



Qualification Number: R685 04  
Qualification Specification  
Version 3.6 published September 2025

Diploma in

# PROFESSIONAL ACCOUNTING

## AT SCQF LEVEL 8

AAT is a registered charity No 1050724

## Updates to this specification

Since first publication of the Level 8 Diploma in Professional Accounting, the following areas of the qualification specification have been updated.

Version	Date first published	What's been updated
Version 3.6	24 September 2025	Changes to paragraphs: About AAT Ethics: we set and raise standards Student Registration: support every step of the way
Version 3.5	12 September 2025	Section 11: Units (changes to Business Tax and Personal Tax assessment time for FA23)
Version 3.4	14 May 2025	Test specification for Introduction to Bookkeeping unit assessment – link updated  Updates made to reflect change to Partner Support / Partner Account Manager
Version 3.3	27 January 2025	Section 11: Units (finalised changes to Business Tax for FA24 for assessments from 27 January 2025, removal of FA23) Section 5: RPL statement updated
Version 3.2	28 October 2024	Section 11: Units (changes to Business Tax for FA24 for assessments from 27 January 2025, 1.1.1 and 1.1.2 formatting update)
Version 3.1	16 September 2024	Section 11: Units (changes to Business Tax for FA24 for assessments from 27 January 2025)
Version 3.0	8 March 2024	Section 5: (update to RPL statement)
Version 2.5	15 January 2024	Section 11: Units (Credit values added in for PNTA and BNTA)
Version 2.4	2 January 2024	Section 11: Units (changes to Business Tax and Personal Tax assessment time for FA23)
Version 2.3	15 September 2023	Section 11: Units (changes to Business Tax for FA23 for assessments from 29 January 2024)
Version 2.1	10 June 2022	Final version published

Version 2.0	28 January 2022	Qualification go-live date <a href="#">Qualification technical information</a> – see updated Level 4 document (PDF) Section 5.5 / 6.1: Inclusion of dedicated webpage to the RPL and exemptions policy
Version 1.0	24 September 2021	First publication

This qualification is approved and regulated by SQA Accreditation.

This qualification applies only to students registered with AAT from **1 September 2022**.

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## 1. About AAT

AAT is a trusted brand for quality-assured accountancy qualifications across the globe, working with students and members, and partnering with AAT-approved training providers. We also have licensed members throughout the UK. 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. To find out more about us and our impact, please visit [aat.org.uk/about/what-we-do](https://aat.org.uk/about/what-we-do)

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**

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## 2. Ethics: we set and raise standards

AAT is about more than qualifications. AAT is recognised and respected as a professional membership body by a wide range of businesses. We require our 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 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 8 Diploma in Professional Accounting can do so at [aat.org.uk/register/student](https://aat.org.uk/register/student)

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.

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**Find out more about the benefits of  
registering with AAT**

## 4. Choosing to study the AAT Diploma in Professional Accounting at SCQF level 8

### 4.1 Who should choose to study this qualification?

The Level 8 Diploma in Professional Accounting offers technical training in accounting and is ideal for anyone wishing to pursue or progress their career in accountancy or finance.

The purpose of the Level 8 Diploma in Professional Accounting is to enhance the skills developed from the Level 7 Diploma in Accounting, enabling students to maximise opportunities in their current or new employment. By studying for this qualification, students will acquire professional accountancy and finance skills that will be useful throughout their careers, including:

- drafting financial statements for limited companies
- having the knowledge and skills to use complex management accounting techniques
- the ability to analyse accounting systems and their associated controls
- having knowledge and skills in specialist accountancy and finance subjects.

The Level 8 Diploma in Professional Accounting qualification will suit those who:

- have completed the Level 7 Diploma in Accounting and who 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.



## 4.2 Why choose this qualification?

Students should choose the Level 8 Diploma in Professional Accounting as it 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're 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 8 Diploma in Professional Accounting covers high-level accounting and finance topics and tasks. Students will look at and become comfortable with a wide range of financial management skills and applications, and will gain competencies in drafting financial statements for limited companies, recommending accounting systems strategies and constructing and presenting complex management accounting reports. Students will also learn about specialist areas such as tax, auditing, credit and debit management and cash and financial management. **Key themes** have also been introduced throughout the suite of accounting qualifications, including technology, ethics, sustainability and communication.

This qualification comprises three mandatory units and two specialist units selected from a choice of five options (390 guided learning hours in total).

The mandatory units are:

- Applied Management Accounting
- Drafting and Interpreting Financial Statements
- Internal Accounting Systems and Controls.

The optional units are:

- Business Tax
- Personal Tax
- Audit and Assurance
- Cash and Financial Management
- Credit and Debt Management.

#### 4.4 What will this qualification lead to?

Once qualified, and having met AAT's criteria, students can apply for full AAT membership, which will allow them to use the designatory letters MAAT after their name.

However, the primary and most important outcome of the Level 8 Diploma in Professional Accounting is that it can lead to a wide variety of well-paid accountancy and finance jobs, some of which include:

- Professional Accounting Technician
- Assistant Auditor
- Assistant Management Accountant
- Commercial Analyst
- Payroll Manager
- Senior Bookkeeper
- Senior Financial Officer
- Accounts Payable and Expenses Supervisor
- Assistant Financial Accountant
- Cost Accountant
- Fixed Asset Accountant
- Indirect Tax Manager
- Payments and Billing Manager
- Senior Fund Accountant
- Senior Insolvency Administrator
- Tax Supervisor
- VAT Accountant.

## 4.5 Is this part of an apprenticeship?

The Level 8 Diploma in Professional Accounting is fully mapped to the **Technical Apprenticeship in Scotland**.

AAT understands that not everyone can access an apprenticeship. In these cases, there are compelling reasons to choose to take this high-quality qualification, which is valued because of its track record of delivering successful employment outcomes outside of the apprenticeship. AAT has many examples of unemployed and career-change students of all ages who have gained employment directly as a result of achieving this qualification.

## 5. About the AAT Level 8 Diploma in Professional Accounting

Qualification name	AAT Level 8 Diploma in Professional Accounting
Qualification number	R685 04
Level	8
Guided learning hours (GLH)	390
SCQF Credits	105, 101, 97 (dependent on combination of optional units taken)

### 5.1 Guided learning hours (GLH) value

**The total GLH value for the Level 8 Diploma in Professional Accounting is 390 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 time (TQT) value

**The TQT value for the Level 8 Diploma in Professional Accounting is 985, 1022 or 1059 hours (depending on completed options).**

The TQT value is also a measure of how long it takes to complete a qualification, but it includes both GLH 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 any entry requirements for this qualification?

AAT does not set any entry requirements 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. 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 also have completed AAT Level 6 and Level 7 qualifications.

AAT recommends that students use [AAT Skillcheck](#) to ensure that they're ready to start on a particular qualification.

### 5.4 Will current students be able to transfer their results onto this qualification to complete their studies?

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.

It's important to check for the latest information to see if transitional arrangements apply. More information is available in the [AQ2016 to Q2022 Transitional arrangements](#) (PDF).

### 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.

RPL is planned to be made available from mid-2025. Please refer to the RPL Policy for full details on restrictions and the process. 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 pass mark for that assessment and this mark will be used in determining the final qualification grade. In order to achieve a higher mark, the student must sit a standard assessment instead.

More details on RPL can be found in the [AQ2016 to Q2022 Transitional Arrangements \(PDF\)](#) and the dedicated RPL and exemptions webpage at [aat.org.uk/qualifications-and-courses/exemptions-recognition-prior-learning](https://aat.org.uk/qualifications-and-courses/exemptions-recognition-prior-learning)

## 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 details on exemptions can be found in the [AQ2016 to Q2022 Transitional Arrangements \(PDF\)](#) and the dedicated exemptions and RPL webpage at [aat.org.uk/qualifications-and-courses/exemptions-recognition-prior-learning](http://aat.org.uk/qualifications-and-courses/exemptions-recognition-prior-learning)

### 6.2 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](#).

A list of universities that offer exemptions to AAT students may be found at [aat.org.uk/exemptions](http://aat.org.uk/exemptions). To request an exemption from a course at a specific institution not listed here, send the following details to [heprogression@aat.org.uk](mailto:heprogression@aat.org.uk): the name of a contact at the institution, the course name and the UCAS code if possible. AAT will write directly to the institution to request consideration for exemptions.

### 6.3 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. Full details on exemptions from chartered accountancy bodies can be accessed through MyAAT at [aat.org.uk/membership/professional-membership/reduced-membership-chartered](http://aat.org.uk/membership/professional-membership/reduced-membership-chartered)

## 7. Employer involvement

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.

### 7.1 Employer involvement in development and assessment

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.

Employers also contribute to the development of the live materials used to assess students on completion of their study. Employer involvement in assessment of this qualification includes reviewing and editing the assessments and scenarios used to ensure that they reflect realistic working practices and the wider environment.

## 8. Support for this qualification

### 8.1 AAT 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.

Materials produced for this qualification will include:

- practice assessments for each unit
- one Sample Assessment and Mark Scheme (Applied Management Accounting)
- Qualification Technical Information (QTI)
- annual Chief Examiner reports.

Additional materials may also include:

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

All AAT study support resources can be accessed via the [AAT Lifelong Learning Portal](#).

### 8.2 Published materials

A number of 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 and 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 achieve the three mandatory unit assessments and two optional unit assessments to achieve this qualification. The proportion of this qualification assessed by externally marked 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 at approved training providers and assessment venues under controlled conditions.

### 9.2 Availability of assessments

Unit 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 will be detailed in an updated version of the [\*Instructions for conducting AAT computer based assessments \(CBAs\)\*](#) guidance document. This will be hosted on a dedicated assessment [support webpage for Qualifications 2022](#).

## 9.4 Sitting the assessment

The assessments in this qualification are computer based, with time restrictions. Details on assessment duration for each unit has 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 tools that replicate workplace activities such as drafting statements of financial position. In all assessments, some tasks will require written extended responses. 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 CBA environment, assessment platform software and some of the question styles that they might encounter in the exam by using the practice assessment materials provided by AAT. Registered students may access the [Lifelong Learning Portal](#) and practice assessment materials through [MyAAT](#).

## 9.5 Marking

Assessments in this qualification are marked by AAT, with the exception of RPL, and are all partially computer marked and partially human marked.

Computer marking is completed within the assessment software in accordance with an objective marking scheme devised during assessment development. Human marking is conducted by a team of markers, with appropriate subject matter knowledge, who are appointed by AAT. Markers use mark schemes devised during assessment development.

Assessments undergo regular quality assurance, which includes:

- standardisation of markers
- sampling for marking consistency
- review of borderline scripts.

## 9.6 Results

Results for assessments that are partially human marked can take up to six weeks to become available via MyAAT.

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).

## 9.7 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.

## 9.8 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, a student must pass all three mandatory assessments and two optional unit 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
Applied Management Accounting	30%	78%	23.4%
Drafting and Interpreting Financial Statements	20%	85%	17%
Internal Accounting Systems and Controls	20%	72%	14.4%
Business Tax	15%	81%	12.2%
Personal Tax	15%	72%	10.8%
<b>Total</b>			<b>78%*</b>

\*has been rounded to nearest whole number

### Example of Merit

Assessment	Contribution of assessment to qualification grade	Percentage achieved	Weighted percentage contribution to grade
Applied Management Accounting	30%	81%	24.3%
Drafting and Interpreting Financial Statements	20%	86%	17.2%
Internal Accounting Systems and Controls	20%	87%	17.4%
Personal Tax	15%	82%	12.3%
Credit and Debt Management	15%	79%	11.6%
<b>Total</b>			<b>83%*</b>

\*has been rounded to nearest whole number

### Example of Distinction

Assessment	Contribution of assessment to qualification grade	Percentage achieved	Weighted percentage contribution to grade
Applied Management Accounting	30%	91%	27.3%
Drafting and Interpreting Financial Statements	20%	92%	18.4%
Internal Accounting Systems and Controls	20%	89%	17.8%
Audit and Assurance	15%	94%	14.1%
Cash and Financial Management	15%	86%	12.9%
<b>Total</b>			<b>91%*</b>

\*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
<p>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.</p> <p>Refers to these in supporting the actions that they would take in a given context.</p>	<p>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.</p> <p>Applies these successfully in range of contexts.</p>	<p>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.</p> <p>Synthesises and applies these successfully in a wide range of contexts.</p>
<p>Demonstrates understanding of theories and concepts in accounting, including professional ethics.</p>	<p>Demonstrates good understanding of a range of theories and concepts in accounting, including professional ethics.</p>	<p>Demonstrates sound understanding of a wide range of theories and concepts in accounting, including professional ethics.</p>
<p>Selects and appraises a range of appropriate statistical, management and financial accounting tools and techniques to prepare financial statements and limited company accounts.</p>	<p>Selects and appraises a wide range of appropriate statistical, management and financial accounting tools and techniques to prepare financial statements and limited company accounts with a high degree of accuracy.</p>	<p>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 limited company accounts with a high degree of accuracy.</p>
<p>Performs complex calculations for tax, financial and management accounting purposes and records these in a range of financial statements and forecasts.</p>	<p>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.</p>	<p>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.</p>



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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.

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## 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 national standards. Each unit contains a range of sections, as outlined 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 Scotland. There are 12 levels of achievement. All units in this qualification are Level 8.

### **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 assessing student achievements. It does not include 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 SQA, the independent qualifications regulator for Scotland, 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 or be able to do as a result of their learning.

### **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.

# Applied Management Accounting

Unit level	GLH value	Unit reference number	Assessment
8	120	UP50 04 24 SCQF Credits	Unit assessment

## Introduction

In today's world, management accountants are not only required to interpret and analyse data to produce reports. They are also required to have the requisite skills to be able to relate their findings to the organisation and provide insightful feedback that will help the business to move forward and achieve its objectives. This unit focuses on the three fundamental areas of management accounting: planning, control and decision making. All organisations rely on the provision of accurate, business-focused information in order to make sound business judgements.

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 systems that will help to enhance the control environment of the organisation. Appreciating that there are many methods, and understanding how and when it is appropriate to use each of them, will allow students 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. It is vitally important to understand the different challenges and uncertainties between the two types of decision making. Only by appreciating and incorporating those differences into the analysis produced can a management accountant consider themselves to be an integral part of the decision-making process.

This unit is **mandatory** in the Level 8 Diploma in Professional Accounting.

## Learning outcomes

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1. Understand and implement the organisational planning process
  2. Use internal processes to enhance operational control
  3. Use techniques to aid short-term and long-term decision making
  4. Analyse and report on business performance
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## 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.

<b>1. Understand and implement the organisational planning process</b>		
<b>1.1</b>	<b>The budgetary process</b>	
	Learners need to understand:	
	1.1.1 purposes of a budget	
	1.1.2 the budget cycle	
	1.1.3 types of budget:	
	– operating	
	– capital	
	– fixed	
	– flexed	
	1.1.4 sources of data for budgeting	
	1.1.5 the principal budget factor.	
<b>1.2</b>	<b>Budgetary responsibilities and accountabilities</b>	
	Learners need to understand:	Learners need to be able to:
	1.2.1 the role of the budget committee	1.2.7 classify and allocate direct costs to appropriate responsibility centres
	1.2.2 the duties and responsibilities of the budget accountant	1.2.8 apply the principle of responsibility accounting
	1.2.3 the budgetary accountabilities of senior managers in organisations	1.2.9 apply responsibility accounting to controllable and uncontrollable costs.
	1.2.4 the participatory alternatives:	
	– top-down	
	– bottom-up	
	1.2.5 the appropriate managers to provide information required to prepare budgets	
	1.2.6 how to identify appropriate responsibility centres and recovery methods for all types of indirect cost.	

