tax income 7.2.3 tax planning opportunities for couples: - employment at a reasonable wage - shareholders - partners.	Learners need to be able to: 7.2.4 identify tax planning opportunities 7.2.5 calculate tax for different tax planning options 7.2.6 calculate after tax income for different tax planning options 7.2.7 calculate tax savings from tax planning opportunities.

Delivering this unit

To deliver this unit effectively, tutors must ensure that they are fully up to date with the latest Finance Act, as every year changes will occur to tax rates, bands, rules and allowances. It is vital that students only study the relevant tax year on which they will be examined.

As students have access to the reference material in their assessment, it is advisable to ensure they have access to this material throughout their study. Students are encouraged to always use the material when completing practice questions in order to fully familiarise themselves with the content.

As taxation is a very practical subject, tutors could provide students with different variations of practice questions, with each variation tackling a slightly different aspect of the topic. By practising a variety of computations on each topic area, students will experience a wide range of scenarios. Students may also find it beneficial to discuss real-life scenarios when studying ethics and tax planning.

Test specification for Principles of Taxation unit assessment

Assessment method	Marking type	Duration of assessment
Computer based assessment	Wholly computer marked	2 hours

Learning outcomes	Weighting
1. Understand the United Kingdom (UK) tax system and ethical behaviour	5%
2. Calculate Income Tax and National Insurance contributions	50%
3. Identify types of income	5%
4. Calculate Capital Gains Tax payable by UK taxpayers	10%
5. Prepare tax computations for trading companies	10%
6. Understand administrative requirements of the UK's tax regime	10%
7. Understand tax planning opportunities	10%
Total	**100%**

Advanced Business Awareness

Unit level	GLH value	Credit value	Unit reference number	Assessment
4	60	15	L/651/4656	Unit assessment

Introduction

This unit prepares students for real-world challenges and opportunities in the business environment, enhancing their employability and professional growth. By understanding complex business concepts and practices, students will be able to make informed decisions, improve organisational effectiveness, and contribute to sustainable business practices.

Students will learn how businesses set their goals and strategies, including the use of vision, mission statements, and objectives. They will understand how to make decisions that align with these goals and evaluate the impact of economic factors such as competition, economic growth, government policies, interest rates, inflation, international trade, supply and demand, and unemployment on business performance. This knowledge will enable students to make informed and strategic decisions that contribute to the success of their organisations.

Students will develop skills to improve personal effectiveness through effective time management and enhancing communication skills. They will learn the importance of collaboration, escalation, and delegation. Additionally, students will gain a deeper understanding of promoting equality, diversity, and inclusion (EDI) in the workplace and managing organisational changes effectively. These skills will help students become more efficient and adaptable professionals, capable of fostering a positive and inclusive work environment.

Students will learn the difference between laws and ethics and the importance of professional ethics in handling ethical conflicts and legal issues. They will gain skills to identify and address money laundering, bribery, and whistleblowing, and understand the legal protections for whistleblowers. This knowledge will help students navigate complex ethical and legal challenges in their professional roles, ensuring they act with integrity and uphold the highest standards of professional conduct.

Students will be equipped with the skills to collect, clean, and analyse data, understanding the principles of data protection and the importance of protecting commercially sensitive information. They will learn how a business can use data analytics to make better business decisions. This will enable students to leverage data to drive business performance and make informed decisions that enhance organisational efficiency and effectiveness. Students will also understand the issues arising in the use of social media and other digital platforms.

Students will understand key sustainability concepts and standards, including the United Nations Sustainable Development Goals (UN SDGs) and the importance of sustainability reporting under IFRSs. They will learn how to promote sustainable business practices and recognise the challenges and benefits of implementing sustainability policies. This knowledge will empower students to contribute to the development and implementation of sustainability strategies within their organisations, promoting long-term environmental, social, and economic sustainability.

Learning outcomes

1. Understand business decision making
2. Understand organisational effectiveness
3. Understand ethics and law in an accounting environment
4. Understand the effective use of data in business
5. Understand the importance of sustainability in business

Glossary of terms

A

Anti-money laundering (AML) supervision: The system of oversight carried out by designated authorities to ensure that businesses at risk of money laundering comply with legal requirements designed to prevent financial crime. In the UK, AML supervision can be carried out by bodies such as HMRC, the Financial Conduct Authority (FCA), and professional supervisory bodies (e.g., AAT, ICAEW, ACCA).

