

## UNIT 7 Analysis and Interpretation

**Recommended Prior Knowledge:** A synoptic unit where students will be refining / improving their skills in preparing final accounts.

**Context:** Having prepared accounting statements i.e. The Profit and Loss Account and Balance Sheet the ability to interpret financial information is an important aspect. This involves a detailed review of the information produced in order to assess the business's performance with a previous year, to compare against the budget and with other businesses.

**Outline:** A further look at accounting ratios, their usefulness and limitations in decision making.

	Learning Outcomes	Suggested Teaching Activities	Online Resources	Other resources
7.1	To recognise and define: Fixed, current and intangible assets Working capital Capital employed, capital owned and long-term and current liabilities	<ul style="list-style-type: none"> <li>Discuss why capital is mentioned in the second half of the balance sheet; it represents what the firm owes the owner.</li> </ul>	Company web sites  Interactive whiteboard	<ul style="list-style-type: none"> <li><i>IGCSE Accounting</i> chapters 7 and 20</li> <li>Frank Wood chapter 29 (Goodwill)</li> <li>PLC annual reports</li> <li>Financial newspapers</li> <li>0452/03 June 2003 Q3(b)(i)</li> </ul>
7.2	To calculate the following ratios: Percentage of gross profit to sales; percentage of net profit to sales: return on capital employed (ROCE) ; current ratio; quick ratio; rate of stock turnover. <ul style="list-style-type: none"> <li><b>to calculate and explain the significance of: collection period for debtors; payment period for creditors</b></li> <li><b>to make recommendations and suggestions for improving profitability and working capital</b></li> </ul>	<ul style="list-style-type: none"> <li>A debate on how an organisation can improve profitability and working capital. Allow students to select their favourite club or shop.</li> </ul>	<a href="http://www.s-cool.co.uk">www.s-cool.co.uk</a> Click on AS & A level Business Studies then go to Ratio Analysis  <a href="http://www.revisionguru.co.uk/business/ratios.htm">www.revisionguru.co.uk/business/ratios.htm</a>	<ul style="list-style-type: none"> <li><i>IGCSE Accounting</i> chapters 15 and 20</li> <li><i>Business Accounts</i> chapter 28</li> <li>Frank Wood chapter 38</li> <li>0452/03 November 2002 Q5</li> <li>0452/01 June 2003 Q38/39/40</li> <li>0452/03 June 2003 Q3(b)(ii)</li> <li>0452/03 June 2003 Q3(c)</li> </ul>

7.3	<p>To understand the significance of the difference between gross profit percentage and net profit percentage as an indicator of business's efficiency.</p> <ul style="list-style-type: none"> <li>• <b>to understand the problems of inter firm comparison due to factors such as differing accounting policies</b></li> <li>• <b>to apply accounting ratios to inter firm comparisons</b></li> </ul>	<ul style="list-style-type: none"> <li>• Class to divide into two groups and prepare a set of final accounts. Ask students to prepare ratio analysis on large paper and compare results. This could take the form of a debate resulting in asking students to vote on the company they would invest in.</li> </ul>		<ul style="list-style-type: none"> <li>• Flip chart</li> <li>• Published accounts</li> <li>• <i>IGCSE Accounting</i> chapter 20</li> </ul>
7.4	<p>To prepare and comment on simple statements showing comparison of results between businesses.</p> <ul style="list-style-type: none"> <li>• <b>to discuss the uses of accounting by interested parties – owners, managers, creditors, bank, investors, club members – for making business decisions</b></li> <li>• <b>to recognise the limitations of accounting statements due to historic cost, difficulties of definition and non-financial aspects</b></li> </ul>	<ul style="list-style-type: none"> <li>• Students should look at all the interested parties to the accounts and to suggest reasons why they are interested in the final accounts.</li> <li>• Students could take the part of the bank manager and prepare a list of questions for a business seeking a loan.</li> </ul>	<p><a href="http://www.tutor2u.net/revision">www.tutor2u.net/revision</a></p> <p>Users of Accounts</p> <p>Stakeholder Theory</p>	<ul style="list-style-type: none"> <li>• <i>IGCSE Accounting</i> chapters 8 and 20</li> </ul>