<b>1.3</b>	<b>Types of budgets and recommendations for their use</b>	
	<p>Learners need to understand:</p> <p>1.3.1 the features of the following budget types:</p> <ul style="list-style-type: none"> <li>– incremental</li> <li>– zero-based</li> <li>– priority-based</li> <li>– activity-based</li> <li>– rolling</li> <li>– contingency</li> </ul> <p>1.3.2 the comparative advantages of each method</p> <p>1.3.3 the circumstances in which each method should be recommended.</p>	<p>Learners need to be able to:</p> <p>1.3.4 prepare operating budgets incorporating the following types of cost:</p> <ul style="list-style-type: none"> <li>– direct</li> <li>– indirect</li> <li>– fixed</li> <li>– variable</li> <li>– semi-variable</li> <li>– stepped</li> <li>– capital</li> <li>– revenue</li> </ul> <p>1.3.5 prepare production budgets incorporating the following schedules:</p> <ul style="list-style-type: none"> <li>– production plan: <ul style="list-style-type: none"> <li>▪ inventory</li> <li>▪ sales</li> </ul> </li> <li>– material usage</li> <li>– material purchases</li> <li>– labour costs</li> <li>– labour hours</li> <li>– plant utilisation</li> </ul> <p>1.3.6 prepare cash flow forecasts/budgets allowing for:</p> <ul style="list-style-type: none"> <li>– time lags</li> <li>– changes in receivables</li> <li>– changes in payables</li> <li>– changes in inventory.</li> </ul>
<b>1.4</b>	<b>Budgeting where resource constraints exist</b>	
	<p>Learners need to be able to:</p> <p>1.4.1 identify budget limiting factors:</p> <ul style="list-style-type: none"> <li>– market share</li> <li>– access to finance</li> <li>– shortage of production resources</li> <li>– plant capacity</li> <li>– factory space</li> </ul> <p>1.4.2 calculate the maximum level of production where a constraint exists.</p>	
<b>1.5</b>	<b>Impact of internal and external factors on forecasts</b>	
	<p>Learners need to understand:</p> <p>1.5.1 the stages and features of the product life cycle and their impact on income forecasts</p>	<p>Learners need to be able to:</p> <p>1.5.5 advise on the reliability of forecasts.</p>

	<p>1.5.2 market trends and competitive pressures</p> <p>1.5.3 the expected impact of promotional activity</p> <p>1.5.4 external events affecting the reliability of cost forecasts.</p>	
<b>1.6</b>	<b>Uncertainty in the budget setting process</b>	
	<p>Learners need to understand:</p> <p>1.6.1 the methods of dealing with the uncertainty inherent in budgeting:</p> <ul style="list-style-type: none"> <li>– planning models</li> <li>– regular re-forecasting</li> <li>– re-budgeting</li> <li>– rolling budgets.</li> </ul>	
<b>1.7</b>	<b>Budget revision to reflect changing circumstances</b>	
	<p>Learners need to understand:</p> <p>1.7.1 the key planning assumptions used in the budget</p> <p>1.7.2 the potential threats to budget achievement</p> <p>1.7.3 when a budget revision is appropriate.</p>	<p>Learners need to be able to:</p> <p>1.7.4 calculate the impact of changes to planning assumptions and forecasts</p> <p>1.7.5 recalculate budgets accordingly.</p>

<b>2. Use internal processes to enhance operational control</b>		
<b>2.1</b>	<b>Budgetary control</b>	
	<p>Learners need to understand:</p> <p>2.1.1 the purpose of budget flexing as part of the control process</p> <p>2.1.2 the limitations of budget flexing</p> <p>2.1.3 the concept of feedback and feedforward control.</p>	<p>Learners need to be able to:</p> <p>2.1.4 flex budgets, adjusting each element of the budget correctly according to the original budget assumptions about revenue and cost behaviour.</p> <p>2.1.5 provide potential reasons for variances (either calculated or given).</p>
<b>2.2</b>	<b>Standard costing</b>	
	<p>Learners need to understand:</p> <p>2.2.1 different types of standards:</p> <ul style="list-style-type: none"> <li>– ideal</li> <li>– target</li> <li>– normal</li> <li>– basic</li> </ul> <p>2.2.2 the purpose of standard cost cards</p> <p>2.2.3 why variances occur</p> <p>2.2.4 courses of action to be taken to address divergences from standard</p> <p>2.2.5 the interaction of variances</p>	<p>Learners need to be able to:</p> <p>2.2.8 calculate the value of items to be included in standard cost cards</p> <p>2.2.9 calculate variances for revenue and costs:</p> <ul style="list-style-type: none"> <li>– total sales variance</li> <li>– sales price</li> <li>– sales volume</li> <li>– total material variance</li> <li>– material price</li> <li>– material usage</li> </ul>



	<p>2.2.6 how different types of standards can have an impact on both behaviour and the level of the variance</p> <p>2.2.7 how the use of standard costing can complement budgetary control.</p>	<ul style="list-style-type: none"> <li>– total labour variance</li> <li>– labour rate</li> <li>– labour efficiency</li> <li>– labour idle time</li> <li>– total variable overhead variance</li> <li>– variable overhead price</li> <li>– variable overhead efficiency</li> <li>– total fixed overhead variance</li> <li>– fixed overhead expenditure</li> <li>– fixed overhead volume</li> </ul> <p>2.2.10 provide potential reasons for variances either calculated or given</p> <p>2.2.11 incorporate standard costs into budgetary control calculations.</p>
<b>2.3</b>	<b>Activity based costing</b>	
	<p>Learners need to understand:</p> <p>2.3.1 the circumstances where activity based costing would be most appropriate</p> <p>2.3.2 the benefits of activity based costing over traditional absorption costing</p> <p>2.3.3 issues surrounding the introduction of activity based costing</p> <p>2.3.4 the potential implications for unit selling prices and profitability where activity based costing leads to a different unit cost.</p>	<p>Learners need to be able to:</p> <p>2.3.5 calculate product costs using activity based costing</p> <p>2.3.6 compare product costs derived under activity based costing to those under traditional absorption costing.</p>
<b>2.4</b>	<b>Target costing</b>	
	<p>Learners need to understand:</p> <p>2.4.1 principles underpinning target costing</p> <p>2.4.2 the concept of value analysis</p> <p>2.4.3 the value engineering process</p> <p>2.4.4 actions to take to reduce cost gaps.</p>	<p>Learners need to be able to:</p> <p>2.4.5 calculate:</p> <ul style="list-style-type: none"> <li>– target costs</li> <li>– any cost gap.</li> </ul>
<b>2.5</b>	<b>Life cycle costing</b>	
	<p>Learners need to understand:</p> <p>2.5.1 principles underpinning life cycle costing</p> <p>2.5.2 how life cycle costing contributes to operational control</p> <p>2.5.3 the concepts of economies of scale, mechanisation and learning effect and how costs can switch between variable and fixed through the life cycle.</p>	<p>Learners need to be able to:</p> <p>2.5.4 identify the components of the life cycle cost of a product</p> <p>2.5.5 calculate the discounted and non-discounted life cycle cost of a product</p> <p>2.5.6 interpret the results of calculations of life cycle costs.</p>
<b>2.6</b>	<b>Technology and its impact on operational control</b>	

	<p>Learners need to understand:</p> <p>2.6.1 technologies that are changing the way business collects and uses data:</p> <ul style="list-style-type: none"> <li>– cloud accounting</li> <li>– artificial intelligence</li> <li>– data analytics</li> <li>– visualisation</li> </ul> <p>2.6.2 how these technologies can provide benefit to operational control processes</p> <p>2.6.3 the challenges faced by business in adopting these technologies.</p>
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<b>3. Use techniques to aid short-term and long-term decision making</b>		
<b>3.1</b>	<b>Comparison of short- and long-term decisions</b>	
	<p>Learners need to understand:</p> <p>3.1.1 the fundamental differences between short-term and long-term decision making:</p> <ul style="list-style-type: none"> <li>– time frame</li> <li>– capital investment</li> <li>– risk.</li> </ul>	
<b>3.2</b>	<b>Relevant costing</b>	
	<p>Learners need to understand:</p> <p>3.2.1 how to identify relevant costs</p> <p>3.2.2 the concept of opportunity costs</p> <p>3.2.3 factors to be considered when a business decides to:</p> <ul style="list-style-type: none"> <li>– make or buy products</li> <li>– supply or buy-in services</li> <li>– continue or discontinue products</li> <li>– continue or discontinue services.</li> </ul>	<p>Learners need to be able to:</p> <p>3.2.4 calculate relevant:</p> <ul style="list-style-type: none"> <li>– costs</li> <li>– revenues.</li> </ul>
<b>3.3</b>	<b>Key factor analysis</b>	
	<p>Learners need to understand:</p> <p>3.3.1 the concept of scarce resources</p> <p>3.3.2 the concept of contribution</p> <p>3.3.3 when contribution should be used as part of the decision-making criteria.</p>	<p>Learners need to be able to:</p> <p>3.3.4 calculate the contribution per unit of scarce resources</p> <p>3.3.5 calculate the optimum production plan in situations where there is one scarce resource</p> <p>3.3.6 calculate total profit or total contribution based on the optimum production plan.</p>

<b>3.4</b>	<b>Linear programming</b>	
	Learners need to understand: 3.4.1 the assumptions behind linear programming.	Learners need to be able to: 3.4.2 calculate the optimum production plan in situations where there are multiple scarce resources 3.4.3 calculate the optimum production plan using: – graphical approach – simultaneous equations.
<b>3.5</b>	<b>Discount cash flows</b>	
	Learners need to understand: 3.5.1 the concept of the time value of money 3.5.2 the benefits of discounted cash flows over non-discounted cash flows.	Learners need to be able to: 3.5.3 calculate discounted cash flows.
<b>3.6</b>	<b>Appraisal methods for long-term decisions</b>	
	Learners need to understand: 3.6.1 long-term investment appraisal techniques: – Net Present Value (NPV) – Internal Rate of Return (IRR) – Accounting Rate of Return (ARR) – payback period: ▪ non discounted ▪ discounted 3.6.2 strengths and weaknesses of each method.	Learners need to be able to: 3.6.3 calculate net present values 3.6.4 use the IRR formula 3.6.5 calculate the ARR of projects 3.6.6 calculate the payback period of projects 3.6.7 compare NPV, IRR, ARR and payback period to support decision making.

<b>4. Analyse and report on business performance</b>		
<b>4.1</b>	<b>Financial performance indicators</b>	
	Learners need to understand: 4.1.1 what the performance indicator means 4.1.2 the impact on performance indicators due to: – learning effect – economies of scale 4.1.3 how some performance indicators interrelate with each other 4.1.4 how proposed actions may affect the indicator 4.1.5 actions that could be taken to improve the indicator. <b>Performance indicators:</b> Profitability:	Learners need to be able to: 4.1.6 calculate key financial performance indicators 4.1.7 interpret financial performance ratios to evaluate organisational performance.

	<ul style="list-style-type: none"> <li>- Gross profit margin = <math>\frac{\text{gross profit}}{\text{revenue}} \times 100</math></li> <li>- Operating profit margin = <math>\frac{\text{Operating profit}}{\text{revenue}} \times 100</math></li> <li>- Return on capital employed (ROCE) = <math>\frac{\text{operating profit}}{\text{capital employed}} \times 100</math> (where capital employed = total equity + non-current liabilities)</li> </ul> <p>Efficiency:</p> <ul style="list-style-type: none"> <li>- Trade receivables collection period (days) = <math>\frac{\text{trade receivables}}{\text{revenue}} \times 365</math></li> <li>- Trade payables payment period (days) = <math>\frac{\text{trade payables}}{\text{cost of sales}} \times 365</math></li> <li>- Inventory holding period(days) = <math>\frac{\text{inventories}}{\text{cost of sales}} \times 365</math></li> <li>- Working capital cycle (days) = inventory days + receivable days – payable days</li> <li>- Expense/revenue percentage = <math>\frac{\text{specified expense}}{\text{revenue}} \times 100</math></li> <li>- Asset turnover (net assets) = <math>\frac{\text{revenue}}{\text{total assets} - \text{current liabilities}}</math>. (Answer equals X times)</li> </ul>	
<b>4.2</b>	<b>Non-financial performance indicators</b>	
	<p>Learners need to understand:</p> <p>4.2.1 costs of quality:</p> <ul style="list-style-type: none"> <li>- prevention</li> <li>- appraisal</li> <li>- internal failure costs</li> <li>- external failure costs</li> </ul> <p>4.2.2 how the behaviour of managers aiming to achieve a target can be affected by:</p> <ul style="list-style-type: none"> <li>- the ethical code of practice</li> <li>- commercial considerations</li> </ul> <p>4.2.3 non-financial performance indicators covering:</p> <ul style="list-style-type: none"> <li>- profitability</li> <li>- efficiency</li> <li>- productivity</li> <li>- quality</li> </ul> <p>4.2.4 measures that could be taken to improve performance</p> <p>4.2.5 balanced scorecards.</p>	<p>Learners need to be able to:</p> <p>4.2.6 calculate non-financial performance indicators</p> <p>4.2.7 interpret non-financial performance ratios to evaluate organisational performance</p> <p>4.2.8 evaluate results from a balanced scorecard.</p>

<b>4.3</b>	<b>Divisional performance</b>	
	<p>Learners need to understand:</p> <p>4.3.1 the differences between cost, profit and investment centres</p> <p>4.3.2 the issues of using return on investment and residual income as performance measures</p> <p>4.3.3 the options available to organisations when setting a transfer price and the potential issues that may arise.</p>	<p>Learners need to be able to:</p> <p>4.3.4 calculate:</p> <ul style="list-style-type: none"> <li>– return on investment</li> <li>– residual income.</li> </ul>
<b>4.4</b>	<b>Calculate forecasts</b>	
	<p>Learners need to understand:</p> <p>4.4.1 elements of a time series</p> <p>4.4.2 the simple regression equation</p> <p>4.4.3 concept of expected values.</p>	<p>Learners need to be able to:</p> <p>4.4.4 calculate index numbers</p> <p>4.4.5 use moving averages to calculate the seasonal variations and trend from a time series</p> <p>4.4.6 use the simple regression equation to calculate total cost</p> <p>4.4.7 calculate forecasts of future performance based on historical data</p> <p>4.4.8 interpret statistical data calculated to evaluate organisational performance</p> <p>4.4.9 make recommendations based on results of sensitivity analysis.</p>

## **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.

## **Links with other units**

This unit has close links with:

- Level 6 Principles of Costing
- Level 7 Management Accounting Techniques
- Level 8 Internal Accounting Systems and Controls
- Level 8 Cash and Financial Management.

## Test specification for Applied Management Accounting unit assessment

Please refer to the latest Qualification Technical Information (QTI) for specific legislation that will apply to assessments. Details can be accessed at

<https://www.aat.org.uk/deliver/qualifications/specifications-outlines>

Assessment method	Marking type	Duration of assessment
Computer based assessment	Partially computer/ partially human marked	3 hours

Learning outcomes	Weighting
1. Understand and implement the organisational planning process	25%
2. Use internal processes to enhance operational control	27%
3. Use techniques to aid short-term and long-term decision making	25%
4. Analyse and report on business performance	23%
Total	100%

# Drafting and Interpreting Financial Statements

Unit level	GLH value	Unit reference number	Assessment
8	90	UP51 04 28 SCQF Credits	Unit assessment

## Introduction

This unit provides students with the skills and knowledge for drafting the financial statements of single limited companies and consolidated financial statements for groups of 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 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 and groups of 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.

This unit is **mandatory** in the Level 8 Diploma in Professional Accounting.

## Learning outcomes

1. Understand the reporting frameworks that underpin financial reporting
2. Draft statutory financial statements for limited companies
3. Draft consolidated financial statements
4. Interpret financial statements using ratio analysis



## 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.

<b>1. Understand the reporting frameworks that underpin financial reporting</b>	
<b>1.1</b>	<b>The regulatory framework that underpins financial reporting</b>
	Learners need to understand: 1.1.1 the different types of business organisation: <ul style="list-style-type: none"><li>– sole traders</li><li>– partnerships</li><li>– limited liability partnerships</li><li>– companies</li></ul> 1.1.2 the types of limited company: <ul style="list-style-type: none"><li>– public limited company (PLC)</li><li>– private company limited by shares (Ltd)</li></ul> 1.1.3 the purpose of financial statements
	1.1.4 how the financial statements of limited companies differ from those of sole traders and partnerships
	1.1.5 forms of equity, reserves and loan capital
	1.1.6 compliance with regulatory conditions: <ul style="list-style-type: none"><li>– requirement for a regulatory framework</li><li>– sources of regulation: international accounting standards and company law</li></ul>
	1.1.7 the purpose of accounting standards
	1.1.8 the duties and responsibilities of the directors in respect of financial statements.
<b>1.2</b>	<b>The International Accounting Standards Board (IASB) Conceptual Framework</b>
	Learners need to understand: 1.2.1 the concepts and principles that underlie the preparation and presentation of financial statements for external users.

<b>2. Draft statutory financial statements for limited companies</b>	
<b>2.1</b>	<b>The effect of international accounting standards on the preparation of financial statements</b>
	Learners need to understand: 2.1.1 the effect of international accounting standards on the presentation, valuation and disclosure of items within the financial statements.
<b>2.2</b>	<b>Draft statements of profit or loss and other comprehensive income</b>
	Learners need to be able to: 2.2.1 make appropriate entries in the statement in respect of information extracted from a trial balance and additional information.
<b>2.3</b>	<b>Draft statements of financial position</b>

	<p>Learners need to be able to:</p> <p>2.3.1 make appropriate entries in the statement in respect of information extracted from a trial balance and additional information.</p>
<b>2.4</b>	<p><b>Draft statements of changes in equity</b></p> <p>Learners need to be able to:</p> <p>2.4.1 make appropriate entries in the statement in respect of information extracted from a trial balance and additional information or other financial statements provided.</p>
<b>2.5</b>	<p><b>Draft statements of cash flow</b></p> <p>Learners need to be able to:</p> <p>2.5.1 make appropriate entries in the statement, using the indirect method, in respect of information extracted from:</p> <ul style="list-style-type: none"> <li>– a statement of profit or loss and other comprehensive income for a single year</li> <li>– statements of financial position for two years, and</li> <li>– any additional information provided.</li> </ul>

<b>3. Draft consolidated financial statements</b>	
<b>3.1</b>	<p><b>Draft consolidated statements of profit or loss for a parent company with one partly owned subsidiary</b></p> <p>Learners need to be able to:</p> <p>3.1.1 consolidate each line item in the statement of profit or loss</p> <p>3.1.2 make adjustments in respect of intercompany sales and other intercompany items, impairment losses on goodwill and dividends paid by a subsidiary company to its parent company</p> <p>3.1.3 calculate unrealised profit on inventories and non-controlling interest</p> <p>3.1.4 make adjustments in respect of unrealised profit on inventories and non-controlling interest.</p>
<b>3.2</b>	<p><b>Draft consolidated statements of financial position for a parent company with one partly owned subsidiary</b></p> <p>Learners need to be able to:</p> <p>3.2.1 consolidate each line item in the statement of financial position</p> <p>3.2.2 calculate goodwill, non-controlling interest, pre- and post-acquisition profits, equity and unrealised profit on inventories</p> <p>3.2.3 make adjustments in respect of goodwill, non-controlling interest, pre- and post-acquisition profits, equity and unrealised profit on inventories</p> <p>3.2.4 make adjustments in respect of fair value, impairment of goodwill and intercompany balances.</p>