Approaches to strategy: Organisations use different approaches to strategy to gain a competitive advantage. There are three main approaches:

(1) **Cost leadership:** the organisation aims to be the lowest-cost producer in the market.

(2) **Differentiation:** the organisation aims to offer unique products or services that customers see as different from competitors.

(3) **Focus:** the organisation targets a specific market segment or niche, rather than the whole market. It can be based on cost focus (low cost in a niche) or differentiation focus (unique products for a niche).

Artificial intelligence (AI): The simulation of human intelligence processes by computers, including learning, reasoning, and self-correction.

Authorised disclosure: A report of known or suspected money laundering made to the National Crime Agency or a Money Laundering Reporting Officer.

B

Bribery: Offering, promising, giving, requesting, or accepting a financial or other advantage to induce or reward the improper performance of a relevant function or activity.

C

Causation: A statistical relationship between two variables where one variable directly causes a change in another.

Circular economy: An economic model designed to eliminate waste, keep materials in use for as long as possible, and regenerate natural systems.

Cleaning data: The process of identifying and correcting or removing inaccurate, incomplete, inconsistent, duplicated, or irrelevant data from a dataset so that it is accurate, reliable, and ready for analysis.

Collaboration: When two or more people or teams work together, sharing ideas, skills, and responsibilities to achieve a common goal.

Commercially sensitive information: Business information that, if disclosed without authorisation, could harm an organisation’s commercial interests or competitive position.

Conflict of interest: A conflict of interest occurs when a person's personal interests, relationships, or obligations could improperly influence, or appear to influence, their professional judgement, decisions, or actions.

Correlation: A statistical relationship between two variables where they change together, but one does not necessarily cause the other.

Cost benefit analysis: A tool used to weigh up the costs associated with a decision against the expected benefits.

Costs of quality: There are four costs associated with quality management:

(1) **Prevention costs:** costs incurred to prevent defects from occurring in the first place.

(2) **Appraisal costs:** costs associated with measuring and monitoring activities to ensure quality standards are met.

(3) **Internal failure costs:** costs that arise from defects found before the product reaches the customer.

(4) **External failure costs:** costs that arise when defects are found after the product has been delivered to the customer.

Cyberattack: An attempt by hackers to steal, damage or destroy a computer system or the data contained within the system. Examples include:

(a) **Phishing**: a scam where cyber attackers pretend to be a trusted organisation or person to trick users into revealing sensitive information like passwords, credit card numbers, or login details.

(b) **Malware (short for malicious software):** any software designed to harm, exploit, or disrupt a computer, network, or device.

(c) **Denial of service:** a cyberattack that attempts to make a computer system, website, or network unavailable to users by overwhelming it with excessive traffic or requests.

(d) **Ransomware:** a type of malware that locks or encrypts a victim's files or system and demands payment (a ransom) to restore access.

D

Data analytics: The scientific process of analysing raw data in order to make useful conclusions that aid better decision-making. There are four types of data analytics:

(1) **Descriptive:** summarising and describing historical data to understand what has happened in the past.

(2) **Diagnostic:** identifying patterns and relationships in the data to determine the causes of events.

(3) **Predictive:** forecasting future outcomes based on historical data.

(4) **Prescriptive:** using simulation techniques to suggest the best course of action.

Data bias: A systematic distortion in data that means it does not accurately reflect the population being studied, often favouring certain outcomes, groups, or patterns over others.

Data protection principles: The principles of data protection set out how personal data must be handled. These are defined in the General Data Protection Regulation (GDPR) and include:

(a) Lawfulness, fairness and transparency

(b) Purpose limitation

(c) Data minimisation

(d) Accuracy

(e) Storage limitation

(f) Integrity and confidentiality

(g) Accountability

Delegation: The act of assigning tasks or responsibilities to another person, while the original person remains accountable for the outcome.

Diversity: Recognising and valuing a wide range of human differences, including race, gender, age, disability, religion and sexual orientation.

E

Eisenhower matrix: A time-management and prioritisation tool that helps people decide what tasks to do first based on urgency and importance.

Equity (in the context of EDI): Ensuring fairness by recognising that people have different needs, circumstances, and barriers, and providing appropriate support or resources so everyone has an equal opportunity to succeed.

Escalation: The act of passing an issue or decision to a higher level of authority when it cannot be resolved at the current level, often due to complexity, risk, or urgency.

