

# Unit 21: Financial Reporting

<b>Unit code</b>	<b>R/618/5068</b>
<b>Unit level</b>	<b>5</b>
<b>Credit value</b>	<b>15</b>

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## Introduction

Financial reporting is the financial results of an organisation that are released to both stakeholders and the public. Reporting typically encompasses the following financial statements: the income statement, balance sheet, statement of cash flows. Financial reporting provides a clear roadmap for the business, identifying areas for improvement in spending on the return of investment to maximise business efficiency and act as a business health check to be shared with investors and newcomers.

The overall aim of this unit is to develop the knowledge, understanding and skills required in the preparation and interpretation of financial statements for incorporated organisations. Students will become aware of regulatory frameworks, including the International Financial Reporting Standards Foundation (IFRS Foundation), which inform and govern the production of financial statements and reporting of financial performance. Students will explore and critique conceptual frameworks for financial reporting in both national and international contexts. Students will be assessed in the preparation and analysis of financial statements to inform decision making, which will enable them to contribute to the effectiveness and efficiency of organisations operating in diverse and complex environments.

By the end of the unit, students will have the fundamental knowledge and skills to progress to a higher level of study or employment in the finance sector.

## **Learning Outcomes**

By the end of this unit a student will be able to:

- LO1 Analyse the context and purpose of financial reporting for high-performing organisations
- LO2 Evaluate regulatory frameworks for financial reporting
- LO3 Prepare financial statements for an incorporated organisation to meet legal requirements and business objectives
- LO4 Interpret financial statements of an incorporated organisation to achieve performance metrics.

## Essential Content

### LO1 Analyse the context and purpose of financial reporting for high-performing organisations

#### *Context of financial reporting:*

The financial reporting function within and across the organisation to support achievements of objectives.

Key financial reporting roles and career opportunities in the organisation, e.g. Finance Officer, Financial Controller.

Skills and competences: corporate and business reporting, risk management, operational and strategic thinking, communication and values driven.

Meeting user needs and expectations within regulatory and ethical frameworks.

Internal compliance, governance, sustainability, increased scrutiny on financial reporting and standards.

The characteristics of useful information, including what is meant by 'recognition' in financial statements and recognition criteria.

#### *Purpose of financial reporting:*

Communicating financial information to internal and external stakeholders  
Reporting past and present data and planning for future performance.

Supporting the acquisition of funding and informing decision making across short-, medium- and long-term timeframes.

Predicting future financial positions, cash flows, profitability, market positions and opportunities etc.

## LO2 **Evaluate regulatory frameworks for financial reporting**

### *Regulatory frameworks:*

Purpose and scope of regulatory frameworks from national and international perspectives.

Regulatory frameworks v accounting standards.

Legal versus ethical constraints.

Equity Theory, Legitimacy Theory and models of reporting and auditing of financial statements.

Role, purpose and development of International Financial Reporting Standards (IFRS) and the International Accounting Standards Board (IASB).

Benefit to organisations, investors and other stakeholders, e.g. compliance, transparency, accountability, risk reduction, informed decision making.

As a means of reducing gap between suppliers and providers of capital.

### *International differences:*

National and international regulatory frameworks, including advantages and disadvantages of IFRS over a national regulatory framework.

International differences in external financial reporting and factors that influence these differences.

Impact and effectiveness of IFRS in regulating cross-border financial reporting and different countries' responses.

## LO3 **Prepare financial statements for an incorporated organisation to meet legal requirements and business objectives**

### *Incorporated v unincorporated organisations:*

Conceptual differences and comparison of layouts of financial statements.

Common types of company, e.g. limited by shares, or guarantee, private and public companies.

Differences in accounting terminology and legislation that has had an impact.

Compare and interpret financial statements and the limitations of those interpretations.

*Producing financial statements for a limited company:*

Preparation of income statement and statement of financial position using standard layout to meet organisational objectives.

Key legal requirements that organisations must comply with.

Recording capitalisation of limited companies, including share (equity) vs loan capital, authorised versus issued share capital and nominal versus market value of shares.

Treatment of debentures and reserves in the financial statements.