<b>4. Interpret financial statements using ratio analysis</b>	
<b>4.1</b>	<b>Calculate ratios relating to profitability, liquidity, efficient use of resources and financial position</b> <p>Learners need to be able to:</p> <p>4.1.1. calculate the following ratios:</p> <ul style="list-style-type: none"> <li>– profitability: <ul style="list-style-type: none"> <li>▪ <math>\text{Return on capital employed (ROCE)} = \frac{\text{operating profit}}{\text{capital employed}} \times 100</math> (where capital employed = total equity + non-current liabilities)</li> <li>▪ <math>\text{Return on shareholders' funds} = \frac{\text{profit after tax}}{\text{total equity}} \times 100</math></li> <li>▪ <math>\text{Gross profit margin} = \frac{\text{gross profit}}{\text{revenue}} \times 100</math></li> <li>▪ <math>\text{Operating profit margin} = \frac{\text{operating profit}}{\text{revenue}} \times 100</math></li> <li>▪ <math>\text{Expense/revenue percentage} = \frac{\text{specified expense}}{\text{revenue}} \times 100</math></li> </ul> </li> <li>– liquidity: <ul style="list-style-type: none"> <li>▪ <math>\text{Current ratio} = \frac{\text{current assets}}{\text{current liabilities}}</math> (Answer equals X:1)</li> <li>▪ <math>\text{Quick ratio or 'acid test' ratio} = \frac{\text{current assets} - \text{inventories}}{\text{current liabilities}}</math> (Answer equals X:1)</li> </ul> </li> <li>– efficient use of resources: <ul style="list-style-type: none"> <li>▪ <math>\text{Inventory turnover} = \frac{\text{cost of sales}}{\text{inventories}}</math> (Answer equals X times)</li> <li>▪ <math>\text{Inventory holding period (days)} = \frac{\text{inventories}}{\text{cost of sales}} \times 365</math></li> <li>▪ <math>\text{Trade receivables collection period (days)} = \frac{\text{trade receivables}}{\text{revenue}} \times 365</math></li> <li>▪ <math>\text{Trade payables payment period (days)} = \frac{\text{trade payables}}{\text{cost of sales}} \times 365</math></li> <li>▪ <math>\text{Working capital cycle (days)} = \text{Inventory holding period (days)} + \text{trade receivables collection period (days)} - \text{trade payables payment period (days)}</math></li> <li>▪ <math>\text{Asset turnover (net assets)} = \frac{\text{revenue}}{\text{total assets} - \text{current liabilities}}</math> (Answer equals X times)</li> <li>▪ <math>\text{Asset turnover (non-current assets)} = \frac{\text{revenue}}{\text{non-current assets}}</math> (Answer equals X times)</li> </ul> </li> <li>– financial position: <ul style="list-style-type: none"> <li>▪ <math>\text{Interest cover} = \frac{\text{operating profit}}{\text{finance costs (i.e. interest)}}</math> (Answer equals X times)</li> <li>▪ <math>\text{Gearing} = \frac{\text{total debt}}{\text{total debt} + \text{total equity}} \times 100</math> (where total debt is all non-current liabilities only).</li> </ul> </li> </ul>
<b>4.2</b>	<b>Interpret and analyse ratios</b> <p>Learners need to understand:</p> <p>4.2.1 the meaning of each ratio</p> <p>4.2.2 whether a ratio is better or worse as compared to a comparative ratio</p> <p>4.2.3 the meaning of the changes in ratios</p> <p>4.2.4 the factors that influence ratios and how they interrelate.</p>

<b>4.3</b>	<b>Present ratio analysis</b>	
	<p>Learners need to understand:</p> <p>4.3.1 the actions that could be taken to improve the ratios and the impact that these could have</p> <p>4.3.2 the limitations of ratio analysis.</p>	<p>Learners need to be able to:</p> <p>4.3.3 communicate the key findings of their analysis to meet user requirements.</p>

## **Delivering this unit**

Drafting consolidated financial statements is technique-driven, and tutors could create several variations of practice questions, which incorporate the various consolidation adjustments in full or part, to help instill in students the correct approach. Students are encouraged to attempt the practice assessments to familiarise themselves with the pro forma statements and the formats of the workings.

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.

## **Links with other units**

This unit has close links with:

- Level 6 Introduction to Bookkeeping
- Level 6 Principles of Bookkeeping Controls
- Level 7 Financial Accounting: Preparing Financial Statements
- Level 8 Cash and Financial Management.

## Test specification for Drafting and Interpreting Financial Statements unit assessment

Please refer to the latest Qualification Technical Information (QTI) for specific legislation that will apply to assessments. Details can be accessed at

<https://www.aat.org.uk/deliver/qualifications/specifications-outlines>

Assessment method	Marking type	Duration of assessment
Computer based assessment	Partially computer/ partially human marked	2 hours 30 minutes

Learning outcomes	Weighting
1. Understand the reporting frameworks that underpin financial reporting	7%
2. Draft statutory financial statements for limited companies	43%
3. Draft consolidated financial statements	25%
4. Interpret financial statements using ratio analysis	25%
Total	100%

# Internal Accounting Systems and Controls

Unit level	GLH value	Unit reference number	Assessment
8	60	UP52 04 15 SCQF Credits	Unit assessment

## Introduction

All organisations must guard against fraud through good control systems. However, many businesses underestimate both the probability and impact of employee fraud. Those working within the accounts department play a pivotal role in guarding against misuse of resources, and the key aim of this unit is to provide students with the tools to evaluate internal controls and to recommend improvements.

The unit teaches student to consider the role and responsibilities of the accounting function, including the needs of key stakeholders who use financial reports to make decisions. Students will review accounting systems to identify weaknesses and will make recommendations to mitigate identified weaknesses in future operations. Students will apply several analytical methods to evaluate the implications of any changes to operating procedures.

The structure of the accounting function, which varies depending on the size of the organisation, must comply with statutory requirements. Students will learn to identify appropriate controls, assess their impact in terms of cost-effectiveness, reliability and timeliness, and ensure that all functions adapt their working practices to meet new requirements in an ethical and sustainable way.

Technology is changing the way that accountancy information is processed, and this unit requires knowledge of the fundamental principles of data analytics and artificial intelligence (AI), which may be used as an alternative way to gather and analyse information. Cloud accounting is changing the way accountants work and visualisation, including dashboards, is increasingly used to present information in a way that is easier for stakeholders to understand. Data security and breaches are regularly reported in the press, and therefore it is imperative that students are aware of the importance of keeping all data secure and consider the confidential nature of the data that they will be processing as part of their everyday role.

Finally, students will evaluate the impact of changes on the system and its users, identifying different methods of support that can be given to users of the accounting system to assist them in adapting to the recommended improvements.

This unit is **mandatory** in the Level 8 Diploma in Professional Accounting.

## Learning outcomes

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1. Understand the role and responsibilities of the accounting function within an organisation
  2. Evaluate internal control systems
  3. Evaluate an organisation's accounting system and underpinning procedures
  4. Understand the impact of technology on accounting systems
  5. Recommend improvements to an organisation's accounting system
-



## 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.

<b>1. Understand the role and responsibilities of the accounting function within an organisation</b>	
<b>1.1</b>	<b>The accounting function</b>  Learners need to understand: 1.1.1 the importance of ethics and sustainability within the accounting function 1.1.2 the importance of accuracy and cost-effectiveness within the accounting system 1.1.3 why different types and sizes of organisation or departments within an organisation will require different accounting information and systems 1.1.4 the different accounting team staffing structures (centralised and decentralised) that will be required by different types or sizes of organisation: <ul style="list-style-type: none"><li>– length of scalar chain</li><li>– levels of management</li><li>– span of control.</li></ul>
<b>1.2</b>	<b>Financial information used by stakeholders</b>  Learners need to understand: 1.2.1 different stakeholders of an organisation: <ul style="list-style-type: none"><li>– internal</li><li>– external</li></ul> 1.2.2 the purpose of financial information produced for: <ul style="list-style-type: none"><li>– internal use</li><li>– external use</li></ul> 1.2.3 how financial information is used by stakeholders 1.2.4 that financial information must comply with legislation and regulation 1.2.5 the importance of ethical information and sustainability practices to stakeholders 1.2.6 that stakeholders use the following types of financial reports: <ul style="list-style-type: none"><li>– statement of profit or loss</li><li>– statement of changes in equity</li><li>– statement of financial position</li><li>– statement of cash flow</li><li>– budgetary control reports.</li></ul>

<b>1.3</b>	<b>Changes to management information</b>
	<p>Learners need to understand:</p> <p>1.3.1 how organisational requirements will inform the management information system:</p> <ul style="list-style-type: none"> <li>– size of organisation</li> <li>– strategic goals</li> <li>– legislation and regulation</li> </ul> <p>1.3.2 how management information systems should enable the calculation of performance indicators:</p> <ul style="list-style-type: none"> <li>– gross profit margin</li> <li>– operating profit margin</li> <li>– current ratio</li> <li>– quick (acid test) ratio</li> <li>– inventory turnover</li> <li>– inventory holding period (days)</li> <li>– trade receivables collection period</li> <li>– trade payables collection period</li> <li>– gearing (as per Level 8 Drafting and Interpreting Financial Statements)</li> <li>– return on capital employed (ROCE)</li> </ul> <p>1.3.3 why changes may be required to existing systems to meet revised organisation requirements.</p>

<b>2. Evaluate internal control systems</b>		
<b>2.1</b>	<b>Internal controls</b>	
	<p>Learners need to understand:</p> <p>2.1.1 the purpose of internal controls:</p> <ul style="list-style-type: none"> <li>– facilitate operations</li> <li>– safeguard assets</li> <li>– prevent and detect fraud</li> <li>– ensure quality of internal and external reporting</li> <li>– compliance</li> </ul> <p>2.1.2 the types of internal controls used in different parts of the accounting function:</p> <ul style="list-style-type: none"> <li>– segregation of duties</li> <li>– organisational controls</li> <li>– authorisation and approval</li> <li>– physical controls</li> <li>– supervision</li> <li>– personnel</li> <li>– arithmetical and accounting</li> <li>– management</li> </ul> <p>2.1.3 how different types of internal controls suit different types of organisations:</p> <ul style="list-style-type: none"> <li>– size (small, medium, large)</li> <li>– nature (cash-based, credit-based, online).</li> </ul>	<p>Learners need to be able to:</p> <p>2.1.4 assess how a strong system of internal controls can minimise the risk of loss to an organisation</p> <p>2.1.5 assess how a strong system of internal controls can ensure ethical standards in an organisation.</p>

<b>2.2</b>	<b>Prevent and detect fraud and systemic weaknesses</b>	
	<p>Learners need to understand:</p> <p>2.2.1 the common types of fraud within a business:</p> <ul style="list-style-type: none"> <li>– misappropriation of funds (monetary, inventory)</li> <li>– misstatement of financial statements (singularity, over time)</li> </ul> <p>2.2.2 systemic weaknesses and their causes:</p> <ul style="list-style-type: none"> <li>– lack of controls</li> <li>– poor implementation of controls</li> <li>– lack of monitoring</li> <li>– lack of leadership</li> </ul> <p>2.2.3 implications for an organisation if fraud occurs:</p> <ul style="list-style-type: none"> <li>– financial</li> <li>– non-financial</li> </ul> <p>2.2.4 the role of internal controls in:</p> <ul style="list-style-type: none"> <li>– preventing fraud and errors</li> <li>– detecting fraud and errors.</li> </ul>	<p>Learners need to be able to:</p> <p>2.2.5 identify the circumstances when fraud may occur</p> <p>2.2.6 evaluate the impact of fraud on an organisation:</p> <ul style="list-style-type: none"> <li>– financial</li> <li>– non-financial</li> </ul> <p>2.2.7 assess how internal controls can be used in preventing and detecting fraud</p> <p>2.2.8 make suggestions for internal controls to detect and prevent fraud</p> <p>2.2.9 assess the cause of systemic weaknesses in internal control systems.</p>

<b>3. Evaluate an organisation's accounting system and underpinning procedures</b>		
<b>3.1</b>	<b>An organisation's accounting system and its effectiveness</b>	
	<p>Learners need to understand:</p> <p>3.1.1 control objectives, risks and control procedures for accounting systems:</p> <ul style="list-style-type: none"> <li>– purchasing</li> <li>– sales</li> <li>– expenses</li> <li>– payroll</li> <li>– inventory</li> <li>– non-current assets</li> <li>– bank and cash</li> </ul> <p>3.1.2 how an organisation's accounting system can support ethical standards and sustainable practice.</p>	<p>Learners need to be able to:</p> <p>3.1.3 identify deficiencies in accounting systems that have an impact on:</p> <ul style="list-style-type: none"> <li>– cost-effectiveness</li> <li>– reliability</li> <li>– timeliness</li> </ul> <p>3.1.4 analyse the cause of deficiencies in accounting systems</p> <p>3.1.5 evaluate impact of deficiencies in an accounting system including:</p> <ul style="list-style-type: none"> <li>– time</li> <li>– money</li> <li>– reputation.</li> </ul>
<b>3.2</b>	<b>Risk of fraud</b>	
	<p>Learners need to understand:</p> <p>3.2.1 the risk assessment process:</p> <ul style="list-style-type: none"> <li>– identify the risk</li> <li>– evaluate the risk</li> </ul>	<p>Learners need to be able to:</p> <p>3.2.2 assess the impact of poor internal controls on an organisation's exposure to risk</p>

	<ul style="list-style-type: none"> <li>– respond to the risk (manage/mitigate risk by taking appropriate action)</li> <li>– ensure compliance (legal and regulatory)</li> <li>– monitor, review and report.</li> </ul>	<p>3.2.3 assess risk using the following measures:</p> <ul style="list-style-type: none"> <li>– risk matrix</li> <li>– low, medium, high</li> <li>– numerical grade (where the number increases as the risk becomes more serious).</li> </ul> <p>3.2.4 recommend a response to risk, ensuring compliance with regulatory and legal requirements</p> <p>3.2.5 propose monitoring review and report actions in response to an identified risk.</p>
<b>3.3</b>	<b>Operating practice</b>	
	<p>Learners need to understand:</p> <p>3.3.1 why accounting systems should be reviewed regularly to ensure that they are fit for purpose</p> <p>3.3.2 that the accounting systems used by an organisation should:</p> <ul style="list-style-type: none"> <li>– be cost-effective</li> <li>– encourage ethical principles and practice</li> <li>– support sustainability principles and practice</li> <li>– meet the specific information needs of the organisation.</li> </ul>	

#### 4. Understand the impact of technology on accounting systems

##### 4.1 Reporting information using technology

Learners need to understand:

- 4.1.1 how accounting software presents data to non-financial managers
- 4.1.2 how visualisation improves financial understanding of managers and clients.

##### 4.2 Using technology within the accounting system

Learners need to understand:

- 4.2.1 how technological changes may affect the accounting system:
  - cloud accounting:
    - remote access
    - shared access
    - improved sustainability
    - control of data
    - reliance on access to technology
  - artificial intelligence (AI) and machine learning:
    - change in staffing levels
    - change in error rates
    - implementation and running costs
  - data analytics:
    - speeds up processes and decision making
    - may reduce risk of fraud
    - identifying opportunities in a business to work smarter, focus and prioritise
- 4.2.2 that there are different types of data analytics:

	<ul style="list-style-type: none"> <li>– descriptive</li> <li>– diagnostic</li> <li>– predictive</li> <li>– prescriptive</li> </ul>
4.2.3	the requirement for data security
4.2.4	the risks to data and operation caused by: <ul style="list-style-type: none"> <li>– cyberattacks (phishing, malware, denial of service)</li> <li>– unauthorised access (remote or physical)</li> <li>– physical loss of equipment</li> <li>– data issued in error.</li> </ul>

## 5. Recommend improvements to an organisation's accounting system

### 5.1 Changes to the accounting system

Learners need to understand:

- 5.1.1 the principles of a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis
- 5.1.2 how to apply a SWOT analysis to an accounting system
- 5.1.3 the principles of a PESTLE (Political, Economic, Social, Technological, Legal and Environmental) analysis
- 5.1.4 how to apply a PESTLE analysis to an accounting system.

Learners need to be able to:

- 5.1.5 undertake a SWOT analysis
- 5.1.6 undertake a PESTLE analysis
- 5.1.7 recommend changes to the accounting system
- 5.1.8 provide a clear rationale to support recommendations.

### 5.2 Cost and benefit of changes to the accounting system

Learners need to understand:

- 5.2.1 cost-benefit analysis.

Learners need to be able to:

- 5.2.2 quantify the cost of recommendations, stating assumptions made
- 5.2.3 review recommendations against ethical and sustainability principles:
  - social issues
  - corporate issues
  - environmental issues
- 5.2.4 undertake a cost-benefit analysis
- 5.2.5 recommend changes to the accounting system
- 5.2.6 provide a clear rationale to support recommendations.

5.3	The effects of changes on users of the system	
	<p>Learners need to understand:</p> <p>5.3.1 the changes that users may be required to make to working practices to comply with changes to statutory and organisational requirements</p> <p>5.3.2 that appropriate controls need to be in place during the transition from one system to another</p> <p>5.3.3 that problems might occur during transition</p> <p>5.3.4 different methods of support that can be given to users of the accounting system to assist them in adapting to the recommended changes:</p> <ul style="list-style-type: none"> <li>– testing</li> <li>– piloting</li> <li>– direct changeover</li> <li>– dual/parallel running</li> <li>– phased implementation.</li> </ul>	<p>Learners need to be able to:</p> <p>5.3.5 evaluate the implications of the changes to operating procedures and time spent.</p>

## 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 between students 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 in a rigorous way.

Learning about actual cases will lead into a discussion about the different types of fraud, ensuring that students can see how important it is to realise that both the opportunity and the motive need to be present for fraud to occur. Reviewing cases will allow students to understand that allowing opportunity for fraud is opening a door for dishonest staff, particularly those under financial pressure. Students will see that robust accounting systems protect staff from temptation in a similar way to the way in which robust health and safety policies protect staff from physical harm. Group discussions about the effect of removing the opportunity for fraud, potentially preventing someone under pressure from doing something that they would not normally do, will lead to further engagement with the topic and links to discussions about ethical principles and sustainability. It is also important to consider the ways in which controls and systems need to vary dependent on organisation size. For example, it is much easier to have segregation of duties in a large organisation than in a small finance department. It is also important to consider the additional risk within a cash business. For example, those who have worked in a cash business may have been aware of ways in which it is easy to take cash.