Ethics: personal, business and professional: Ethics provides a framework for how individuals and groups ought to behave to promote trust, respect, and wellbeing in society.

(a) **Personal** ethics are an individual's own moral values that guide personal behaviour.

(b) **Business** ethics are the principles and standards that govern how companies and employees behave.

(c) **Professional** ethics are the rules, codes of conduct, and standards set by a specific profession such as accountancy.

F

Forms of capital (in sustainability): There are five forms of capital that are used to create goods and services. A sustainable organisation will aim to maintain and/or enhance these stocks of capital assets over time, rather than depleting them.

(1) **Natural capital:** all natural resources, such as air, land, soil, minerals, water, and all plant and animal life.

(2) **Human capital:** the health, knowledge, skills, motivation, and well-being of people.

(3) **Social capital:** the value derived from human relationships, networks, communities, and institutions, as well as shared values, trust, and cultural norms.

(4) **Manufactured capital:** the goods and physical infrastructure that contributes to the production process, such as buildings, machinery, tools, transport networks, and technology.

(5) **Financial capital:** the monetary assets that enable the other types of capital to be owned and traded.

Fundamental principles of professional ethics: The guidelines that AAT expects its members to follow in order to do the right things and behave in a way that gives others confidence. The five fundamental principles are:

(1) **Integrity:** to be straightforward and honest in all professional and business relationships.

(2) **Objectivity:** to not allow bias, conflict of interest or undue influence of others to override professional or business judgements.

(3) **Professional competence and due care:** to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. A member shall act diligently and in accordance with applicable technical and professional standards when providing professional services.

(4) **Confidentiality:** to act, in accordance with the law, respect the confidentiality of information acquired as a result of professional and business relationships and not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships shall not be used for the personal advantage of the member or third parties.

(5) **Professional behaviour:** to comply with relevant laws and regulations and avoid any conduct that discredits the profession.

G

Greenhushing: The practice of deliberately under-communicating, hiding, or avoiding talking about sustainability efforts, even when those efforts are genuine.

Greenwashing: The practice of misleading consumers or stakeholders by exaggerating, overstating, or falsely claiming environmental benefits of a product, service, or organisation.

H

No terms.

I

Inclusion: The practice of creating an environment where everyone feels welcomed, respected, valued, and able to participate fully.

J, K

No terms.

L

Law: A system of rules created and enforced by a government or authority to regulate behaviour in society.

M

Methods of data collection: Data may be collected using the following methods:

(a) **Primary data:** data collected first-hand by a researcher for a specific purpose.

(b) **Secondary data:** data that has already been collected by someone else and reused.

(c) **Internal data:** data collected within an organisation for its own use.

(d) **External data:** data collected from outside an organisation.

(e) **Sample:** a small group of data selected from a larger population to represent the whole.

(f) **Whole population:** data is collected from every individual in the group being studied.

Mission statement: The core purpose of an organisation, explaining why it exists and what it does to achieve its vision.

Money laundering: The process by which the proceeds of crime are converted into assets which appear to have a legitimate origin.

N

Non-financial key performance indicators (KPIs): Measures used by an organisation to assess performance without using money or financial data. They focus on quality, efficiency, customer satisfaction, staff performance, and processes, rather than profit or costs.

O

Objectives: Measurable goals that an organisation aims to achieve within a certain timeframe.

P

PESTLE analysis: A tool used to understand the external environment and its impact on the organisation. PESTLE stands for Political, Economic, Social, Technological, Legal and Environmental.

Pillars of sustainability (3 Ps): There are three aspects to sustainable performance, informally referred to as the 3 Ps (planet, people, profit):

(1) **Planet/Environmental:** considering the impact of the organisation's activities on the environment.

(2) **People/Social:** considering the needs of the organisation's stakeholders, including the community it operates in.

(3) **Profit/Economic/Financial:** a business must be profitable and have financial stability in order to be sustainable, but profit should not be at the cost of the other two aspects.

Professional scepticism: An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

Protected disclosure: A disclosure of information made by a worker that is made in the public interest and shows wrongdoing. A qualifying protected disclosure gives the worker protection from dismissal and detrimental treatment.

R

Reflective practice: The process of thinking about and evaluating your own experiences, actions, and decisions in order to learn from them and improve future performance.

S

Safeguards: Actions that the accountant/auditor takes that effectively reduce threats to compliance with the fundamental ethical principles to an acceptable level.

