

SQA Advanced Unit Specification

General information for centres

Unit title: Preparing Financial Forecasts

Unit code: HP70 48

Unit purpose: This Unit is designed to enable candidates to develop an understanding of the use of management accounting information within a business organisation. It provides candidates with the skills required to prepare basic management accounting reports. In addition, the Unit will also enable candidates to learn the financial techniques used for making decisions in relation to costing and budgeting, pricing and investments.

On completion of the Unit the candidate should be able to:

- 1 Prepare an operating statement.
- 2 Analyse costing data and provide information for decision-making.
- 3 Analyse budgetary information and prepare a variance report.
- 4 Assess the viability of a project using investment and project appraisal techniques.

Credit points and level: 1 SQA Credit at SCQF level 8: (8 SCQF credit points at SCQF level 8*)

**SCQF credit points are used to allocate credit to qualifications in the Scottish Credit and Qualifications Framework (SCQF). Each qualification in the Framework is allocated a number of SCQF credit points at an SCQF level. There are 12 SCQF levels, ranging from National 1 to Doctorates.*

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

Core Skills: There are opportunities to develop the Core Skill components of Using Number at SCQF level 5 and Critical Thinking at SCQF level 5 in this Unit, although there is no automatic certification of Core Skills or Core Skills components.

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

The Assessment Support Pack (ASP) for this unit provides assessment and marking guidelines that exemplify the national standard for achievement. It is a valid, reliable and practicable assessment. Centres wishing to develop their own assessments should refer to the ASP to ensure a comparable standard. A list of existing ASPs is available to download from SQA's website (<http://www.sqa.org.uk/sqa/46233.2769.html>).

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Assessment: The assessment of Outcomes 1 and 2 may be combined. The assessment of Outcomes 3 and 4 may also be combined.

An exemplar instrument of assessment and marking guidelines have been produced to show the national standard of achievement required at SCQF level 8.

Unit specification: statement of standards

Unit title: Preparing Financial Forecasts

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The sections of the Unit stating the Outcomes, Knowledge and/or Skills, and Evidence Requirements are mandatory.

Outcome 1

Prepare an operating statement

Knowledge and/or Skills

- ◆ Cost classification
- ◆ Overhead absorption
- ◆ Profit determination

Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can:

- ◆ prepare an operating statement that includes details of the classification and analysis of costs
- ◆ apply logic to the order of costs in the operating statement
- ◆ subtotal the main cost categories
- ◆ absorb overheads using an appropriate basis — a minimum of two different bases should be used
- ◆ calculate profit in accordance with a given policy (mark-up or margin)

The evidence should be generated under closed book, supervised conditions.

Figures must be accurate within a tolerance of four arithmetic or computational errors, with a maximum of two errors of principle.

Assessment Guidelines

Assessment may be combined with Outcome 2.

Candidates could be provided with cost information where costs have already been allocated to cost centres.

Outcome 2

Analyse costing data and provide information for decision-making

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Knowledge and/or Skills

- ◆ Marginal costing and contribution-margin analysis
- ◆ Analysis of costs
- ◆ Information for decision-making

Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can:

- ◆ calculate the effect of changing costs and revenue levels on contribution and on profit — a minimum of two changes in both cost and revenue levels to be applied
- ◆ analyse a number of alternative courses of action and estimate the costs incurred and profit earned in accordance with given projected revenue and cost patterns
- ◆ recommend an appropriate course of action consistent with analysis

The evidence should be generated under closed book, supervised conditions.

Figures must be accurate within a tolerance of four arithmetic or computational errors, with a maximum of two errors of principle.

Assessment Guidelines

Assessment may be combined with Outcome 1.

Candidates could be required to prepare an operating statement as required by the Evidence Requirements for Outcome 1 and then be asked to apply changes to the data which could be analysed and recommendations made regarding possible courses of action.

Outcome 3

Analyse budgetary information and prepare a variance report

Knowledge and/or Skills

- ◆ Flexed budgets
- ◆ Variances: materials, labour and overheads
- ◆ Variance analysis and reporting

Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can:

- ◆ flex the budget from provided functional budgets in line with actual activity
- ◆ calculate the following variances: Materials (usage, price, cost); Labour (efficiency, rate, cost); Total overhead; and identify a minimum of one possible cause of each variance
- ◆ make a minimum of two recommendations to management that are consistent with the significance and direction of the variances calculated

The evidence should be generated under open-book conditions.

Figures must be accurate within a tolerance of four arithmetic or computational errors, with a maximum of two errors of principle.

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Assessment Guidelines

Assessment could be combined with Outcome 4 as an open-book home based assessment. Further details are given under the Assessment Guidelines for Outcome 4.

Outcome 4

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

Knowledge and/or Skills

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

Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can:

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

The evidence should be generated under open-book conditions.

Figures must be accurate within a tolerance of four arithmetic or computational errors, with a maximum of two errors of principle.

Assessment Guidelines

Assessment could be combined with Outcome 3 as an open-book home based assessment.