Existing knowledge of accounting systems can be reviewed in detail through the lens of internal controls, for example what constitutes segregation of duties or the importance of simple physical controls such as locking up the petty cash tin. Looking at the finances of small companies and reviewing the cost of robust controls against the cost of any potential losses puts the extent of controls required into perspective. Risk assessment can also be viewed from the perspective of frequency of occurrence as well as impact on an organisation, then linked to situations where employees are dismissed for seemingly minor infringements.

Students will benefit from analysing a range of scenarios covering the different accounting systems and applying analytical techniques included in Learning Outcome 5. Students could evaluate a range of scenarios and real-life examples in groups and make suggestions for changes, then use peer review to help to understand where there are gaps in their evaluations and recommendations.

The use of technology in accounting is growing rapidly and it is important that students understand the impact that these changes have on accounting procedures. For example, cloud accounting has revolutionised the way in which small businesses keep their accounts: data has become more detailed, more focused and presented in various visual ways that make it easier to understand. Use practical examples data being used to predict and model outcomes, or to determine what has happened in the past, to illustrate the different types of data analytics and how they are used in business and accounting to improve accounting systems. The importance of data security can be highlighted through researching high-profile cases where data security has been breached. Students can gauge the consequences and the implications of these breaches, considering factors such as reputational damage and financial losses.

Finally, the need to implement and manage change can again be illustrated through reports of problems, whether through reports of staff discontent or of system breakdown.

**Links with other units**

This unit has close links with:

- Level 7 Business Awareness
- Level 8 Applied Management Accounting
- Level 8 Audit and Assurance.



## Test specification for Internal Accounting Systems and Controls unit assessment

Please refer to the latest Qualification Technical Information (QTI) for specific legislation that will apply to assessments. Details can be accessed at

<https://www.aat.org.uk/deliver/qualifications/specifications-outlines>

Assessment method	Marking type	Duration of assessment
Computer based assessment	Partially computer/ partially human marked	2 hours 30 minutes

Learning outcomes	Weighting
1. Understand the role and responsibilities of the accounting function within an organisation	10%
2. Evaluate internal control systems	25%
3. Evaluate an organisation's accounting system and underpinning procedures	25%
4. Understand the impact of technology on accounting systems	15%
5. Recommend improvements to an organisation's accounting system	25%
Total	100%

## Business Tax (FA2024)

Unit level	GLH value	Unit reference number	Assessment
4	60	Y/618/3595 19 SCQF Credits	Unit assessment

### Introduction

This unit introduces students to UK taxation relevant to businesses. Students will understand how to compute business taxes for sole traders, partnerships and limited companies. They will also be able to identify tax planning opportunities while understanding the importance of maintaining ethical standards.

In learning how to prepare tax computations, students will gain the skills required to identify expenditure as revenue or capital and adjust accounting profits for tax purposes. Students will allocate profits between partners in a partnership and will calculate National Insurance (NI) contributions for the self-employed, advising clients on the tax implications of making losses.

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 calculate Corporation Tax and compute gains on the sale of capital assets by companies. Students will understand the capital gains implications of the sale of a business and the tax reliefs available to businesses.

Tax advice is an important part of many accountancy roles in recognising tax planning opportunities for businesses. Students will discuss the ethical issues facing business owners and managers in reporting their business tax and the responsibilities that an agent has in giving advice on tax issues to business clients.

**This unit is based on the Finance Act 2024 subject to assessment from 27 January 2025.**

This unit is **optional** in the Level 4 Diploma in Professional Accounting.

## Learning outcomes

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1. Prepare tax computations for sole traders and partnerships
  2. Prepare tax computations for limited companies
  3. Prepare tax computations for the sale of capital assets by limited companies
  4. Understand administrative requirements of the UK's tax regime
  5. Understand the tax implications of business disposals
  6. Understand tax reliefs, tax planning opportunities and agent's responsibilities in reporting taxation to HM Revenue & Customs
-

## 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.

<b>1. Prepare tax computations for sole traders and partnerships</b>		
<b>1.1</b>	<b>Adjusting accounting profits and losses for tax purposes</b>	
	Learners need to understand: <ul style="list-style-type: none"> <li>1.1.1 that the cash basis is the default basis</li> <li>1.1.2 that an election can be made for the accruals basis</li> <li>1.1.3 the differences between the cash basis and the accruals basis</li> <li>1.1.4 how to identify deductible and non-deductible expenditure</li> <li>1.1.5 how expenditure is classified as either revenue or capital.</li> </ul>	Learners need to be able to: <ul style="list-style-type: none"> <li>1.1.6 adjust accounting profit and losses for tax purposes.</li> </ul>
<b>1.2</b>	<b>Prepare capital allowances computations</b>	
	Learners need to understand: <ul style="list-style-type: none"> <li>1.2.1 which capital allowances apply to different assets: <ul style="list-style-type: none"> <li>– plant and machinery</li> <li>– structures and buildings.</li> </ul> </li> </ul>	Learners need to be able to: <ul style="list-style-type: none"> <li>1.2.2 prepare capital allowance computations for accounting periods: <ul style="list-style-type: none"> <li>– longer than 12 months</li> <li>– shorter than 12 months</li> <li>– equal to 12 months</li> <li>– including adjustments for private usage.</li> </ul> </li> </ul> <p><b>Excluding:</b> short-life assets.</p>
<b>1.3</b>	<b>Calculating taxable profits and losses of partners</b>	
	Learners need to be able to: <ul style="list-style-type: none"> <li>1.3.1 allocate profits between partners</li> </ul>	
<b>1.4</b>	<b>Calculate National Insurance contributions (NICs) payable by self-employed taxpayers</b>	
	Learners need to understand: <ul style="list-style-type: none"> <li>1.4.1 what income Class 4 NICs are payable on.</li> </ul>	Learners need to be able to: <ul style="list-style-type: none"> <li>1.4.2 calculate Class 4 NICs</li> </ul>

2. Prepare tax computations for limited companies		
2.1	<b>Adjusting accounting profits and losses for tax purposes</b>	
	Learners need to understand: 2.1.1 how to identify deductible and non-deductible expenditure 2.1.2 how expenditure is classified as either revenue or capital.	Learners need to be able to: 2.1.3 adjust accounting profit and losses for tax purposes.
2.2	<b>Prepare capital allowances computations</b>	
	Learners need to understand: 2.2.1 which capital allowances apply to different assets: – plant and machinery – structures and buildings.	Learners need to be able to: 2.2.2 prepare capital allowance computations for accounting periods: – longer than 12 months – shorter than 12 months – equal to 12 months. <b>Excluding:</b> short-life assets.
2.3	<b>Calculate taxable profits and Corporation Tax payable</b>	
	Learners need to be able to: 2.3.1 calculate the total profits from given trading income, property income, investment income, chargeable gains and qualifying charitable donations for periods: – longer than 12 months – shorter than 12 months – equal to 12 months 2.3.2 calculate Corporation Tax payable.  <b>Excluding:</b> identification of associated companies – any associated companies will be identified as such in the assessment. <b>Excluding</b> – dividend income.	

3. Prepare tax computations for the sale of capital assets by limited companies		
3.1	<b>Calculate chargeable gains and allowable losses</b>	
	Learners need to be able to: 3.1.1 calculate: – chargeable gains and allowable losses – rollover relief – indexation allowance.  <b>Excluding:</b> chattels, wasting chattels, part-disposals, exempt assets.	
3.2	<b>Calculate chargeable gains and allowable losses for shares</b>	
	Learners need to be able to: 3.2.1 apply matching rules for companies 3.2.2 account for: – additions and disposals – bonus issues – rights issues – indexation allowance.	

<b>4. Understand administrative requirements of the UK's tax regime</b>		
<b>4.1</b>	<b>The administrative requirements of UK tax law</b>	
	<p>Learners need to understand:</p> <p>4.1.1 tax return filing deadlines for sole traders, partnerships and companies</p> <p>4.1.2 tax payment dates for sole traders, partners and companies</p> <p>4.1.3 time limits for notifying chargeability to tax</p> <p>4.1.4 the enquiry window</p> <p>4.1.5 the time period within which amendments to a tax return can be made</p> <p>4.1.6 what records need to be maintained and for what time period.</p>	<p>Learners need to be able to:</p> <p>4.1.7 calculate the business profits to be included in each tax year using the tax year basis.</p>
<b>4.2</b>	<b>Penalties and interest for non-compliance</b>	
	<p>Learners need to understand:</p> <p>4.2.1 penalties for:</p> <ul style="list-style-type: none"> <li>– late filing</li> <li>– late payment</li> <li>– failing to notify chargeability</li> <li>– errors in tax returns</li> <li>– not providing records in an enquiry</li> <li>– not retaining records.</li> </ul>	<p>Learners need to be able to:</p> <p>4.2.2 calculate penalties and interest for non-compliance.</p>

<b>5. Understand the tax implications of business disposals</b>		
<b>5.1</b>	<b>Business disposals</b>	
	<p>Learners need to understand:</p> <p>5.1.1 the Income Tax and Capital Gains Tax implications of disposing of an unincorporated business</p> <p>5.1.2 the Capital Gains Tax reliefs (gift relief, business asset disposal relief) available on the disposal of:</p> <ul style="list-style-type: none"> <li>– an unincorporated business</li> <li>– shares in a personal company.</li> </ul>	<p>Learners need to be able to:</p> <p>5.1.3 calculate</p> <ul style="list-style-type: none"> <li>– Capital Gains Tax on disposal of: <ul style="list-style-type: none"> <li>▪ trade and assets</li> <li>▪ shares in a personal company</li> </ul> </li> <li>– Capital Gains Tax reliefs available on disposal of: <ul style="list-style-type: none"> <li>▪ trade and assets</li> <li>▪ shares in a personal company</li> </ul> </li> <li>– post-tax proceeds following a business disposal.</li> </ul>

<b>6. Understand tax reliefs, tax planning opportunities and agent's responsibilities in reporting taxation to HM Revenue &amp; Customs</b>		
<b>6.1</b>	<b>Trading losses</b>	
	<p>Learners need to understand:</p> <p>6.1.1 options available to sole traders, partnerships and companies to utilise trading losses:</p> <ul style="list-style-type: none"> <li>– opening years</li> <li>– carry back</li> <li>– current year</li> <li>– carry forward</li> <li>– terminal</li> </ul> <p>6.1.2 the best use of a trading loss for sole traders, partnerships and limited companies.</p>	<p>Learners need to be able to:</p> <p>6.1.3 calculate available loss relief using:</p> <ul style="list-style-type: none"> <li>– carry back</li> <li>– current year</li> <li>– carry forward.</li> </ul>
<b>6.2</b>	<b>Badges of trade</b>	
	<p>Learners need to understand:</p> <p>6.2.1 how to identify if clients are trading through the application of the badges of trade.</p>	
<b>6.3</b>	<b>Tax planning for businesses</b>	
	<p>Learners need to know:</p> <p>6.3.1 the tax rates which apply:</p> <ul style="list-style-type: none"> <li>– to sole traders</li> <li>– to companies</li> <li>– on extraction of profits from companies.</li> </ul>	<p>Learners need to understand:</p> <p>6.3.2 implications of different business structures on tax planning</p> <p>6.3.3 impact on tax when using different methods of extracting profits, including salary and dividends</p> <p>6.3.4 tax planning opportunities to ensure taxable income is optimally allocated between spouses/civil partners.</p> <p><b>Excluded:</b> Income Tax computations.</p>
<b>6.4</b>	<b>Ethical guidelines</b>	
	<p>Learners need to understand:</p> <p>6.4.1 the definitions of:</p> <ul style="list-style-type: none"> <li>– tax planning</li> <li>– tax avoidance</li> <li>– tax evasion</li> </ul> <p>6.4.2 ethical implications of tax avoidance and tax evasion</p> <p>6.4.3 the requirement to report suspected tax evasion</p> <p>6.4.4 the ethical principle of confidentiality.</p>	

## **Delivering this unit**

A sound understanding of the administrative and computational requirements of tax law is essential to ensure that businesses meet their legal requirements and do not incur penalties and interest. An understanding that tax planning can save businesses significant amounts of money will help students appreciate the value that good tax advice can bring to a business.

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

Students should be encouraged to practise computations. 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 professional conduct in relation to taxation.

### **Links with other units**

This unit has close links with:

- Level 3 Tax Processes for Businesses
- Level 4 Personal Tax.



## Business Tax (FA2025)

Unit level	GLH value	Unit reference number	Assessment
4	60	Y/618/3595	Unit assessment

### Introduction

This unit introduces students to UK taxation relevant to businesses. Students will understand how to compute business taxes for sole traders, partnerships and limited companies. They will also be able to identify tax planning opportunities while understanding the importance of maintaining ethical standards.

In learning how to prepare tax computations, students will gain the skills required to identify expenditure as revenue or capital and adjust accounting profits for tax purposes. Students will allocate profits between partners in a partnership and will calculate National Insurance contributions (NICs) for the self-employed, advising clients on the tax implications of making losses.

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 calculate Corporation Tax and compute gains on the sale of capital assets by companies. Students will understand the capital gains implications of the sale of a business and the tax reliefs available to businesses.

Tax advice is an important part of many accountancy roles in recognising tax planning opportunities for businesses. Students will discuss the ethical issues facing business owners and managers in reporting their business tax and the responsibilities that an agent has in giving advice on tax issues to business clients.

**This unit is based on Finance Act 2025 subject to assessment from 26 January 2026.**

This unit is **optional** in the Level 4 Diploma in Professional Accounting.

## Learning outcomes

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1. Prepare tax computations for sole traders and partnerships
  2. Prepare tax computations for limited companies
  3. Prepare tax computations for the sale of capital assets by limited companies
  4. Understand administrative requirements of the UK's tax regime
  5. Understand the tax implications of business disposals
  6. Understand tax reliefs, tax planning opportunities and agent's responsibilities in reporting taxation to HM Revenue & Customs
-

## 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.

<b>1. Prepare tax computations for sole traders and partnerships</b>		
<b>1.1</b>	<b>Adjusting accounting profits and losses for tax purposes</b>	
	Learners need to understand: 1.1.7 that the cash basis is the default basis 1.1.8 that an election can be made for the accruals basis 1.1.9 the differences between the cash basis and the accruals basis 1.1.10 how to identify deductible and non-deductible expenditure 1.1.11 how expenditure is classified as either revenue or capital.	Learners need to be able to: 1.1.12 adjust accounting profit and losses for tax purposes.
<b>1.2</b>	<b>Prepare capital allowances computations</b>	
	Learners need to understand: 1.2.1 which capital allowances apply to different assets: – plant and machinery – structures and buildings.	Learners need to be able to: 1.2.2 prepare capital allowance computations for accounting periods: – longer than 12 months – shorter than 12 months – equal to 12 months – including adjustments for private usage.  <b>Excluding:</b> short-life assets.
<b>1.3</b>	<b>Calculating taxable profits and losses of partners</b>	
	Learners need to be able to: 1.3.1 allocate profits between partners.	
<b>1.4</b>	<b>Calculate National Insurance contributions (NICs) payable by self-employed taxpayers</b>	
	Learners need to understand: 1.4.1 what income Class 4 NICs are payable on.	Learners need to be able to: 1.4.2 calculate Class 4 NICs.

<b>2. Prepare tax computations for limited companies</b>		
<b>2.1</b>	<b>Adjusting accounting profits and losses for tax purposes</b>	
	Learners need to understand: 2.1.1 how to identify deductible and non-deductible expenditure 2.1.2 how expenditure is classified as either revenue or capital.	Learners need to be able to: 2.1.3 adjust accounting profit and losses for tax purposes.
<b>2.2</b>	<b>Prepare capital allowances computations</b>	
	Learners need to understand: 2.2.1 which capital allowances apply to different assets: – plant and machinery – structures and buildings.	Learners need to be able to: 2.2.2 prepare capital allowance computations for accounting periods: – longer than 12 months – shorter than 12 months – equal to 12 months. <b>Excluding:</b> short-life assets.
<b>2.3</b>	<b>Calculate taxable profits and Corporation Tax payable</b>	
	Learners need to be able to: 2.3.1. calculate the total profits from given trading income, property income, investment income, chargeable gains and qualifying charitable donations for periods: – longer than 12 months – shorter than 12 months – equal to 12 months 2.3.2 calculate Corporation Tax payable. <b>Excluding:</b> identification of associated companies – any associated companies will be identified as such in the assessment. <b>Excluding:</b> dividend income.	

<b>3. Prepare tax computations for the sale of capital assets by limited companies</b>		
<b>3.1</b>	<b>Calculate chargeable gains and allowable losses</b>	
	Learners need to be able to: 3.1.1 calculate: – chargeable gains and allowable losses – rollover relief – indexation allowance. <b>Excluding:</b> chattels, wasting chattels, part-disposals, exempt assets.	
<b>3.2</b>	<b>Calculate chargeable gains and allowable losses for shares</b>	
	Learners need to be able to: 3.2.1 apply matching rules for companies 3.2.2 account for: – additions and disposals – bonus issues – rights issues – indexation allowance.	