SMART objectives: A framework used for setting clear and attainable objectives.

(1) **S**pecific: the objective is clear and focused.

(2) **M**easurable: progress and success can be tracked.

(3) **A**chievable: the objective is attainable and focusses on capabilities.

(4) **R**ealistic: the objective suitably fits alongside other commitments, constraints and priorities.

(5) **T**ime-bound: the objective has a clear deadline.

Steps to resolve ethical conflict: The actions that an accountant should take when faced with a conflict in the application of the fundamental ethical principles, as set out in the AAT Code of Professional Ethics.

Strategy: The plan of action designed to achieve the organisation's vision and mission.

Sustainability: Sustainability means taking a long-term view and allowing the needs of present generations to be met without compromising the ability of future generations to meet their own needs.

SWOT analysis: A tool used to understand the strengths, weaknesses, opportunities and threats of an organisation.

T

Threats to the fundamental ethical principles: Circumstances that may threaten the fundamental ethical principles. There are five ethical threats:

(1) **Self-interest threats:** May occur where a financial or other interest will inappropriately influence the member's judgement or behaviour.

(2) **Self-review threats:** May occur when a previous judgement needs to be re-evaluated by the member responsible for that judgement.

(3) **Advocacy threats:** May occur when a member promotes a position or opinion to the point that subsequent objectivity may be compromised.

(4) **Familiarity threats:** May occur when, because of a close or personal relationship, a member becomes too sympathetic to the interests of others.

(5) **Intimidation threats:** May occur when a member may be deterred from acting objectively by threats, whether actual or perceived.

Total Quality Management (TQM): A management system focussed on long-term success through customer satisfaction. Its core principles include:

(a) **Continuous improvement:** constantly reviewing and improving processes to increase quality and efficiency.

(b) **Right first time:** aiming to prevent mistakes rather than fix them later, reducing waste and errors.

(c) **Organisation-wide philosophy:** quality is everyone's responsibility, involving all employees at every level of the organisation.

Types of errors in data: systematic, random, negligent: There are three main types of errors in data:

(1) **Systemic errors:** consistent, repeatable errors that occur due to a flaw in the data collection method, measurement tool, or process.

(2) **Random errors:** unpredictable errors caused by factors that vary from one measurement to another.

(3) **Negligent errors:** errors caused by carelessness, lack of attention, or poor data handling practices.

U

Unconscious bias: The automatic attitudes or stereotypes people hold without realising it, which can influence decisions and behaviour unfairly.

United Nations Sustainable Development Goals (UN SDGs): A set of global sustainability goals adopted by all United Nations Member States. They provide a shared blueprint to end poverty, protect the planet, and ensure peace and prosperity for all people by 2030.

V

Vision: The long-term goal or ultimate aspiration of an organisation.

Visualisation: The graphical representation of information and data, using visual elements like charts, graphs, and diagrams to make data easier to understand.

W

Whistleblowing: The act of reporting certain types of wrongdoing to a person in authority. This is known as making a “protected disclosure” or “a disclosure in the public interest.”

X, Y, Z

No terms.

Scope of content

This section illustrates the depth and breadth of content to be delivered for this unit. All areas indicated in the table below must be covered in teaching.

Learners may not be assessed on all content, or on the full depth or breadth of a piece of content. Content assessed may change over time to ensure validity of assessment.

1.	**Understand business decision making**	
1.1	**Strategy and objectives**	
	Learners need to understand: 1.1.1 how an organisation sets out and uses: - vision - mission statement - strategy - objectives 1.1.2 that objectives should be: - Specific - Measurable - Achievable - Realistic - Time-based 1.1.3 the importance of non-financial key performance indicators (KPIs) 1.1.4 approaches to strategy: - cost leadership - differentiation - focus 1.1.5 Total Quality Management (TQM) - continuous improvement - right first time - organisation-wide philosophy 1.1.6 the costs of quality: - prevention - appraisal - internal failure - external failure 1.1.7 how economic factors affect strategy and performance: - competition - economic growth - government policy - inflation - interest rates	Learners need to be able to: 1.1.8 identify whether decisions align with an organisation's: - vision - mission statement - strategy - objectives 1.1.9 identify: - effective non-financial KPIs - unintended consequences of non-financial KPIs 1.1.10 calculate non-financial KPIs 1.1.11 interpret performance using non-financial KPIs 1.1.12 identify the ethical implications of decisions.

