

FINANCIAL STATEMENTS

AAT Level 4

Financial Statements is a compulsory unit in Level 4 AAT.

Students must obtain 70% to pass the paper.

| Task | Marks | |
|------|-------|--|
| 1 | 20 | Statement of Comprehensive Income, statement of Changes in Equity OR Statement of Cash Flows |
| 2 | 20 | Statement of Financial Position |
| 3 | 10 | Conceptual and regulatory frameworks |
| 4 | 12 | International Financial Reporting Standards (written question) |
| 5 | 17 | International Financial Reporting Standards |
| 6 | 26 | Consolidated Statement of Financial Position and Statement of Comprehensive Income. |
| 7 | 20 | Analysis and interpretation of financial statements (ratio formulas and calculations) |
| 8 | 23 | Analysis and interpretation of financial statements (written element) |

The AAT list 5 'Learning Outcomes' for the unit:

- 1 Understand the regulatory framework that underpins financial reporting
- 2 Understand the key features of a published set of accounts
- 3 Draft statutory financial statements for a limited company
- 4 Draft simple consolidated financial statements
- 5 Interpret financial statements using ratio analysis

The main focus is on preparation of financial statements.

Students need to learn the following ratios; calculation and how to apply them

Profitability

Return on capital employed $\frac{\text{Profit from operations}}{\text{Total equity + Non-current liabilities}} \times 100\%$

Return on shareholder funds $\frac{\text{Profit after tax}}{\text{Total equity}} \times 100\%$

Gross profit percentage $\frac{\text{Gross profit}}{\text{Revenue}} \times 100\%$

Expense/revenue percentage $\frac{\text{Specified expense}}{\text{Revenue}} \times 100\%$

Operating profit percentage $\frac{\text{Profit from operations}}{\text{Revenue}} \times 100\%$

Liquidity

Current ratio $\frac{\text{Current assets}}{\text{Current liabilities}} = X : 1$

The quick ratio or 'acid test' ratio $\frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}} = X : 1$

Use of resources

Inventory turnover $\frac{\text{Cost of sales}}{\text{Inventories}} = X \text{ times}$

Inventory holding period $\frac{\text{Inventories}}{\text{Cost of sales}} \times 365 \text{ days}$

Trade receivables collection period $\frac{\text{Trade receivables}}{\text{Revenue}} \times 365 \text{ days}$

Trade payables payment period $\frac{\text{Trade payables}}{\text{Cost of sales}} \times 365 \text{ days}$

Working capital cycle $\text{Inventory days} + \text{Receivable days} - \text{Payable days}$

Asset turnover (non current assets) $\frac{\text{Revenue}}{\text{Non current assets}} = X \text{ times}$

Asset turnover (net assets) $\frac{\text{Revenue}}{\text{Total assets} - \text{Current liabilities}} = X \text{ times}$

Financial position

Interest cover $\frac{\text{Profit from operations}}{\text{Finance costs}} = X \text{ times}$

Gearing $\frac{\text{Non-current liabilities}}{\text{Total equity} + \text{Non-current liabilities}} \times 100\%$

Assessable International Financial reporting Standards

This section presents a comprehensive content guide as to the International Financial Reporting Standards (both IFRSs and IASs) that are assessable in this unit and the assessable elements within each of these standards. Those standards which are not listed are not assessable in the unit.

| | |
|---------|--|
| IFRS 3 | Business Combinations |
| IFRS 10 | Consolidated Financial Statements |
| IAS 1 | Presentation of Financial Statements |
| IAS 2 | Inventories |
| IAS 7 | Statement of Cash Flows |
| IAS 10 | Events after the Reporting Period |
| IAS 12 | Income Taxes |
| IAS 16 | Property, Plant and Equipment |
| IAS 17 | Leases |
| IAS 18 | Revenue |
| IAS 28 | Investments in Associates |
| IAS 36 | Impairment of Assets |
| IAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| IAS 38 | Intangible Assets |