<b>4. Understand administrative requirements of the UK's tax regime</b>		
<b>4.1</b>	<b>The administrative requirements of UK tax law</b>	
	Learners need to understand: <ul style="list-style-type: none"> <li>4.1.1 tax return filing deadlines for sole traders, partnerships and companies</li> <li>4.1.2 tax payment dates for sole traders, partners and companies</li> <li>4.1.3 time limits for notifying chargeability to tax</li> <li>4.1.4 the enquiry window</li> <li>4.1.5 the time period within which amendments to a tax return can be made</li> <li>4.1.6 what records need to be maintained and for what time period.</li> </ul>	Learners need to be able to: <ul style="list-style-type: none"> <li>4.1.7 calculate the business profits to be included in each tax year using the tax year basis.</li> </ul>
<b>4.2</b>	<b>Penalties and interest for non-compliance</b>	
	Learners need to understand: <ul style="list-style-type: none"> <li>4.2.1 penalties for: <ul style="list-style-type: none"> <li>– late filing</li> <li>– late payment</li> <li>– failing to notify chargeability</li> <li>– errors in tax returns</li> <li>– not providing records in an enquiry</li> <li>– not retaining records.</li> </ul> </li> </ul>	Learners need to be able to: <ul style="list-style-type: none"> <li>4.2.2 calculate penalties and interest for non-compliance</li> </ul>

<b>5. Understand the tax implications of business disposals</b>		
<b>5.1</b>	<b>Business disposals</b>	
	Learners need to understand: <ul style="list-style-type: none"> <li>i. the Income Tax and Capital Gains Tax implications of disposing of an unincorporated business</li> <li>ii. the Capital Gains Tax reliefs (gift relief, business asset disposal relief) available on the disposal of: <ul style="list-style-type: none"> <li>– an unincorporated business</li> <li>– shares in a personal company.</li> </ul> </li> </ul>	Learners need to be able to: <ul style="list-style-type: none"> <li>i. calculate: <ul style="list-style-type: none"> <li>– Capital Gains Tax on disposal of: <ul style="list-style-type: none"> <li>▪ trade and assets</li> <li>▪ shares in a personal company</li> </ul> </li> <li>– Capital Gains Tax reliefs available on disposal of: <ul style="list-style-type: none"> <li>▪ trade and assets</li> <li>▪ shares in a personal company</li> </ul> </li> <li>– post-tax proceeds following a business disposal.</li> </ul> </li> </ul>

<b>6. Understand tax reliefs, tax planning opportunities and agent's responsibilities in reporting taxation to HM Revenue &amp; Customs</b>		
<b>6.1</b>	<b>Trading losses</b>	
	<p>Learners need to understand:</p> <p>6.1.1 options available to sole traders, partnerships and companies to utilise trading losses:</p> <ul style="list-style-type: none"> <li>– opening years</li> <li>– carry back</li> <li>– current year</li> <li>– carry forward</li> <li>– terminal</li> </ul> <p>6.1.2 the best use of a trading loss for sole traders, partnerships and limited companies.</p>	<p>Learners need to be able to:</p> <p>6.1.3 calculate available loss relief using:</p> <ul style="list-style-type: none"> <li>– carry back</li> <li>– current year</li> <li>– carry forward.</li> </ul>
<b>6.2</b>	<b>Badges of trade</b>	
	<p>Learners need to understand:</p> <p>6.2.1 how to identify if clients are trading through the application of the badges of trade.</p>	
<b>6.3</b>	<b>Tax planning for businesses</b>	
	<p>Learners need to know:</p> <p>6.3.1 the tax rates which apply:</p> <ul style="list-style-type: none"> <li>– to sole traders</li> <li>– to companies</li> <li>– on extraction of profits from companies.</li> </ul>	<p>Learners need to understand:</p> <p>6.3.2 implications of different business structures on tax planning</p> <p>6.3.3 impact on tax when using different methods of extracting profits, including salary and dividends</p> <p>6.3.4 tax planning opportunities to ensure taxable income is optimally allocated between spouses/civil partners.</p> <p><b>Excluded:</b> Income Tax computations.</p>
<b>6.4</b>	<b>Ethical guidelines</b>	
	<p>Learners need to understand:</p> <p>6.4.1 the definitions of:</p> <ul style="list-style-type: none"> <li>– tax planning</li> <li>– tax avoidance</li> <li>– tax evasion</li> </ul> <p>6.4.2 ethical implications of tax avoidance and tax evasion</p> <p>6.4.3 the requirement to report suspected tax evasion</p> <p>6.4.4 the ethical principle of confidentiality.</p>	

## **Delivering this unit**

A sound understanding of the administrative and computational requirements of tax law is essential to ensure that businesses meet their legal requirements and do not incur penalties and interest. An understanding that tax planning can save businesses significant amounts of money will help students appreciate the value that good tax advice can bring to a business.

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

Students should be encouraged to practise computations. 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 professional conduct in relation to taxation.

### **Links with other units**

This unit has close links with:

- Level 3 Tax Processes for Businesses
- Level 4 Personal Tax.

## Test specification for Business Tax unit assessment

Please refer to the latest Qualification Technical Information (QTI) for specific legislation that will apply to assessments. Details can be accessed at

[aat.org.uk/training/qualifications/2022/resources](https://aat.org.uk/training/qualifications/2022/resources)

Assessment method	Marking type	Duration of assessment
Computer based assessment	Partially computer/ partially human marked	2 hours 30 minutes

Learning outcomes	Weighting
1. Prepare tax computations for sole traders and partnerships	19%
2. Prepare tax computations for limited companies	19%
3. Prepare tax computations for the sale of capital assets by limited companies	17%
4. Understand administrative requirements of the UK's tax regime	15%
5. Understand the tax implications of business disposals	10%
6. Understand tax reliefs, tax planning opportunities and agent's responsibilities in reporting taxation to HM Revenue & Customs	20%
Total	100%



## Personal Tax (FA2024)

Unit level	GLH value	Unit reference number	Assessment
4	60	D/618/3596 19 SCQF Credits	Unit assessment

### Introduction

This unit provides students with the fundamental knowledge of the three most common taxes that affect taxpayers in the United Kingdom (UK): income tax, capital gains tax and inheritance tax. With this knowledge, students will be equipped to prepare not only the computational aspects where appropriate of these taxes, but also appreciate how taxpayers can legally minimise their overall taxation liability.

Students will study the underpinning theory of taxation and will gain knowledge of taxes that affect every taxpayer in the UK. Within income tax, students will cover employment income, income from investments and income from property. Deductions and reliefs that apply to income tax are covered so that students can compute the net income tax liability for a UK taxpayer. National Insurance completes this topic area.

Students will also study capital gains tax and inheritance tax. The fundamental principles of these taxes will be covered so that students can appreciate how they may affect UK taxpayers.

With their knowledge of these three taxes, students will then understand the taxation implications of decisions made by clients and understand that advice and guidance may be offered to ensure that the taxpayer is complying with tax legislation.

The overall learning aim of the unit is to equip students with a knowledge of taxation as it applies to UK taxpayers so that accurate and fair taxation liabilities can be computed. It also enables students to appreciate the theory behind taxation, including the ethical aspects as it specifically applies to a taxation practitioner.

**This unit is based on the Finance Act 2024 subject to assessment from 27 January 2025.**

This unit is **optional** in the Level 4 Diploma in Professional Accounting.

## Learning outcomes

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1. Understand principles and rules that underpin taxation systems
  2. Calculate UK taxpayers' total income
  3. Calculate income tax and National Insurance contributions (NICs) payable by UK taxpayers
  4. Calculate capital gains tax payable by UK taxpayers
  5. Understand the principles of inheritance tax
-

## 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.

<b>1. Understand principles and rules that underpin taxation systems</b>	
<b>1.1</b>	<b>Objectives and functions of taxation</b>  Learners need to understand: 1.1.1 principles underpinning tax systems: <ul style="list-style-type: none"><li>– neutrality</li><li>– efficiency</li><li>– certainty and simplicity</li><li>– effectiveness and fairness</li><li>– flexibility</li></ul> 1.1.2 definitions of: <ul style="list-style-type: none"><li>– progressive tax</li><li>– regressive tax</li><li>– proportional tax.</li></ul>
<b>1.2</b>	<b>Tax planning, tax avoidance and tax evasion</b>  Learners need to understand: 1.2.1 the definitions of: <ul style="list-style-type: none"><li>– tax planning</li><li>– tax avoidance</li><li>– tax evasion</li></ul> 1.2.2 ethical implications of tax avoidance and tax evasion 1.2.3 requirements to report suspected tax evasion.
<b>1.3</b>	<b>Roles and responsibilities of taxation practitioners</b>  Learners need to understand: 1.3.1 AAT's expectations of its tax practitioners as set out in the <i>AAT Professional Conduct in Relation to Taxation</i> , particularly in dealing with clients and third parties 1.3.2 the ethical principle of confidentiality.
<b>1.4</b>	<b>Residence and domicile</b>  Learners need to understand: 1.4.1 the definition of residence and domicile 1.4.2 how to determine residence and domicile status 1.4.3 the impact of residence and domicile status on the taxation position of UK taxpayers.

<b>2. Calculate UK taxpayers' total income</b>		
<b>2.1</b>	<b>Calculate income from employment</b>	
	Learners need to understand: 2.1.1 how to identify exempt benefits in kind 2.1.2 how to identify allowable and disallowable expenses.	Learners need to be able to: 2.1.3 calculate: – employment income – taxable benefits in kind – allowable expenses.
<b>2.2</b>	<b>Calculate income from investments</b>	
	Learners need to understand: 2.2.1 the amount of personal savings allowance available for all taxpayers 2.2.2 the amount of dividend allowance available for all taxpayers 2.2.3 how to identify exempt income.	Learners need to be able to: 2.2.4 calculate taxable investment income for all taxpayers 2.2.5 calculate tax payable on investment income for all taxpayers.
<b>2.3</b>	<b>Calculate income from property</b>	
	Learners need to understand: 2.3.1 when claiming the property allowance is appropriate 2.3.2 how to identify allowable and disallowable expenses 2.3.3 how losses on property may be relieved 2.3.4 the difference between the cash basis and accruals basis.	Learners need to be able to: 2.3.5 calculate profit and losses from property using: – cash basis – accruals basis.

<b>3. Calculate income tax and National Insurance Contributions (NICs) payable by UK tax</b>		
<b>3.1</b>	<b>Calculate income tax payable</b>	
	Learners need to be able to: 3.1.1 calculate the personal allowance for all taxpayers 3.1.2 adjust income and/or tax bands for: – occupational pension schemes – private pension schemes – charitable donations 3.1.3 calculate taxable income 3.1.4 apply all tax rates and bands 3.1.5 calculate total tax liability and net income tax payable/repayable.  <b>Excluded:</b> marriage allowance, blind person's allowance, and married couple's allowance.	
<b>3.2</b>	<b>Calculate National Insurance Contributions (NICs)</b>	
	Learners need to be able to: 3.2.1 calculate Class 1/Class 1 (a) NICs payable by: – employees – employers  <b>Excluded:</b> employees who are under 21, apprentices and veterans	

<b>3.3</b>	<b>Tax planning</b>	
	Learners need to understand: 3.3.1 the impact of choices made on net tax liabilities 3.3.2 how to advise clients on legally minimising their tax liability.	Learners need to be able to: 3.3.3 calculate the impact on tax liabilities of the following in order to make them more tax efficient: <ul style="list-style-type: none"> <li>– different benefits in kind</li> <li>– different investments</li> <li>– maximising relevance</li> <li>– exemptions and reliefs.</li> </ul>

<b>4. Calculate capital gains tax payable by UK taxpayers</b>		
<b>4.1</b>	<b>Calculate chargeable gains and allowable losses</b>	
	Learners need to know: 4.1.1 how to identify: <ul style="list-style-type: none"> <li>– chargeable and exempt assets</li> <li>– chargeable and exempt disposals</li> <li>– chargeable and exempt persons</li> <li>– chattels and wasting chattels</li> <li>– connected persons.</li> </ul>	Learners need to be able to: 4.1.2 calculate chargeable gains and allowable losses for: <ul style="list-style-type: none"> <li>– chargeable assets</li> <li>– part disposals</li> <li>– chattels.</li> </ul>
<b>4.2</b>	<b>Calculate chargeable gains and allowable losses for shares</b>	
	Learners need to be able to: 4.2.1 apply matching rules for individuals 4.2.2 account for: <ul style="list-style-type: none"> <li>– bonus issues</li> <li>– rights issues.</li> </ul>	
<b>4.3</b>	<b>Reliefs and exemptions</b>	
	Learners need to understand: 4.3.1 conditions for applying private residence relief 4.3.2 the availability of the annual exemption amount.	Learners need to be able to: 4.3.3 calculate net capital gains after application of relevant reliefs.
<b>4.4</b>	<b>Calculate capital gains tax payable</b>	
	Learners need to be able to: 4.4.1 offset capital losses, current year and brought forward 4.4.2 apply all rates of capital gains tax.	

## 5. Understand the principles of inheritance tax

### 5.1 Principles of inheritance tax

Learners need to understand:

5.1.1. how to identify different transfers:

- chargeable lifetime
- exempt
- potentially exempt

5.1.2 different inheritance tax reliefs:

- annual exemption
- annual gifts
- gifts to charities
- marriage/civil partnership gifts
- national purposes
- political parties
- small gifts
- tapering relief

5.1.3 nil rate band and residence nil rate band

5.1.4 tax rates applicable to lifetime transfers and on the death estate.

**Excluded:** agricultural property, business property, quick succession relief, transfers to trusts and inheritance tax computations.

## **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.

There is little overlap between the three taxes covered in this unit, and hence the three taxes could be taught in any order. However, it is advisable to teach the topics in the order of the learning outcomes as listed. The unit has been written to build up through the learning outcomes and it is best for students' appreciation and understanding if the learning outcomes are taught in this order.

As students have access to the tax tables in their assessment, it is advisable to ensure they have a hard copy of these tables throughout their study. Students are encouraged to always use the tables 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. For example, virtually the same question could be set on calculation of income tax liability, but with slight differences, such as Gift Aid payments, different pension payments, with dividend income and without, income over £100,000 to restrict the personal allowance, and PAYE deductions.

## **Links with other units**

This unit has close links with:

- Level 3 Tax Processes for Businesses
- Level 4 Business Tax.

## Test specification for Personal Tax unit assessment

Please refer to the latest Qualification Technical Information (QTI) for specific legislation that will apply to assessments. Details can be accessed at

<https://www.aat.org.uk/deliver/qualifications/specifications-outlines>

Assessment method	Marking type	Duration of assessment
Computer based assessment	Partially computer/ partially human marked	2 hours 30 minutes (FA23)

Learning outcomes	Weighting
1. Understand principles and rules that underpin taxation systems	10%
2. Calculate UK taxpayers' total income	24%
3. Calculate income tax and National Insurance contributions payable by UK taxpayers	28%
4. Calculate capital gains tax payable by UK taxpayers	28%
5. Understand the principles of inheritance tax	10%
Total	100%



## Personal Tax (FA2025)

Unit level	GLH value	Unit reference number	Assessment
4	60	D/618/3596	Unit assessment

### Introduction

This unit provides students with the fundamental knowledge of the three most common taxes that affect taxpayers in the United Kingdom (UK): income tax, capital gains tax and inheritance tax. With this knowledge, students will be equipped to prepare not only the computational aspects where appropriate of these taxes but also appreciate how taxpayers can legally minimise their overall taxation liability.

Students will study the underpinning theory of taxation and will gain knowledge of taxes that affect every taxpayer in the UK. Within income tax, students will cover employment income, income from investments and income from property. Deductions and reliefs that apply to income tax are covered so that students can compute the net income tax liability for a UK taxpayer. National Insurance completes this topic area.

Students will also study capital gains tax and inheritance tax. The fundamental principles of these taxes will be covered so that students can appreciate how they may affect UK taxpayers.

With their knowledge of these three taxes, students will then understand the taxation implications of decisions made by clients and understand that advice and guidance may be offered to ensure that the taxpayer is complying with tax legislation.

The overall learning aim of the unit is to equip students with a knowledge of taxation as it applies to UK taxpayers so that accurate and fair taxation liabilities can be computed. It also enables students to appreciate the theory behind taxation, including the ethical aspects as it specifically applies to a taxation practitioner.

**This unit is based on Finance Act 2025 subject to assessment from 26 January 2026.**

This unit is **optional** in the Level 4 Diploma in Professional Accounting.

## Learning outcomes

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1. Understand principles and rules that underpin taxation systems
  2. Calculate UK taxpayers' total income
  3. Calculate income tax and National Insurance contributions (NICs) payable by UK taxpayers
  4. Calculate capital gains tax payable by UK taxpayers
  5. Understand the principles of inheritance tax
-

## 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.

<b>1. Understand principles and rules that underpin taxation systems</b>	
<b>1.1</b>	<b>Objectives and functions of taxation</b>  Learners need to understand: 1.1.3 principles underpinning tax systems: <ul style="list-style-type: none"><li>– neutrality</li><li>– efficiency</li><li>– certainty and simplicity</li><li>– effectiveness and fairness</li><li>– flexibility</li></ul> 1.1.4 definitions of: <ul style="list-style-type: none"><li>– progressive tax</li><li>– regressive tax</li><li>– proportional tax.</li></ul>
<b>1.2</b>	<b>Tax planning, tax avoidance and tax evasion</b>  Learners need to understand: 1.2.4 the definitions of: <ul style="list-style-type: none"><li>– tax planning</li><li>– tax avoidance</li><li>– tax evasion</li></ul> 1.2.5 ethical implications of tax avoidance and tax evasion 1.2.6 requirements to report suspected tax evasion.
<b>1.3</b>	<b>Roles and responsibilities of taxation practitioners</b>  Learners need to understand: 2.3.1 AAT's expectations of its tax practitioners as set out in the <i>AAT Professional Conduct in Relation to Taxation</i> , particularly in dealing with clients and third parties 1.3.3 the ethical principle of confidentiality.
<b>1.4</b>	<b>Residence</b>  Learners need to understand: 1.4.4 the definition of residence 1.4.5 how to determine residence status 1.4.6 the impact of residence status on the taxation position of UK taxpayers.