	- international trade - supply and demand - unemployment.	
1.2	**Position analysis**	
	Learners need to understand: 1.2.1 a SWOT analysis: - strengths - weaknesses - opportunities - threats 1.2.2 the use of a SWOT analysis 1.2.3 a PESTLE analysis: - political - economic - social - technological - legal - environmental 1.2.4 the use of a PESTLE analysis.	Learners need to be able to: 1.2.5 identify: - strengths - weaknesses - opportunities - threats 1.2.6 identify factors: - political - economic - social - technological - legal - environment 1.2.7 recommend action to be taken following: - a SWOT analysis - a PESTLE analysis.
1.3	**Cost-benefit analysis**	
	Learners need to understand: 1.3.1 cost benefit analysis.	Learners need to be able to: 1.3.2 complete a cost-benefit analysis 1.3.3 recommend action to be taken following a cost-benefit analysis.

2. Understand organisational effectiveness		
2.1	**Personal effectiveness**	
	Learners need to understand: 2.1.1 effective time management using the Eisenhower matrix 2.1.2 the steps that can be taken to ensure communication is accurate and appropriate 2.1.3 the consequences of inaccurate or inappropriate communication 2.1.4 the importance of: - collaboration - escalation - delegation.	Learners need to be able to: 2.1.5 identify action to be taken using the Eisenhower matrix 2.1.6 recommend when to: - collaborate - escalate - delegate 2.1.7 recommend: - types of business communication - improvements to existing business communication

		2.1.8 use reflective practice to enhance effectiveness.
2.2	**Equity, diversity and inclusion (EDI)**	
	Learners need to understand: 2.2.1 the meaning of: - equity - diversity - inclusion - unconscious bias 2.2.2 the benefits of an inclusive and diverse workforce 2.2.3 the challenges to implementing EDI policies 2.2.4 actions that can be taken to promote EDI by: - organisations - individuals.	Learners need to be able to: 2.2.5 recommend actions to take to promote EDI.

3.	**Understand ethics and law in an accounting environment**	
3.1	**Ethics and professional scepticism**	
	Learners need to understand: 3.1.1 the difference between: - law and ethics 3.1.2 the meaning of: - personal ethics - business ethics - professional ethics 3.1.3 the interrelationship between: - law - ethics - sustainability 3.1.4 the importance of ethics to: - the accountant - the organisation - society 3.1.5 the importance of professional scepticism 3.1.6 why it is important to act ethically 3.1.7 the five fundamental principles of professional ethics 3.1.8 threats to the fundamental principles	Learners need to be able to: 3.1.12 demonstrate professional scepticism 3.1.13 identify breaches of the fundamental principles 3.1.14 identify threats to the fundamental principles 3.1.15 identify safeguards used to protect from threats to the fundamental principles 3.1.16 recommend safeguards to protect from threats to the fundamental principles 3.1.17 recommend action to take when there is ethical conflict 3.1.18 identify conflicts of interest 3.1.19 recommend actions to take when there is a conflict of interest.

	3.1.9 the safeguards which can mitigate threats to the fundamental ethical principles 3.1.10 steps that can be taken to resolve ethical conflict 3.1.11 the consequences of unethical behaviour.	
3.2	**Law**	
	Learners need to understand: 3.2.1 money laundering offences 3.2.2 the consequences for an accountant of failing to act appropriately in response to money laundering 3.2.3 the protection given to accountants by protected disclosures and authorised disclosures 3.2.4 the requirements for registering for anti-money laundering supervision 3.2.5 how to report suspected money laundering 3.2.6 the procedures that an accountant should implement to prevent and detect money laundering 3.2.7 the meaning of bribery 3.2.8 the consequences of bribery 3.2.9 the meaning of whistleblowing 3.2.10 the legal protection for whistleblowers.	Learners need to be able to: 3.2.11 identify money laundering offences 3.2.12 identify consequences of money laundering 3.2.13 identify weaknesses in money laundering procedures 3.2.14 identify steps to report money laundering 3.2.15 identify bribery 3.2.16 identify when whistleblowing is appropriate.