Where a case study is used for the assessment it could contain the following information for an organisation:

- ◆ Functional budgets for the previous period together with the actual results.
- ◆ An identified investment that the organisation is currently considering. This could include the expected costs and revenue flow over a time period as well as the market rate of interest.

Candidates could then be expected to produce a response in which they:

- ◆ Analyse the budgetary information and prepare a variance report with recommendations as required by the Evidence Requirements of Outcome 3.
- ◆ Analyse the organisations investment plans and make recommendations as required by the Evidence Requirements of Outcome 4.

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Administrative information

Unit code:	HP70 48
Unit title:	Preparing Financial Forecasts
Superclass category:	AK
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History of changes:

Version	Description of change	Date

Source: SQA

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

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Unit specification: support notes

Unit title: Preparing Financial Forecasts

This part of the Unit specification is offered as guidance. The support notes are not mandatory.

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

Guidance on the content and context for this Unit

This Unit is designed to provide candidates with an understanding of the use of management accounting information in the decision-making processes within an organisation. Candidates would normally be expected to have prior knowledge of business accounting. The Unit is mandatory within SQA Advanced Diploma in Business (GM51 48) but may form part of other group awards and may be delivered as a stand-alone Unit.

Outcome 1 covers the preparation of an operating statement.

- ◆ structure and content of an operating statement
- ◆ cost classification — direct and indirect
- ◆ overhead allocation and absorption
- ◆ profit determination using both mark-up and margin

Outcome 2 covers the analysis of costing data and the provision of information for decision-making.

- ◆ marginal costing and its role in the decision-making process
- ◆ full and absorption costing to be compared with marginal costing
- ◆ the impact of changing costs and revenue on total contribution
- ◆ break-even and margin of safety — this could be covered in the teaching of this Unit to establish a context for marginal costing

Outcome 3 involves the analysis of budgetary information and calculation of variances.

- ◆ functional budgets — the preparation of functional budgets should be covered in the delivery of this Unit, although not formally assessed, in order to establish a context for this Outcome
- ◆ flexed budgets
- ◆ variance analysis — materials, labour and overheads

Candidates could be encouraged to use spreadsheets for the budgets.

Outcome 4 involves the use of investment and project appraisal techniques to assess the viability of a project.

- ◆ investment appraisal techniques — traditional and discounted cash flow and their uses in decision-making
- ◆ the effects of limited funds, although not formally assessed, could be covered in the teaching of this Unit
- ◆ the effects of taxation should be excluded from the analysis

The use of a spreadsheet package should be encouraged.

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Guidance on the delivery and assessment of this Unit

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

If this Unit is delivered as part of SQA Advanced Diploma in Business (GM51 48) it is recommended that it be delivered and assessed after the Unit HP7K 47 *Business Accounting* and would, therefore, be more appropriate for study in the second year of SQA Advanced Diploma Business.

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

This Unit could be assessed by two assessment tasks each covering two Outcomes — Outcome 1 and 2 being assessed together and Outcomes 3 and 4 being assessed together.

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

Opportunities for developing Core Skills

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

The delivery and assessment of this Unit may also contribute towards the Critical Thinking component of the Core Skill *Problem Solving* at SCQF level 5, particularly in Outcomes 2, 3 and 4 where candidates are required to analyse data and present a recommendation.

Open learning

If this Unit is delivered by open or distance learning methods, additional resources will be required for candidate support, assessment and quality assurance. It would require planning by the centre to ensure the sufficiency and authenticity of candidate's evidence.

Equality and inclusion

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

Further advice can be found on our website www.sqa.org.uk/assessmentarrangements.

General information for candidates

Unit title: Preparing Financial Forecasts

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

Outcome 1 covers the preparation of an operating statement. You will learn about the structure of an operating statement and how to classify costs into direct and indirect. You will also learn about overheads and their allocation and absorption into an operating statement. You will also look at different methods of determining profit — mark-up and margin.

Outcome 2 you will further develop your understanding of costs for a business through marginal costing and its application in relation to providing relevant data for decision-making. You will compare alternative costing methodologies — Full, Absorption and Marginal. You will calculate the effect of changing costs and revenue levels on the total contribution made by the goods and services an organisation produces. You may also be introduced to break-even and margin of safety calculations, although these elements are not formally assessed.

Outcome 3 will cover flexed budgets. In order to give you a fuller understanding of this area of management accounting you will cover the preparation of functional budgets. This Outcome will also cover variances as a comparison between budgeted and actual revenue and costs for the organisation. You will develop the necessary skills to allow you to analyse these variances and make recommendations to management as a result of your analysis.

Outcome 4 looks at the application of investment appraisal techniques — both traditional and discounted cash flow - as an aid to decision-making. You will also look at the effects of limited funds on selecting projects as well as the normal appraisal techniques.

You will be encouraged to use a spreadsheet package in Outcomes 3 and 4.

This Unit may be assessed by two assessment tasks each covering two Outcomes — Outcomes 1 and 2 being assessed together and Outcomes 3 and 4 being assessed together.

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