<b>2. Calculate UK taxpayers' total income</b>		
<b>2.1</b>	<b>Calculate income from employment</b>	
	Learners need to understand: 2.1.4 how to identify exempt benefits in kind 2.1.5 how to identify allowable and disallowable expenses.	Learners need to be able to: 2.1.6 calculate: <ul style="list-style-type: none"> <li>– employment income</li> <li>– taxable benefits in kind</li> <li>– allowable expenses.</li> </ul>
<b>2.2</b>	<b>Calculate income from investments</b>	
	Learners need to understand: 2.2.6 the amount of personal savings allowance available for all taxpayers 2.2.7 the amount of dividend allowance available for all taxpayers 2.2.8 how to identify exempt income.	Learners need to be able to: 2.2.9 calculate taxable investment income for all taxpayers 2.2.10 calculate tax payable on investment income for all taxpayers.
<b>2.3</b>	<b>Calculate income from property</b>	
	Learners need to understand: 2.3.4 when claiming the property allowance is appropriate 2.3.5 how to identify allowable and disallowable expenses 2.3.6 how losses on property may be relieved 2.3.6 the difference between the cash basis and accruals basis.	Learners need to be able to: 2.3.7 calculate profit and losses from property using: <ul style="list-style-type: none"> <li>– cash basis</li> <li>– accruals basis.</li> </ul>
<b>3. Calculate income tax and National Insurance Contributions (NICs) payable by UK tax</b>		
<b>3.1</b>	<b>Calculate income tax payable</b>	
	Learners need to be able to: 3.1.6 calculate the personal allowance for all taxpayers 3.1.7 adjust income and/or tax bands for: <ul style="list-style-type: none"> <li>– occupational pension schemes</li> <li>– private pension schemes</li> <li>– charitable donations</li> </ul> 3.1.8 calculate taxable income 3.1.9 apply all tax rates and bands 3.1.10 calculate total tax liability and net income tax payable/repayable.	
	<b>Excluded:</b> marriage allowance, blind person's allowance, and married couple's allowance.	
<b>3.2</b>	<b>Calculate National Insurance Contributions (NICs)</b>	
	Learners need to be able to: 3.2.1 calculate Class 1/Class 1 (a) NICs payable by: <ul style="list-style-type: none"> <li>– employees</li> <li>– employers</li> </ul>	
	<b>Excluded:</b> employees who are under 21, apprentices and veterans.	

<b>3.3</b>	<b>Tax planning</b>	
	Learners need to understand: 3.3.4 the impact of choices made on net tax liabilities 3.3.5 how to advise clients on legally minimising their tax liability.	Learners need to be able to: 3.3.6 calculate the impact on tax liabilities of the following in order to make them more tax efficient: <ul style="list-style-type: none"> <li>– different benefits in kind</li> <li>– different investments</li> <li>– maximising relevance</li> <li>– exemptions and reliefs.</li> </ul>

<b>4. Calculate capital gains tax payable by UK taxpayers</b>		
<b>4.1</b>	<b>Calculate chargeable gains and allowable losses</b>	
	Learners need to know: 4.1.3 how to identify: <ul style="list-style-type: none"> <li>– chargeable and exempt assets</li> <li>– chargeable and exempt disposals</li> <li>– chargeable and exempt persons</li> <li>– chattels and wasting chattels</li> <li>– connected persons.</li> </ul>	Learners need to be able to: 4.1.4 calculate chargeable gains and allowable losses for: <ul style="list-style-type: none"> <li>– chargeable assets</li> <li>– part disposals</li> <li>– chattels.</li> </ul>
<b>4.2</b>	<b>Calculate chargeable gains and allowable losses for shares</b>	
	Learners need to be able to: 4.2.3 apply matching rules for individuals 4.2.4 account for: <ul style="list-style-type: none"> <li>– bonus issues</li> <li>– rights issues.</li> </ul>	
<b>4.3</b>	<b>Reliefs and exemptions</b>	
	Learners need to understand: 4.3.4 conditions for applying private residence relief 4.3.5 the availability of the annual exemption amount.	Learners need to be able to: 4.3.6 calculate net capital gains after application of relevant reliefs.
<b>4.4</b>	<b>Calculate capital gains tax payable</b>	
	Learners need to be able to: 4.4.3 offset capital losses, current year and brought forward 4.4.4 apply all rates of capital gains tax.	

## 5. Understand the principles of inheritance tax

### 5.1 Principles of inheritance tax

Learners need to understand:

5.1.1. how to identify different transfers:

- chargeable lifetime
- exempt
- potentially exempt

5.1.5 different inheritance tax reliefs:

- annual exemption
- annual gifts
- gifts to charities
- marriage/civil partnership gifts
- national purposes
- political parties
- small gifts
- tapering relief

5.1.6 nil rate band and residence nil rate band

5.1.7 tax rates applicable to lifetime transfers and on the death estate.

**Excluded:** agricultural property, business property, quick succession relief, transfers to trusts and inheritance tax computations.

## **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.

There is little overlap between the three taxes covered in this unit, and hence the three taxes could be taught in any order. However, it is advisable to teach the topics in the order of the learning outcomes as listed. The unit has been written to build up through the learning outcomes and it is best for students' appreciation and understanding if the learning outcomes are taught in this order.

As students have access to the tax tables in their assessment, it is advisable to ensure they have a hard copy of these tables throughout their study. Students are encouraged to always use the tables 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. For example, virtually the same question could be set on calculation of income tax liability, but with slight differences, such as Gift Aid payments, different pension payments, with dividend income and without, income over £100,000 to restrict the personal allowance, and PAYE deductions.

## **Links with other units**

This unit has close links with:

- Level 3 Tax Processes for Businesses
- Level 4 Business Tax.

## Test specification for Personal Tax unit assessment

Please refer to the latest Qualification Technical Information (QTI) for specific legislation that will apply to assessments. Details can be accessed at

[aat.org.uk/training/qualifications/2022/resources](https://aat.org.uk/training/qualifications/2022/resources)

Assessment method	Marking type	Duration of assessment
Computer based assessment	Partially computer/ partially human marked	2 hours 30 minutes (FA25)

Learning outcomes	Weighting
1. Understand principles and rules that underpin taxation systems	10%
2. Calculate UK taxpayers' total income	24%
3. Calculate income tax and National Insurance contributions payable by UK taxpayers	28%
4. Calculate capital gains tax payable by UK taxpayers	28%
5. Understand the principles of inheritance tax	10%
Total	100%



## Audit and Assurance

Unit level	GLH value	Unit reference number	Assessment
8	60	UP55 04 19 SCQF Credits	Unit assessment

### Introduction

As many organisations and businesses now operate in the global marketplace, the role of audit and assurance is becoming increasingly important as it is seen as providing a measure of confidence in the rapidly changing accounting and business environment. This is as a result of their impact upon the overall success of a business and achievement of strategic objectives. Audit and assurance services have also come under increased scrutiny from the profession following high-profile corporate failures.

This unit aims to develop a wider understanding of the principles and concepts, including the legal and professional rules of audit and assurance services. 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. The unit also aims to provide a practical perspective on audit and assurance, with an emphasis on the application of audit and assurance techniques to current systems. Students will be equipped with the skills required to undertake an audit under supervision and will gain an understanding of relevant regulatory frameworks and ethical requirements.

Students will explore issues such as independence as well as the audit process, from the initial planning process, including risk assessments and gathering evidence, through to completion and reporting findings. The unit places an emphasis upon the application of techniques to current situations and as such, offers a practical as well as a theoretical perspective. Throughout the unit, the concept of professional scepticism is explored and challenged.

This unit is **optional** in the Level 8 Diploma in Professional Accounting. Students will require an understanding of financial accounting, as this knowledge will be used during the practical application of audit techniques.

## Learning outcomes

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1. Demonstrate an understanding of the audit and assurance framework
  2. Demonstrate the importance of professional ethics
  3. Evaluate the planning process for audit and assurance
  4. Evaluate procedures for obtaining sufficient and appropriate evidence
  5. Review and report findings
-

## 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.

<b>1. Demonstrate an understanding of the audit and assurance framework</b>		
<b>1.1</b>	<b>The concepts and principles</b>	
	Learners need to understand: 1.1.1 the meaning of the term 'audit' 1.1.2 the meaning of the term 'assurance' 1.1.3 the general principles of audit and assurance 1.1.4 the audit expectation gap 1.1.5 the difference between reasonable and limited assurance 1.1.6 the difference between positive and negative expression of assurance 1.1.7 the benefits gained from assurance 1.1.8 the meaning of: – true and fair view – presents fairly – faithful representation as applied to the external audit 1.1.9 the importance of professional scepticism and professional judgement.	Learners need to be able to: 1.1.10 apply a questioning attitude to all audit activities.
<b>1.2</b>	<b>The regulatory environment</b>	
	Learners need to understand: 1.2.1 the approach to the regulation of audits in the UK 1.2.2 the use of audit standards in the UK 1.2.3 the role of the: – accountancy profession in the regulation of audits – International Auditing and Assurance Standards Board (IAASB) 1.2.4 the role of law (detail contained in the Companies Act in relation to the requirement for a statutory audit, directors' responsibilities and auditors' responsibilities).	
<b>1.3</b>	<b>The role of corporate governance in the audit and assurance process</b>	
	Learners need to understand: 1.3.1 the principles of good governance 1.3.2 the comply or explain principle 1.3.3 the respective responsibilities of management, internal auditors and external auditors in relation to the financial statements 1.3.4 the importance of an effective audit committee.	

<b>1.4</b>	<b>The role of internal audit</b>
	<p>Learners need to understand:</p> <p>1.4.1 the difference between internal and external audit</p> <p>1.4.2 the requirement for internal audit</p> <p>1.4.3 the roles of internal audit including:</p> <ul style="list-style-type: none"> <li>– reviewing accounting and systems of internal control</li> <li>– examining financial operating information</li> <li>– special investigations, e.g. fraud</li> <li>– reviewing compliance with external regulation</li> <li>– reviewing value for money (VFM)</li> <li>– risk management</li> </ul> <p>1.4.4 the different types of internal audit work including:</p> <ul style="list-style-type: none"> <li>– financial</li> <li>– operation</li> <li>– project</li> <li>– VFM</li> <li>– social and environmental</li> <li>– management</li> </ul> <p>1.4.5 the risks associated with a lack of independence.</p>

<b>2. Demonstrate the importance of professional ethics</b>			
<b>2.1</b>	<b>The Principles and characteristics of ethical codes and the implications for the auditor</b>		
	<table> <tr> <td> <p>Learners need to understand:</p> <p>2.1.1 the importance of a code of ethics for the profession, including the <i>AAT Code of Professional Ethics</i></p> <p>2.1.2 the consequences of failing to comply with the <i>AAT Code of Professional Ethics</i>, including damages, and legal and professional penalties</p> <p>2.1.3 the auditor's liability to the company and shareholders under contract, and liability to third parties under tort of negligence</p> <p>2.1.4 the requirement for professional indemnity insurance</p> <p>2.1.5 the supervisory requirements for accounting technicians when carrying out an audit.</p> </td><td> <p>Learners need to be able to:</p> <p>2.1.6 apply the <i>AAT Code of Professional Ethics</i> to audit activities.</p> </td></tr> </table>	<p>Learners need to understand:</p> <p>2.1.1 the importance of a code of ethics for the profession, including the <i>AAT Code of Professional Ethics</i></p> <p>2.1.2 the consequences of failing to comply with the <i>AAT Code of Professional Ethics</i>, including damages, and legal and professional penalties</p> <p>2.1.3 the auditor's liability to the company and shareholders under contract, and liability to third parties under tort of negligence</p> <p>2.1.4 the requirement for professional indemnity insurance</p> <p>2.1.5 the supervisory requirements for accounting technicians when carrying out an audit.</p>	<p>Learners need to be able to:</p> <p>2.1.6 apply the <i>AAT Code of Professional Ethics</i> to audit activities.</p>
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<b>2.2</b>	<b>Threats to the independence of auditors</b>		
	<table> <tr> <td> <p>Learners need to understand:</p> <p>2.2.1 how audit and assurance work may compromise the fundamental principles of:</p> <ul style="list-style-type: none"> <li>– integrity</li> <li>– objectivity</li> </ul> </td><td> <p>Learners need to be able to:</p> <p>2.2.4 evaluate circumstances that may threaten the application of the fundamental principles.</p> </td></tr> </table>	<p>Learners need to understand:</p> <p>2.2.1 how audit and assurance work may compromise the fundamental principles of:</p> <ul style="list-style-type: none"> <li>– integrity</li> <li>– objectivity</li> </ul>	<p>Learners need to be able to:</p> <p>2.2.4 evaluate circumstances that may threaten the application of the fundamental principles.</p>
<p>Learners need to understand:</p> <p>2.2.1 how audit and assurance work may compromise the fundamental principles of:</p> <ul style="list-style-type: none"> <li>– integrity</li> <li>– objectivity</li> </ul>	<p>Learners need to be able to:</p> <p>2.2.4 evaluate circumstances that may threaten the application of the fundamental principles.</p>		

	<ul style="list-style-type: none"> <li>– professional competence and due care</li> <li>– confidentiality</li> <li>– professional behaviour</li> </ul> <p>2.2.2 the significance of independence and its relationship with objectivity</p> <p>2.2.3 the threats of:</p> <ul style="list-style-type: none"> <li>– self-interest</li> <li>– self-review</li> <li>– advocacy</li> <li>– familiarity</li> <li>– intimidation.</li> </ul>	
<b>2.3</b>	<b>Safeguards to eliminate or reduce threats to the independence of auditors</b>	
	<p>Learners need to be able to:</p> <p>2.3.1 evaluate firm-wide safeguards:</p> <ul style="list-style-type: none"> <li>– use of different personnel with different reporting lines for the provision of non-assurance services to an audited entity</li> <li>– procedures for monitoring and managing the reliance on revenue received from a single client</li> <li>– procedures that will enable the identification of interests or relationships between the firm or members of the audit team and clients</li> <li>– disciplinary mechanisms to promote compliance with policies and procedures</li> </ul> <p>2.3.2 evaluate audit safeguards:</p> <ul style="list-style-type: none"> <li>– independent review of audit working papers</li> <li>– consultation with an independent third party</li> <li>– disclosure and discussion of ethical issues with those charged with governance</li> <li>– rotation of senior personnel</li> <li>– evaluate matters that should be referred to senior members of audit staff.</li> </ul>	
<b>2.4</b>	<b>The fundamental ethical principles in relation to internal and external audit</b>	
	<p>Learners need to be able to:</p> <p>2.4.1 recognise:</p> <ul style="list-style-type: none"> <li>– when to disclose information with or without clients' permission</li> <li>– when to take precautions if acting for competing clients</li> <li>– the importance of data security.</li> </ul>	

<b>3. Evaluate the planning process for audit and assurance</b>		
<b>3.1</b>	<b>The concept of risk</b>	
	<p>Learners need to understand:</p> <p>3.1.1 components of the audit risk model:</p> <ul style="list-style-type: none"> <li>– inherent risk</li> <li>– control risk</li> <li>– detection risk: <ul style="list-style-type: none"> <li>▪ sampling</li> <li>▪ non-sampling risk</li> </ul> </li> </ul> <p>3.1.2 relationship between the components, particularly how auditors manage detection risk in order to keep audit risk at an acceptably low level</p> <p>3.1.3 how factors such as the entity's operating environment and its system of internal control affect the assessment of inherent and control risk</p> <p>3.1.4 the risk assessment process:</p> <ul style="list-style-type: none"> <li>– risk matrix</li> <li>– low, medium or high</li> <li>– numerical grade</li> </ul> <p>3.1.5 how analytical procedures can be used to identify potential understatement or overstatement of items in the financial statements.</p>	<p>Learners need to be able to:</p> <p>3.1.6 identify audit risks</p> <p>3.1.7 identify analytical procedures that could expose understatement or overstatement of items in the financial statements.</p>
<b>3.2</b>	<b>The concept of materiality</b>	
	<p>Learners need to understand:</p> <p>3.2.1 the difference between 'performance materiality' and materiality for the financial statements as a 'whole'</p> <p>3.2.2 the role of materiality in planning an audit and evaluating misstatements</p> <p>3.2.3 methods used to calculate materiality thresholds</p> <p>3.2.4 the difference between 'material' and 'material and pervasive'.</p>	<p>Learners need to be able to:</p> <p>3.2.5 calculate materiality levels.</p>
<b>3.3</b>	<b>Audit procedures</b>	
	<p>Learners need to be able to:</p> <p>3.3.1 develop procedures to obtain sufficient appropriate evidence in respect of the relevant assertions for key figures in the financial statements, particularly:</p> <ul style="list-style-type: none"> <li>– non-current assets</li> <li>– inventory</li> <li>– receivables</li> <li>– cash and bank</li> <li>– borrowings</li> </ul>	

	<ul style="list-style-type: none"> <li>– payables</li> <li>– provisions</li> <li>– revenue</li> <li>– purchases</li> <li>– payroll and other expenses</li> <li>– other payables and other receivables.</li> </ul>	
<b>3.4</b>	<b>The role of audit working papers</b>	
	Learners need to understand: 3.4.1 the role of audit documentation in providing evidence as a basis for the auditor's opinion 3.4.2 the form and content of working papers and supporting documentation 3.4.3 the importance of retaining working papers for future reference 3.4.4 recording techniques (flow charts, internal control questions and checklists) 3.4.5 the impact of technology on auditing.	Learners need to be able to: 3.4.6 evaluate internal control systems using systems records: <ul style="list-style-type: none"> <li>– flow charts</li> <li>– internal control questions</li> <li>– checklists</li> </ul> 3.4.7 identify the merits and limitations of using standardised questionnaires and checklists.