4.	**Understand the effective use of data in business**	
4.1	**Recording data**	
	Learners need to understand: 4.1.1 the methods of data collection - primary/secondary - internal/external - sample/whole population 4.1.2 the process of cleaning data - identify omissions - error detection - rectification 4.1.3 types of errors in data: - systematic errors - random errors - negligent errors.	Learners need to be able to: 4.1.4 identify the most appropriate method of data collection 4.1.5 identify situations where there may be errors in data 4.1.6 identify errors in data 4.1.7 identify the impact of errors in data 4.1.8 clean data.

4.2	**Using data and data protection**	

	Learners need to understand:
	
	4.2.1 the benefits that data analytics can provide to an organisation:
	- speed
	- decision making
	- risk reduction
	- efficiency
	
	4.2.2 the different types of data analytics:
	- descriptive
	- diagnostic
	- predictive
	- prescriptive
	
	4.2.3 the principles of data protection
	
	4.2.4 the risks to data and organisational operations caused by:
	- cyberattacks
	  ▪ phishing
	  ▪ malware
	  ▪ denial of service
	  ▪ ransomware
	- unauthorised access
	- physical loss of equipment
	- data issued in error
	- data amended or deleted in error
	
	4.2.5 the importance of protecting commercially sensitive information
	
	4.2.6 the impact of data protection breaches on the individual and business
	
	4.2.7 the impact of Artificial Intelligence (AI):
	- data collection
	- data use
	- ethics
	- sustainability
	- legal compliance.
		Learners need to be able to:
		
		4.2.8 identify the principles of data protection
		
		4.2.9 recommend how to protect data
		
		4.2.10 identify the potential consequences of not protecting data.

4.3	**Presenting data**	
	Learners need to understand: 4.3.1 the value of a narrative in addition to data and visualisations 4.3.2 that interpretation of visualisations can vary 4.3.3 the issues arising with the use of: - spreadsheets - social media	Learners need to be able to: 4.3.7 interpret visualisations 4.3.8 identify ways to reduce data bias 4.3.9 distinguish between correlation and causation.

	- other digital applications 4.3.4 data bias 4.3.5 the difference between correlation and causation 4.3.6 ethical issues in relation to: - data visualisation - data use.	

5. Understand the importance of sustainability in business	
5.1	**Introduction to sustainability**
	Learners need to understand: 5.1.1 key sustainability concepts: - different forms of capital - the circular economy - economic growth and degrowth 5.1.2 global sustainability challenges 5.1.3 the pillars of sustainability (3 Ps): - People - Profit - Planet 5.1.4 challenges to the pillars of sustainability.
5.2	**Sustainability standards and reporting**
	Learners need to understand: 5.2.1 the United Nations Sustainable Development Goals (UN SDGs) 5.2.2 the actions governments can take to promote sustainability 5.2.3 the standards applicable to organisations reporting under IFRSs: - IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ▪ objective to require organisations to disclose sustainability-related risks and opportunities ▪ for reporting periods starting after 1 January 2024 ▪ includes information on governance processes, strategies for risks and opportunities and performance measures for sustainability targets - IFRS S2 Climate-related Disclosures ▪ objective to require organisations to disclose information about their climate-related risks and opportunities ▪ for reporting periods starting after 1 January 2024 ▪ includes information on governance processes, strategies for risks and opportunities and performance measures for sustainability targets - IFRS S2 should be used in conjunction with IFRS S1 5.2.4 the movement towards prescriptive sustainability guidance.

5.3	Business sustainability	
	Learners need to understand: 5.3.1 the actions that businesses can take towards sustainability 5.3.2 that the actions to promote one pillar of sustainability may impact another pillar 5.3.3 the benefits of adopting sustainable business practices 5.3.4 the importance of having a sustainability policy 5.3.5 the challenges to implementing sustainability policy 5.3.6 the meaning of: - greenwashing - greenhushing 5.3.7 the importance of taking responsibility for sustainability: - personal - professional 5.3.8 how the accountant can contribute to and help manage sustainability.	Learners need to be able to: 5.3.9 identify actions to promote sustainability.

Delivering this unit

Students will explore how businesses establish their goals and strategies, including the formulation of vision and mission statements. Many well-known businesses publish their vision and mission statements, so tutors should use real-world examples to illustrate these concepts. Students should be encouraged to find these for their workplace and consider how they are used.

Students will assess the influence of various economic factors such as competition, economic growth, government policies, interest rates, inflation, international trade, supply and demand, and unemployment on business performance. Case studies and current events can be utilised to bring these concepts to life. Where students are employed, they can research how these factors impact their business and apply SWOT and PESTLE models to their organisation.