#### **LO4 Interpret financial statements of an incorporated organisation to achieve performance metrics**

*Importance and purpose of analysing financial statements:*

Using financial statements to communicate financial positions with stakeholders.

Use of cash flow statements to monitor inflows and outflows of cash.

Different key performance indicators for measuring and monitoring financial performance of an organisation.

*Ratio analysis:*

Calculation of profitability, liquidity, activity and investment ratios from financial statements.

Interpretation of calculated ratios to determine the financial position of the organisation.

Identification and evaluation of relevant benchmarks to support performance analysis, e.g. time series, competitor, internal, sector.

Limitations of ratios as measures of performance.

## Learning Outcomes and Assessment Criteria

Pass	Merit	Distinction
<b>LO1</b> Analyse the context and purpose of financial reporting for high performing organisations		<b>D1</b> Make justified recommendations for improving financial reporting and performance.
<b>P1</b> Analyse the context and purpose of financial reporting for successful outcomes and high organisational performance.	<b>M1</b> Critically analyse the context and purpose of financial reporting in meeting different stakeholder needs and expectations for the successful organisation.	
<b>LO2</b> Evaluate regulatory frameworks for financial reporting		<b>D2</b> Justify recommendations for ways in which the organisation and key stakeholders can successfully respond to regulatory frameworks in complex operating environments.
<b>P2</b> Examine the purpose and significance of regulatory frameworks for organisational financial reporting. <b>P3</b> Consider the benefits and disadvantages of IFRS over a national regulatory framework.	<b>M2</b> Critically evaluate the impact of regulatory frameworks on the organisation in its operating environments to meet objectives and deliver on strategies.	

Pass	Merit	Distinction
<b>L03</b> Prepare financial statements for an incorporated organisation to meet legal requirements and business objectives		
<p><b>P4</b> Prepare financial statements for a limited company in line with IFRS regulations and standards.</p> <p><b>P5</b> Compare differences and similarities between financial statements for incorporated and unincorporated organisations.</p>	<p><b>M3</b> Produce financial statements for a limited company, including adjustments and capital structure.</p>	<p><b>L03 and L04</b></p> <p><b>D3</b> Critically evaluate limited company financial statements, making recommendations on how organisations can improve effectiveness and efficiency in their operating environments.</p>
<b>L04</b> Interpret financial statements of an incorporated organisation to achieve performance metrics.		
<p><b>P6</b> Calculate and present financial ratios for organisational performance and investment purposes for a limited company.</p> <p><b>P7</b> Interpret a range of limited company financial statements in meeting performance benchmarks.</p>	<p><b>M4</b> Evaluate comparative performance and investment potential of limited companies, using a range of ratios and relevant benchmarks.</p>	

## Recommended Resources

### Textbooks

ATRILL, P. and McLANEY, E. (2018) *Accounting and Finance for Non-Specialists*. 11th Ed. Harlow: Pearson.

ELLIOT, B. and ELLIOT, J. (2019) *Financial Accounting and Reporting*. 19th Ed. Harlow: Pearson.

MELVILLE, A. (2019). *International Financial Reporting: A Practical Guide*. 7th Ed. Harlow: Pearson.

WEYGANDT, J. et al (2018) *Financial Accounting with International Reporting Standards*. 4th Ed. Oxford: Wiley.

### Websites

<a href="http://www.accaglobal.com">www.accaglobal.com</a>	Association of Chartered Certified Accountants (General reference)
<a href="http://www.accountingcoach.com">www.accountingcoach.com</a>	Accounting Coach Online free courses (General reference)
<a href="http://www.cimaglobal.com">www.cimaglobal.com</a>	Chartered Institute of Management Accountants Tutor Resource Hub
<a href="http://www.corporatefinanceinstitute.com">www.corporatefinanceinstitute.com</a>	Corporate Finance Institute Resources Knowledge (General Reference)
<a href="http://www.icaew.com/technical">www.icaew.com/technical</a>	Institute of Chartered Accountants in England and Wales Resources Financial Reporting (General reference)



## **Links**

This unit links to the following related units:

*Unit 5: Accounting Principles*

*Unit 10: Recording Financial Transactions*

*Unit 22: Management Accounting*

*Unit 23: Financial Management*