<b>4. Evaluate procedures for obtaining sufficient and appropriate evidence</b>		
<b>4.1</b>	<b>Methods used to obtain audit evidence</b>	
	Learners need to understand: 4.1.1 types of verification techniques: <ul style="list-style-type: none"> <li>– inspection</li> <li>– observation</li> <li>– external confirmation</li> <li>– recalculation</li> <li>– reperformance</li> <li>– analytical procedures</li> <li>– enquiry</li> </ul> 4.1.2 the characteristics of good evidence 4.1.3 the reliability and relevance of different sources of audit evidence 4.1.4 the differences between tests of controls and substantive procedures.	Learners need to be able to: 4.1.5 identify when it is appropriate to use each type of verification technique 4.1.6 evaluate methods used to test: <ul style="list-style-type: none"> <li>– controls</li> <li>– transactions</li> <li>– balances.</li> </ul>
<b>4.2</b>	<b>Audit techniques in an IT environment</b>	
	Learners need to know: 4.2.1 types of automated tools and techniques: <ul style="list-style-type: none"> <li>– test data</li> <li>– integrated test facilities</li> <li>– audit software</li> <li>– data analytic tools</li> </ul>	

	<p>4.2.2 how automated tools and techniques are used to test controls and interrogate the audited entity's files</p> <p>4.2.3 the benefits and drawbacks of using automated tools and techniques.</p>	
<b>4.3</b>	<b>Different sampling techniques</b>	
	<p>Learners need to understand:</p> <p>4.3.1 statistical and non-statistical sampling methods</p> <p>4.3.2 the advantages and disadvantages of different sampling methods:</p> <ul style="list-style-type: none"> <li>– block</li> <li>– haphazard</li> <li>– judgmental</li> <li>– random</li> <li>– stratified</li> <li>– systematic.</li> </ul>	<p>Learners need to be able to:</p> <p>4.3.3 distinguish between statistical and non-statistical sampling</p> <p>4.3.4 determine when it is more appropriate to examine 100% or a selection of items</p> <p>4.3.5 distinguish between selection methods and when they should be used</p> <p>4.3.6 identify factors affecting sample sizes</p> <p>4.3.7 identify appropriate populations from which to select samples.</p>
<b>4.4</b>	<b>Audit approach</b>	
	<p>Learners need to understand:</p> <p>4.4.1 the definition of internal control and each of its component's control activities including:</p> <ul style="list-style-type: none"> <li>– performance reviews</li> <li>– information processing</li> <li>– physical controls</li> <li>– segregation of duties</li> <li>– monitoring of controls by management</li> <li>– monitoring of controls by an internal audit function</li> </ul> <p>4.4.2 preventative controls</p> <p>4.4.3 detective controls</p> <p>4.4.4 the role of internal audit as part of the internal control environment</p> <p>4.4.5 limitations of internal controls</p> <p>4.4.6 factors relating to the operating environment that influence control risk</p> <p>4.4.7 factors relating to internal control systems that influence control risk.</p>	<p>Learners need to be able to:</p> <p>4.4.8 establish why auditors need to understand the audited entity's internal controls</p> <p>4.4.9 determine when to use a mixture of tests of controls and substantive procedures or substantive procedures only</p> <p>4.4.10 identify why it is appropriate to use a mixture of tests of controls and substantive procedures or substantive procedures only</p> <p>4.4.11 identify how errors and irregularities can be mitigated by control procedures.</p>
<b>4.5</b>	<b>Audit assertions</b>	
	<p>Learners need to know:</p> <p>4.5.1 assertions contained in the financial statements:</p> <ul style="list-style-type: none"> <li>– payables</li> <li>– receivables</li> <li>– inventories</li> <li>– bank and cash</li> <li>– non-current assets</li> <li>– non-current liabilities.</li> </ul>	<p>Learners need to be able to:</p> <p>4.5.2 identify audit procedures to test financial statement assertions.</p>



<b>5. Review and report findings</b>		
<b>5.1</b>	<b>Matters to be referred to senior colleagues</b>	
	Learners need to be able to: 5.1.1 evaluate misstatements for materiality 5.1.2 identify deviations from an audited entity's prescribed procedures 5.1.3 identify matters including: <ul style="list-style-type: none"> <li>– unauthorised transactions</li> <li>– non-routine transactions</li> <li>– related party transactions</li> <li>– transactions above or below market rates</li> <li>– suspected fraud.</li> </ul>	
<b>5.2</b>	<b>External audit opinion</b>	
	Learners need to understand: 5.2.1 elements of an audit opinion 5.2.2 elements of an external audit report.	Learners need to be able to: 5.2.3 identify a suitable audit opinion arising from: <ul style="list-style-type: none"> <li>– significant uncertainties</li> <li>– material misstatements</li> <li>– inability to obtain sufficient and appropriate evidence (limitation on scope).</li> </ul>
<b>5.3</b>	<b>Report audit findings to management</b>	
	Learners need to understand: 5.3.1 elements of a report on deficiencies in internal control 5.3.2 how deficiencies in internal control are reported to management 5.3.3 how deficiencies in internal control are reported to the audit committee.	Learners need to be able to: 5.3.4 identify the consequences of deficiencies in internal controls and how the deficiencies can be remedied 5.3.5 report findings to management.

## **Delivering this unit**

To deliver this unit effectively, tutors need to help students recognise the importance of the audit and assurance to businesses and wider society as an effective part of the governance process. This unit is designed as an introduction, as it is undoubtedly an area in which students will either be involved directly or indirectly (as an auditee) in their future work and is changing rapidly as a result of the impact of assistive technologies. As a result of the digital age, there are analytic technologies that assist the audit in terms of extracting relevant data and identifying issues.

It is important for students to be aware of the framework of audit and assurance and its wide-ranging reach across all business. These topics can be delivered in conjunction with other Level 8 units, such as Drafting and Interpreting Financial Statements, and can involve a review of a published set of financial statements or by following an example of poor practice, of which there are high-profile cases in the media. Links can also be made to issues around the framework and areas that students may have an interest in, such as financial crime.

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 analytic technology and audit software can assist in the teaching of this unit as it will help students understand how this is vital in the modern audit.

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, therefore providing a 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.

### **Links with other units**

This unit has close links with:

- Level 8 Drafting and interpreting Financial Statements
- Level 8 Internal Accounting Systems and Controls.

## Test specification for Audit and Assurance unit assessment

Please refer to the latest Qualification Technical Information (QTI) for specific legislation that will apply to assessments. Details can be accessed at

<https://www.aat.org.uk/deliver/qualifications/specifications-outlines>

Assessment method	Marking type	Duration of assessment
Computer based assessment	Partially computer/ partially human marked	2 hours 30 minutes

  

Learning outcomes	Weighting
1. Demonstrate an understanding of the audit and assurance framework	10%
2. Demonstrate the importance of professional ethics	15%
3. Evaluate the planning process for audit and assurance	25%
4. Evaluate procedures for obtaining sufficient and appropriate evidence	35%
5. Review and report findings	15%
Total	100%

# Cash and Financial Management

Unit level	GLH value	Unit reference number	Assessment
8	60	UP56 04 15 SCQF Credits	Unit assessment

## Introduction

This unit focuses on the importance of managing cash within organisations and covers the knowledge and skills required to make informed decisions on financing and investment in accordance with organisational policies and external regulations.

Students will identify current and future cash transactions from a range of sources. They will learn how to eliminate non-cash items in the financial information provided. Using various techniques, students will prepare cash budgets considering the timing of transactions required to monitor the flow of cash into and out of organisations.

Understanding the importance of cash management is key to the sustainability of organisations, therefore students will identify shortfalls and surpluses in cash budgets and take appropriate action to deal with them. Students will understand how to reforecast cash budgets and reasons for deviations from budget.

Students will appreciate how an organisation needs to meet its financial obligations to avoid the risk of financial failure and the different methods of financing available to meet short- and long-term financing requirements, along with the types of investments available for surplus funds.

Students will gain an understanding of the external regulations and considerations that relate to cash and finance, including any financing and investment decisions, to comply with an organisation's policies and principles, which may not be purely focused on maximising wealth.

This unit is **optional** in the Level 8 Diploma in Professional Accounting.

## Learning outcomes

1. Prepare forecasts for cash receipts and payments
2. Prepare cash budgets and monitor cash flows
3. Understand the importance of managing finance and liquidity
4. Understand ways of raising finance and investing funds
5. Understand regulations and organisational policies that influence decisions in managing cash and finance

## 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.

<b>1. Prepare forecasts for cash receipts and payments</b>		
<b>1.1</b>	<b>Types of cash receipts and payments</b>	
	Learners need to understand: 1.1.1 types of cash receipts and cash payments: <ul style="list-style-type: none"> <li>– regular transactions</li> <li>– exceptional transactions</li> <li>– capital injections and payments</li> <li>– drawings and dividends</li> <li>– loan receipts and repayments</li> <li>– taxation payments and refunds.</li> </ul>	
<b>1.2</b>	<b>Reconcile profit with movements in cash</b>	
	Learners need to understand: 1.2.1 the differences between cash and profit.	Learners need to be able to: 1.2.2 reconcile differences between accounting profits and cash by: <ul style="list-style-type: none"> <li>– adjusting for non-cash items</li> <li>– adjusting for non-operational items</li> <li>– adjusting for cash transactions included in the statement of financial position</li> <li>– adjusting for opening and closing balances in the financial statements and/or bank statements</li> <li>– calculating movements in cash.</li> </ul>
<b>1.3</b>	<b>Statistical techniques</b>	
	Learners need to be able to: 1.3.1 calculate cash receipts and payments using the following techniques: <ul style="list-style-type: none"> <li>– mark-up</li> <li>– margin</li> <li>– percentages</li> <li>– regression analysis (<math>y = a + bx</math>)</li> <li>– index numbers</li> <li>– time series analysis, using moving averages:               <ul style="list-style-type: none"> <li>▪ trends</li> <li>▪ seasonal variations.</li> </ul> </li> </ul>	

<b>1.4</b>	<b>Cash movement of non-current assets</b>	
	Learners need to understand: 1.4.1 the carrying value of a non-current asset, including revaluation 1.4.2 the effect of revaluation on cash on the disposal of a non-current asset.	Learners need to be able to: 1.4.3 calculate the purchase price of a non-current asset 1.4.7 calculate the sale proceeds of a non-current asset.

<b>2. Prepare cash budgets and monitor cash flows</b>		
<b>2.1</b>	<b>Cash budgets and forecasts</b>	
	Learners need to understand: 2.1.1 relevant and non-relevant items when preparing cash budgets 2.1.2 the effect on cash flow of: <ul style="list-style-type: none"> <li>– lagged or delayed receipts and payments in different periods of the cash budget</li> <li>– prompt payment discounts (PPD), irrecoverable debts and their timings</li> <li>– exchange rates, inflation and taxation when preparing cash budgets.</li> </ul>	Learners need to be able to: 2.1.3 prepare a cash budget to include: <ul style="list-style-type: none"> <li>– all sources of cash receipts totalled to show receipts for the period</li> <li>– all sources of cash payments totalled to show payments for the period</li> <li>– net cash flow for the period</li> <li>– opening cash balance</li> <li>– closing cash balance.</li> </ul>
<b>2.2</b>	<b>Sensitivity analysis on cash budgets</b>	
	Learners need to understand: 2.2.1 changes in assumptions, both controllable and non-controllable, that can affect the cash budget.	Learners need to be able to: 2.2.2 calculate the impact of changes on the original cash budget due to: <ul style="list-style-type: none"> <li>– volume</li> <li>– price</li> <li>– discounts</li> <li>– timings</li> </ul> 2.2.3 make recommendations to management, based on potential changes to the cash budget.
<b>2.3</b>	<b>Cash budget and organisational policies</b>	
	Learners need to understand: 2.3.1 that policies of the organisation can avoid significant variances from the cash budget 2.3.2 the actions to take when addressing variances from the cash budget.	

3. Understand the importance of managing finance and liquidity		
3.1	<b>Principles of finance and liquidity</b>	
	<p>Learners need to understand:</p> <p>3.1.1 the importance of cash budgeting in the management of liquidity</p> <p>3.1.2 strengths and weaknesses of cash budgets as a monitoring tool for organisations</p> <p>3.1.3 the importance of ensuring that an organisation can meet its financial commitments on time</p> <p>3.1.4 the repercussions of not meeting financial commitments on time</p> <p>3.1.5 how liquidity influences cash flow in respect of the timing of payments received and payments made when preparing the cash budget</p> <p>3.1.6 signs of overtrading and overcapitalisation</p> <p>3.1.7 how to differentiate between liquid and non-liquid assets.</p>	
3.2	<b>Use calculations to support the management of finance and liquidity</b>	
	<p>Learners need to understand:</p> <p>3.2.1 the working capital cycle</p> <p>3.2.2 the importance of liquidity and use of resources ratios in liquidity management</p> <p>3.2.3 the usefulness of profitability ratios in the management of finance</p> <p>3.2.4 the usefulness of gearing when considering financing options.</p>	<p>Learners need to be able to:</p> <p>3.2.5 calculate the following ratios:</p> <ul style="list-style-type: none"> <li>– liquidity: <ul style="list-style-type: none"> <li>▪ Current ratio = current assets / current liabilities (Answer equals X:1)</li> <li>▪ Quick ratio or 'acid test' ratio = (current assets – inventories) / current liabilities (Answer equals X:1)</li> </ul> </li> <li>– efficient use of resources: <ul style="list-style-type: none"> <li>▪ Inventory holding period (days) = inventories / cost of sales × 365</li> <li>▪ Trade receivables collection period (days) = trade receivables/revenue × 365</li> <li>▪ Trade payables payment period (days) = trade payables/cost of sales × 365</li> <li>▪ Working capital cycle (days) = Inventory holding period(days)+ trade receivables collection period (days) – trade payables payment period (days)</li> </ul> </li> <li>– profitability: <ul style="list-style-type: none"> <li>▪ Return on capital employed (ROCE)= operating profit /capital employed × 100 (where capital employed = total equity + non-current liabilities)</li> </ul> </li> </ul>

		<ul style="list-style-type: none"> <li>▪ Return on shareholders' funds = profit after tax / total equity × 100</li> <li>▪ Operating profit margin = operating profit / revenue × 100</li> <li>▪ Interest cover = operating profit/finance costs (i.e. interest) (Answer equals X times)</li> </ul> <p>– Gearing:</p> <ul style="list-style-type: none"> <li>▪ gearing = total debt/(total debt + total equity) × 100. (where total debt is all non-current liabilities only)</li> </ul>
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#### 4. Understand ways of raising finance and investing funds

##### 4.1 The basic terms and conditions associated with different types of financing

Learners need to know:

4.1.1 the different terms and conditions, as defined by the lender, surrounding the various types of financing:

- fees
- interest
- penalties
- lending restrictions
- minimum/maximum amounts
- minimum/maximum lending period
- lending security

4.1.2 the advantages and disadvantages of the different ways an organisation can raise finance:

- bank and other loans
- bank overdrafts
- mortgages
- leases
- hire purchase agreements
- loan stock
- sale and leaseback
- factoring
- invoice discounting
- shares
- bonds
- crowdfunding.



<b>4.2</b>	<b>Financing options to fund the organisation's cash requirements</b>	
	Learners need to understand: 4.2.1 the effect on gearing and liquidity for different financing options 4.2.2 the effect on credit rating for different financing options 4.2.3 the most appropriate financing option in a given situation.	Learners need to be able to: 4.2.4 apply interest rates to financing options 4.2.5 calculate the total cost to an organisation for different financing options.
<b>4.3</b>	<b>Surplus funds and the terms and conditions associated with each of these types of investments</b>	
	Learners need to understand: 4.3.1 the different terms and conditions, as defined by regulations, surrounding various types of investment: <ul style="list-style-type: none"> <li>– fees</li> <li>– interest</li> <li>– penalties</li> <li>– investment restrictions</li> <li>– minimum/maximum amounts</li> <li>– minimum/maximum investment period</li> </ul> 4.3.2 advantages and disadvantages of different types of investment: <ul style="list-style-type: none"> <li>– land</li> <li>– property</li> <li>– shares</li> <li>– bonds</li> <li>– gilts</li> <li>– various types of bank accounts</li> <li>– certificates of deposits, and commodities.</li> </ul>	
<b>4.4</b>	<b>Minimise the potential exposure to the organisation</b>	
	Learners need to understand: 4.4.1 the impact of early withdrawal penalties and bonuses 4.4.2 that various investments may have a minimum investment level 4.4.3 that some investments may have conditions where withdrawal is restricted 4.4.4 the relationship between risk, reward and liquidity 4.4.5 the portfolio effect of diversifying investments 4.4.6 how to measure the risk and return of different options.	Learners need to be able to: 4.4.7 calculate the return on investment for different options 4.4.8 calculate the yield for different options.

<b>5. Understand regulations and organisational policies that influence decisions in managing cash and finance</b>	
<b>5.1</b>	<b>Government monetary policies</b>  Learners need to understand: 5.1.1 how the government, through monetary policy, can influence the rate of inflation and the supply of money through quantitative easing 5.1.2 the main roles of the Bank of England.
<b>5.2</b>	<b>Impact of financial regulations, guidelines and security procedures on an organisation's principles of cash management</b>  Learners need to understand: 5.2.1 statutory regulations that relate to the management of cash balances 5.2.2 that mandatory regulations must be adhered to and awareness of these regulations should be known, as included in the Companies Act 2006 and published by HM Treasury 5.2.3 the regulations that cover anti-money laundering, counter financing of terrorism and bribery.
<b>5.3</b>	<b>Raising finance and investing funds according to organisational culture and policies</b>  Learners need to understand: 5.3.1 how fundamental ethical principles, morals, sustainability or working practices could affect an organisation's reputation 5.3.2 how to invest surplus funds to maximise the return on an investment, with due regard to the organisation's attitude to risk 5.3.3 what the effect of the above restrictions could be in influencing decisions to raise finance and/or invest.
<b>5.4</b>	<b>Economic conditions that could affect financial decisions</b>  Learners need to understand: 5.4.1 the advantages and disadvantages of investing in local economies versus wider economies or the global economy 5.4.2 whether to invest surplus funds or to reduce debt due to changes in economic conditions 5.4.3 the effect of interest rates, exchange rates and commodity prices on financial markets 5.4.4 the differences between fiscal and monetary policies and how a government can attempt to use these to manage an economy.

## **Delivering this unit**

To deliver this unit effectively, tutors should have up to date knowledge of the principles of cash and financial management, the relevant external regulations, and ethical principles.