A significant focus will be on enhancing personal effectiveness. Students will learn to manage their time efficiently using tools like the Eisenhower matrix. Effective communication, along with the importance of collaboration, escalation, and delegation can be emphasised through role-playing and group activities. Promoting equality, diversity, and inclusion (EDI) in the workplace should be supported by case studies showcasing best practices.

Students will learn the difference between personal, business and professional ethics and the importance of ethics to the accountant, the organisation and society. Practical examples of business ethics may be used to consider ethical behaviour towards business stakeholders and initiatives, including **The Fair Payment Code**, may provide an opportunity to discuss core components of ethical business practices. Practical examples of professional ethical conflicts should be provided, along with strategies for addressing them. The differences between law and ethics can be considered before considering case studies involving money laundering, bribery, and whistleblowing.

Students will learn to collect, clean, and analyse data, with a focus on data protection principles and safeguarding commercially sensitive information. This can be demonstrated using spreadsheets and other software tools and activities set for students to practice these skills.

Sustainability will also be a key area of study. Students will be introduced to essential sustainability concepts and standards, including the United Nations Sustainable Development Goals (UN SDGs) and sustainability reporting under IFRSs. The challenges and benefits of implementing sustainability policies will be discussed, with case studies highlighting successful strategies. Some businesses will publish their reports and policies which can be used to highlight real-world examples.

A variety of teaching methods may be employed throughout the unit. Case studies and real-world examples should be used to illustrate key concepts. Group work and projects will foster collaboration and practical application of knowledge. Role-playing and simulations will help students practise decision-making and problem-solving skills.

The pre seen scenario for the Advanced Business Awareness assessment can be used throughout the learning stage to apply the concepts and models to and familiarise the student with the business. During the revision phase group activities can be used to investigate the industry of the business in the pre-seen and identify approaches, policies and strategies for similar real-world businesses.

Test specification for Advanced Business Awareness

Assessment method	**Marking type**	**Duration of assessment**
Computer based assessment	Wholly computer marked	2 hours 30 minutes

Learning outcomes	**Weighting**
1. Understand business decision making	25%
2. Understand organisational effectiveness	15%
3. Understand ethics and law in an accounting environment	20%
4. Understand the effective use of data in business	20%
5. Understand the importance of sustainability in business	20%
Total	**100%**

12. Delivering AAT qualifications

12.1. Staff requirements

AAT requires that all staff who deliver AAT qualifications, including tutors, assessors and verifiers, are professionally competent to do so.

If a training provider wishes to claim recognition of prior learning (RPL) for a student, the staff must hold the relevant assessor and/or Internal Verifier (IV) qualifications.

For more information on assessing RPL and the role and qualifications required for assessors and/or IVs, please refer to the *AAT Code of practice for approved training providers* and *AAT Guidance for training providers* documents available through MyAAT at **aat.org.uk/support/quality-assurance/resources**

12.2. Training provider and assessment venue approval

Training providers must be approved by AAT to offer these qualifications. To apply to become an AAT Approved training provider, email **trainingproviders@aat.org.uk** with the following information:

- full name of organisation
- full postal address, including postcode
- landline telephone number
- website address – this must be a live, fully functioning website
- other awarding bodies with which the organisation is accredited.

When AAT has received this information, an account manager will set up a meeting and discuss the criteria needed for approval. Only applications that meet AAT's high standards will be approved.

Existing training providers who wish to offer the qualification(s) should apply through the qualification approval section under online centre services, which can be found under the MyAAT login. Please note that only the training provider's main contact can apply for qualification approval.

Some organisations will not wish to become AAT Approved training providers but may be interested in administering AAT assessments by becoming an approved assessment venue. To apply to become an AAT Approved assessment venue, email **assessment.venues@aat.org.uk** with the following information:

- the full address of the proposed venue
- any experience in administering computer based assessments.

AAT will evaluate whether a venue meets the minimum hardware and software requirements, is a suitable environment for delivering assessments and has the staff to run assessments successfully. A representative from AAT will conduct a visit before approval is granted.

12.3. Quality assurance

AAT monitors training providers to ensure their continued compliance with the AAT approval criteria, the *AAT Code of practice for approved training providers* and appropriate regulatory requirements.