Tutors should use a range of resources to illustrate the various sources of information that businesses must refer to when identifying cash flows. These could include bank statements, financial and management accounts, sales and purchases documents, asset registers and reports produced from accounting software. Examples provided should be from different organisations of varying sizes and from different sectors, which could be from actual organisations or scenarios.

The use of spreadsheets and 'what if' analysis could facilitate the understanding of the changing requirements to cash flow should circumstances alter, for example changes in sales volumes or terms offered to or from customers or suppliers. Spreadsheets could also support the delivery of the statistical techniques that students are required to calculate, such as regression analysis, time series and index numbers.

Reports from real organisations could be used to calculate the liquidity, use of resources, profitability and gearing. Again, a range of examples from different types and sizes of organisations should facilitate students' understanding of this area.

To facilitate the delivery of the various methods of raising finance and investing funds, tutors may consider setting students a project on an area that they may come across in their everyday lives, such as buying a car or a house. Students can investigate and research various options available from different lenders and identify which one would be the most suitable, depending on their own circumstances, such as available deposit, lending period, fees and penalties.

A similar exercise could be carried out relating to investment, by providing students with a fictitious amount to invest, and asking them to make comparisons based on attitudes to risk, return and the portfolio effect.

Tutors could encourage group discussions on economic conditions, uncertainty and the use of media. Ethical principles studied in the Level 7 Diploma in Accounting could also be revisited, encouraging students to think about how key considerations apply to this unit.

## **Links with other units**

This unit has close links with:

- Level 8 Applied Management Accounting
- Level 8 Drafting and Interpreting Financial Statements.

## Test specification for Cash and Financial Management unit assessment

Please refer to the latest Qualification Technical Information (QTI) for specific legislation that will apply to assessments. Details can be accessed at

<https://www.aat.org.uk/deliver/qualifications/specifications-outlines>

Assessment method	Marking type	Duration of assessment
Computer based assessment	Partially computer/ partially human marked	2 hours

Learning outcomes	Weighting
1. Prepare forecasts for cash receipts and payments	15%
2. Prepare cash budgets and monitor cash flows	25%
3. Understand the importance of managing finance and liquidity	15%
4. Understand ways of raising finance and investing funds	20%
5. Understand regulations and organisational policies that influence decisions in managing cash and finance	25%
Total	100%

# Credit and Debt Management

Unit level	GLH value	Unit reference number	Assessment
8	60	UP57 04 15 SCQF Credits	Unit assessment

## Introduction

This unit provides an understanding and application of the principles of effective credit control systems, including appropriate debt management systems. Organisations will usually offer credit terms to its customers, which could lead to financial difficulties if customers pay late or do not pay at all. It is therefore important to determine that potential credit customers can honour any credit terms agreed.

This unit will consider the techniques that can be used to assess credit risks in line with policies, relevant legislation and ethical principles. Equally, once the credit decision has been approved, it will be important to ensure that any debts due from the customer are paid within the terms agreed. Students will also consider what techniques are used to enable the collection of any overdue debts, following organisational policies, legal procedures and methods for collecting debts.

Knowledge and use of performance measures relating to liquidity, profitability and gearing are fundamental to this unit. Students will also develop their understanding of liquidity management, bankruptcies and insolvencies, as well as the mechanisms of invoice discounting, factoring and credit insurance.

This unit is **optional** in the Level 8 Diploma in Professional Accounting.

## Learning outcomes

1. Understand relevant legislation and contract law that impacts the credit control environment
2. Understand how information is used to assess credit risk and grant credit in compliance with organisational policies and procedures
3. Understand the organisation's credit control processes for managing and collecting debts
4. Understand different techniques available to collect debts

## 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.

<b>1. Understand relevant legislation and contract law that impacts the credit control environment</b>			
<b>1.1 Statute and contract law applicable to credit control</b>	<p>Learners need to understand:</p> <p>1.1.1 essential features and terminology of contract law:</p> <ul style="list-style-type: none"> <li>– offer (includes invitation to treat and counter offer)</li> <li>– acceptance</li> <li>– consideration (sufficiency, adequacy and past)</li> <li>– intention to create legal relations</li> <li>– capacity</li> <li>– consent</li> </ul> <p>1.1.2 legislation relating to:</p> <ul style="list-style-type: none"> <li>– trade descriptions</li> <li>– unfair contract terms</li> <li>– the sale and supply of goods and services</li> <li>– consumer credit.</li> </ul>		
<b>1.2 Breach of contract and the circumstances in which they can be used effectively</b>	<table> <tr> <td> <p>Learners need to understand:</p> <p>1.2.1 key considerations for breach of contract:</p> <ul style="list-style-type: none"> <li>– express terms</li> <li>– implied terms</li> <li>– conditions</li> <li>– warranties</li> <li>– damages</li> <li>– specific performance</li> <li>– quantum meruit</li> <li>– action for price</li> </ul> <p>1.2.2 statutory remedies for late payments of commercial debts (interest)</p> <p>1.2.3 remedies available for collection of outstanding amounts.</p> </td><td> <p>Learners need to be able to:</p> <p>1.2.4 calculate interest and/or compensation due on overdue debts using statutory remedy for late payments of commercial debts.</p> </td></tr> </table>	<p>Learners need to understand:</p> <p>1.2.1 key considerations for breach of contract:</p> <ul style="list-style-type: none"> <li>– express terms</li> <li>– implied terms</li> <li>– conditions</li> <li>– warranties</li> <li>– damages</li> <li>– specific performance</li> <li>– quantum meruit</li> <li>– action for price</li> </ul> <p>1.2.2 statutory remedies for late payments of commercial debts (interest)</p> <p>1.2.3 remedies available for collection of outstanding amounts.</p>	<p>Learners need to be able to:</p> <p>1.2.4 calculate interest and/or compensation due on overdue debts using statutory remedy for late payments of commercial debts.</p>
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<b>1.3 Terms and conditions associated with customer contracts</b>	<p>Learners need to understand:</p> <p>1.3.1 void, voidable and unenforceable contracts</p> <p>1.3.2 retention of title clauses.</p>		

<b>1.4</b>	<b>Data protection and ethical considerations associated with credit control activities</b>
	Learners need to understand: 1.4.1 the legislation relating to data protection 1.4.2 the effect of data protection on the organisation and its customers 1.4.3 professional ethics in the context of credit control.

<b>2. Understand how information is used to assess credit risk and grant credit in compliance with organisational policies and procedures</b>			
<b>2.1</b>	<b>Sources of credit status and assessment methods used in granting credit</b>		
	<table> <tr> <td> Learners need to understand:  2.1.1 the range of internal and external sources of information:  <ul style="list-style-type: none"> <li>external sources: credit agencies, trade and bank references, published financial statements, management accounts, publications and credit circles</li> <li>internal sources: records, conversations, emails, staff visits, calculation of performance indicators, credit scoring of performance indicators</li> </ul> 2.1.2 the usefulness and appropriateness of the different types of information. </td><td> Learners need to be able to:  2.1.3 complete a credit scoring of performance indicators. </td></tr> </table>	Learners need to understand: 2.1.1 the range of internal and external sources of information: <ul style="list-style-type: none"> <li>external sources: credit agencies, trade and bank references, published financial statements, management accounts, publications and credit circles</li> <li>internal sources: records, conversations, emails, staff visits, calculation of performance indicators, credit scoring of performance indicators</li> </ul> 2.1.2 the usefulness and appropriateness of the different types of information.	Learners need to be able to: 2.1.3 complete a credit scoring of performance indicators.
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<b>2.2</b>	<b>Credit status of existing and potential customers using relevant ratios and performance indicators</b>		
	<table> <tr> <td> Learners need to understand:  2.2.1 the signs of overtrading  2.2.2 the implications of overtrading. </td><td> Learners need to be able to:  2.2.3 analyse performance indicators of existing credit customers and/or potential credit customers  2.2.4 calculate liquidity indicators:  <ul style="list-style-type: none"> <li>Current ratio = current assets / current liabilities (Answer equals X:1)</li> <li>Quick ratio or 'acid test' ratio = (current assets – inventories) / current liabilities (Answer equals X:1)</li> <li>Trade receivables collection period (days) = trade receivables/revenue x 365</li> <li>Trade payables payment period (days) = trade payables/cost of sales x 365</li> <li>inventory holding period (days) = inventories / cost of sales x 365</li> </ul> </td></tr> </table>	Learners need to understand: 2.2.1 the signs of overtrading 2.2.2 the implications of overtrading.	Learners need to be able to: 2.2.3 analyse performance indicators of existing credit customers and/or potential credit customers 2.2.4 calculate liquidity indicators: <ul style="list-style-type: none"> <li>Current ratio = current assets / current liabilities (Answer equals X:1)</li> <li>Quick ratio or 'acid test' ratio = (current assets – inventories) / current liabilities (Answer equals X:1)</li> <li>Trade receivables collection period (days) = trade receivables/revenue x 365</li> <li>Trade payables payment period (days) = trade payables/cost of sales x 365</li> <li>inventory holding period (days) = inventories / cost of sales x 365</li> </ul>
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		<p>2.2.5 calculate profitability indicators:</p> <ul style="list-style-type: none"> <li>– Gross profit margin = gross profit / revenue × 100</li> <li>– Operating profit margin = operating profit/revenue × 100</li> <li>– Return on capital employed (ROCE)= operating profit/capital employed × 100 (where capital employed = total equity + non-current liabilities)</li> </ul> <p>2.2.6 Calculate debt indicators (gearing):</p> <ul style="list-style-type: none"> <li>– Gearing = total debt/(total debt + total equity) × 100. (Where total debt is all non-current liabilities only).</li> <li>– Interest cover = operating profit/finance costs (i.e. interest). (Answer equals X times)</li> </ul> <p>2.2.7 calculate the working capital cycle:</p> <ul style="list-style-type: none"> <li>– Working capital cycle (days) = inventory holding period (days)+ trade receivables collection period (days) – trade payables payment period (days)</li> </ul>
2.3	<b>Reasons for granting, refusing, amending or extending credit</b>	
	<p>Learners need to understand:</p> <p>2.3.1 organisational policies and procedures specific to changes to credit terms</p> <p>2.3.2 how to assess and communicate changes to credit terms</p> <p>2.3.3 threats to objectivity that may exist when deciding whether to grant, refuse, amend or extend credit.</p>	

<b>3. Understand the organisation's credit control processes for managing and collecting debts</b>	
3.1	<b>Methods for the management of debts</b>
	<p>Learners need to understand:</p> <p>3.1.1 the characteristics of an effective credit control system</p> <p>3.1.2 organisational policies and procedures specific to the management of debts.</p>



<b>3.2</b>	<b>Manage accounts receivables</b>	
	Learners need to be able to: 3.2.1 prepare an aged receivables analysis report 3.2.2 apply the 80/20 rule to receivables balances 3.2.3 analyse ledger balances and take corrective action 3.2.4 calculate irrecoverable and doubtful receivables: – write-offs and provisions – the impact on cash flow – VAT implications.	
<b>3.3</b>	<b>Techniques to manage liquidity</b>	
	Learners need to understand: 3.3.1 the effect of discounts on liquidity and cash flow 3.3.2 the effect of changes to credit terms on liquidity and cash flow 3.3.3 options available to manage cash flow: – invoice discounting – factoring – credit insurance.	Learners need to be able to: 3.3.4 calculate the effect of discounts on liquidity and cash flow 3.3.5 calculate the annual equivalent cost using simple or compound interest 3.3.6 calculate the impact on liquidity of: – invoice discounting – factoring – credit insurance.
<b>3.4</b>	<b>Communicate with stakeholders using a professional and ethical approach</b>	
	Learners need to understand: 3.4.1 organisational policies when communicating with stakeholders.	Learners need to be able to: 3.4.2 communicate objectively to relevant stakeholders.

<b>4. Understand different techniques available to collect debts</b>	
<b>4.1</b>	<b>Legal and administrative procedures for debt collection</b>
	Learners need to understand: 4.1.1. the internal procedures used in the debt collection process 4.1.2. the retention of title clause (basic and all monies) 4.1.3. the conditions required for retention of title claims to be effective 4.1.4. the role of debt collection agencies and solicitors 4.1.5. the use of small claims track, fast-track and multi-track court processes 4.1.6. garnishee orders, warrants of execution and delivery 4.1.7. attachment of earnings and charging orders.
<b>4.2</b>	<b>Insolvency</b>
	Learners need to understand: 4.2.1 advantages and disadvantages of initiating: – liquidation, compulsory and voluntary – receivership – administration – individual bankruptcy – Company Voluntary Arrangement (CVA) 4.2.2 processes to follow in the event of initiating: – liquidation – receivership – administration

	<ul style="list-style-type: none"><li>- individual bankruptcy</li><li>- CVA.</li></ul>
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## **Delivering this unit**

The calculation and analysis of performance indicators, that is ratio analysis, is a significant part of this unit. Ideally, this unit could be taught in parallel with Drafting and Interpreting Financial Statements, such as understanding the layout of published financial statements. Students will further consolidate their knowledge and skills gained from studying these ratios and applying it to dealing with credit requests, as one source of information that can be utilised in making a credit decision.

Case studies could also be used throughout the delivery of this unit. Tutors should select a range of organisations with which students may be familiar or which have been featured in the media. For example, when teaching about companies going into administration or liquidation, there are usually some very good examples of this having happened in real life that tutors can draw upon and use to enable discussions to take place.

## **Links with other units**

This unit has close links with:

- Level 4 Drafting and Interpreting Financial Statements
- Level 4 Cash and Financial Management.

## Test specification for Credit and Debt Management unit assessment

Please refer to the latest Qualification Technical Information (QTI) for specific legislation that will apply to assessments. Details can be accessed at

<https://www.aat.org.uk/deliver/qualifications/specifications-outlines>

Assessment method	Marking type	Duration of assessment
Computer based assessment	Partially computer/ partially human marked	2 hours

Learning outcomes	Weighting
1. Understand relevant legislation and contract law that impacts the credit control environment	15%
2. Understand how information is used to assess credit risk and grant credit in compliance with organisational policies and procedures	45%
3. Understand the organisation's credit control processes for managing and collecting debts	25%
4. Understand different techniques available to collect debts	15%
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](https://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](mailto: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](mailto: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 at [aat.org.uk/support/quality-assurance/resources](https://aat.org.uk/support/quality-assurance/resources)

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. Equality and diversity

AAT firmly believes in equality of opportunity for all who participate in its qualifications. In addition to our commitment to the Equality Act 2010, we aim to ensure that:

- our qualifications are free from barriers that restrict access and progression
- our qualifications are attainable by all who can demonstrate the required standard by whatever means
- our qualifications, publications and procedures are free from discriminatory practices or stereotypes with regards to age, disability, gender reassignment, marriage and civil partnerships, pregnancy and maternity, race, religion or belief, sexual orientation, caring responsibilities, and part-time working. Assessment tasks and study opportunities are sufficiently varied and flexible to ensure that no particular group of students or would-be students are placed at any disadvantage
- all reasonable adjustments are made to cater for the individual requirements of students
- assessments are valid and reliable to ensure that all students receive impartial treatment.

We do this by:

- considering issues of diversity and equality as part of the development process
- avoiding the creation of barriers that might disadvantage those students who share one or more protected characteristics
- consulting with students (or their representatives)
- collecting data for monitoring and evaluation
- providing of additional information at [aat.org.uk/about/what-we-do/responsible-business-strategy](https://aat.org.uk/about/what-we-do/responsible-business-strategy)

### 13.1 Reasonable adjustments

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 do their best. 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.

Further information about reasonable adjustments and the procedures for notification and approval are given in the *Guidance on the Application of Reasonable Adjustments and Special Consideration in AAT assessments* available through MyAAT at [aat.org.uk/assessment/adjustments-and-considerations](https://aat.org.uk/assessment/adjustments-and-considerations)

## 13.2 Special consideration

Special consideration is a process that takes account of a student's circumstances, for example a temporary illness or injury, or some other event outside of the student's control, at or shortly before the time of assessment, which could have had an effect on the student's ability to take the assessment. The process entails a review of the student's performance in the assessment and, if appropriate, the application of a small mark adjustment to compensate, as far as possible, for the difficulties that they might have experienced.

Further information about special consideration and the procedure that must be followed in notifying AAT is given in the *Guidance on the Application of Reasonable Adjustments and Special Consideration in AAT assessments* available through MyAAT at

[aat.org.uk/assessment/adjustments-and-considerations](https://aat.org.uk/assessment/adjustments-and-considerations)



## 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](mailto:Partner.support@aat.org.uk)

### 14.2 Partner Account Manager (PAM)

Each training provider has their own Partner Account Manager (PAM) assigned to support them once they have been approved as an AAT training provider. PAMs 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.

### 14.4 Events for training providers

Tutors have the opportunity to attend the following events throughout the year:

#### **Annual conference**

The annual training provider conference is a chance to get together, network and share ideas. The conference typically includes:

- topical workshops
- guest speaker sessions
- the opportunity to learn about new developments directly from AAT.

### **Network meetings**

At these events, training providers can raise queries, share best practice and ideas with AAT and other training providers. The events:

- cover a wide range of topics
- keep tutors up to date on the latest issues
- provide relevant and cost-effective CPD.

### **Technical events (tutor-to-tutor sessions)**

These events are free of charge to training providers and cover a range of our qualifications and assessment areas. Experienced and high-performing training providers share their experiences, tips and techniques with attendees to help others improve their teaching and delivery.

## **14.5 Tutor talk forum**

All AAT-approved training providers have access to Tutor talk, where tutors can contribute to online conversations about a wide range of AAT issues. Tutors will receive:

- unlimited user logins for all AAT tutors
- email updates on posts they're interested in.

## **14.6 Online support resources**

In order to help tutors deliver AAT qualifications, a range of support materials are offered for all AAT qualifications, such as:

- practice assessments
- tutor workbooks
- recorded webinars
- videos
- podcasts
- training materials
- green light tests for all AAT units.

All tutor support materials can be found on the [Lifelong Learning Portal](#).

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