All training providers have an allocated point of contact and will be subject to a range of quality assurance activities (including visits, remote activities, self-assessment and thematic reviews) to ensure that quality standards are being met. The frequency of quality assurance activities will depend on a number of factors, including the level of risk associated with the provider's experience in delivering AAT qualifications and/or the outcomes of previous quality assurance activities. If a centre has been delivering assessments using RPL, AAT may also ask for particular information and/or documents to be made available so that sampling can be carried out.

Training providers will receive a report following on from any quality assurance activity from AAT, which will identify any actions that are to be addressed.

AAT may apply an action plan with deadlines and/or a sanction where training providers do not meet the requirements set out in the **AAT Code of practice for approved training providers,** which may be accessed via MyAAT

Sanctions will be applied at training provider level and will take the following form:

- Level 1: Action plan imposed
- Level 2: Suspension of the right to claim certification
- Level 3: Suspension of the right to register students, schedule assessments and claim certification.

Where AAT considers that there is an irretrievable breakdown in the management and quality assurance of the delivery of specified qualifications, AAT will withdraw training provider approval.

13. Equity, Diversity, Inclusion, Belonging (EDIB) and accessibility

At AAT, we are committed to embedding Equity, Diversity, Inclusion, Belonging (EDIB) and accessibility throughout the design, development and delivery of all qualifications and assessments. We aim to ensure that all students, regardless of background, identify or circumstance, can access and fairly demonstrate real-world ready competencies.

By integrating EDIB principles with a proactive approach to accessibility, we aim to reduce barriers, promote inclusion, foster a genuine sense of belonging throughout the apprentice journey, and outlines AATs continuing commitment to our **responsible business strategy**.

Our principles enable our commitment to:

- **enhance equity, diversity and inclusion** – we will build an assessment model that proactively supports underrepresented groups and reduces barriers to progression, reinforcing AAT's commitment to breaking down structural inequalities across the accountancy profession;
- **make AAT more accessible and inclusive** – we will ensure our assessments are accessible by design, underpinned by robust and consistent processes for reasonable adjustments, and designed to meet the needs of all apprentices, including those learning and working remotely;
- **reflect the changing world of work** – we will embed inclusive design principles to ensure assessments reflect real-world, inclusive scenarios that resonate with a broad and diverse apprentice base, better preparing them for a modern, global workforce;
- **champion digital by design** – our approach to accessibility includes digital accessibility and inclusion, ensuring all online assessment platforms and content meet high standards for usability and fairness, supporting AAT's goal of a seamless, apprentice-focused digital experience.

13.1. Reasonable adjustments and special considerations

A reasonable adjustment is an arrangement that can be put in place by AAT or the assessment centre prior to an assessment to help students with a long-term disability, such as dyslexia, or who are temporarily impaired, such as a student who has broken their arm, to not be disadvantaged. For example, this could mean applying extra time for dyslexic students or allowing the use of a scribe for a student with a broken arm.

In most cases, it should be possible for the assessment centre to make the decision to grant adjustments and notify AAT before scheduling the assessment: for example, granting extra time up to and including one-third of the available time as published for that assessment. However, if a more significant adjustment is needed, assessment centres may need to obtain approval from AAT first.

Special consideration is the term used to describe the process by which a student's script is reassessed after it has been taken, due to the student suffering an illness, traumatic accident or major and unpredictable life event at, or shortly before, the time of assessment.

More detailed information about what is eligible for reasonable adjustments or special consideration, and the forms and procedures that should be used by training providers and assessment venues, are given in the **Guidance on the Application of Reasonable Adjustments and Special Consideration in AAT Assessments**, document which is available on the **reasonable adjustments and special considerations webpage**.

14. Support for training providers

14.1. Partner Support team

The Partner Support team is dedicated to helping training providers with the daily running of AAT qualifications. The team also offers one-to-one support for new training providers to help them get their AAT qualifications up and running.

Phone: +44 (0)203 3735 2443
Email: **partner.support@aat.org.uk**

14.2. Partner Account Manager (PAM)

Each training provider has their own Regional Account Manager (RAM) assigned to support them once they have been approved as an AAT training provider. RAMs help provide links to local employers and visit regularly to keep training providers up to date on qualification developments, apprenticeships and possible commercial opportunities.

14.3. Weekly email update from AAT – *SummingUp*

Every Friday, *SummingUp* shares all the latest news from AAT with AAT Approved training providers, including:

- technical updates
- qualification developments
- upcoming events
- new e-learning materials
- the latest marketing materials.

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