

FOUNDATION CERTIFICATE IN ACCOUNTING

FOUNDATION DIPLOMA IN ACCOUNTING

SYNOPTIC ASSESSMENT

STUDY TEXT

Qualifications and Credit Framework

AQ2016 Level 2 Foundation Certificate in Accounting

This Study Text supports study for the following AAT qualifications:

AAT Foundation Certificate in Accounting – Level 2

AAT Foundation Diploma in Accounting and Business – Level 2

AAT Foundation Certificate in Bookkeeping – Level 2

AAT Foundation Award in Accounting Software – Level 2

AAT Level 2 Award in Accounting Skills to Run Your Business

AAT Foundation Certificate in Accounting at SCQF Level 5

British Library Cataloguing-in-Publication Data

A catalogue record for this book is available from the British Library.

Published by
Kaplan Publishing UK
Unit 2, The Business Centre
Molly Millars Lane
Wokingham
Berkshire
RG41 2QZ

ISBN 978-1-78740-510-3

The text in this material and any others made available by any Kaplan Group company does not amount to advice on a particular matter and should not be taken as such. No reliance should be placed on the content as the basis for any investment or other decision or in connection with any advice given to third parties. Please consult your appropriate professional adviser as necessary. Kaplan Publishing Limited and all other Kaplan group companies expressly disclaim all liability to any person in respect of any losses or other claims, whether direct, indirect, incidental, consequential or otherwise arising in relation to the use of such materials.

© Kaplan Financial Limited, 2019

Printed and bound in Great Britain.

We are grateful to HM Revenue and Customs for the provision of tax forms, which are Crown Copyright and are reproduced here with kind permission from the Office of Public Sector Information.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of Kaplan Publishing.

CONTENTS

	Page number
Introduction	P.5
Synoptic assessment guide	P.9
The assessment	P.12
Study skills	P.13
Work Effectively in Finance – unit guide	P.16

STUDY TEXT

WORK EFFECTIVELY IN FINANCE STUDY TEXT

Chapter	Page number
1 The role of the finance function	1
2 Comparison and communication of information	9
3 Planning and organising work	37
4 Working relationships	67
5 Policies, procedures and legislation	107
6 Improving your own performance	137
7 Ethics and sustainability	165

SYNOPTIC ASSESSMENT CONTENT

Chapter	Page number
8 Question bank	177
9 Walkthrough of the synoptic assessment	223
Specimen Assessment Questions	259

Specimen Assessment Answers	277
Mock Assessment Questions	289
Mock Assessment Answers	307
Appendices – recaps of underlying units that have separate unit assessments	
Appendix 1: Bookkeeping Transactions	A1:1
Appendix 2: Bookkeeping Controls	A2:1
Appendix 3: Elements of Costing	A3.1
Index	I.1

INTRODUCTION

HOW TO USE THESE MATERIALS

These Kaplan Publishing learning materials have been carefully designed to make your learning experience as easy as possible and to give you the best chance of success in your AAT assessments.

They contain a number of features to help you in the study process.

The sections on the Unit Guide, the Assessment and Study Skills should be read before you commence your studies.

They are designed to familiarise you with the nature and content of the assessment and to give you tips on how best to approach your studies.

STUDY TEXT

This study text has been specially prepared for the revised AAT qualification introduced in September 2016.

It is written in a practical and interactive style:

- key terms and concepts are clearly defined
- all topics are illustrated with practical examples with clearly worked solutions based on sample tasks provided by the AAT in the new examining style
- frequent activities throughout the chapters ensure that what you have learnt is regularly reinforced
- 'pitfalls' and 'examination tips' help you avoid commonly made mistakes and help you focus on what is required to perform well in your examination.

ICONS

The study chapters include the following icons throughout.

They are designed to assist you in your studies by identifying key definitions and the points at which you can test yourself on the knowledge gained.



Definition

These sections explain important areas of Knowledge which must be understood and reproduced in an assessment.



Example

The illustrative examples can be used to help develop an understanding of topics before attempting the test your understanding exercises.



Test your understanding

These are exercises which give the opportunity to assess your understanding of all the assessment areas.

Quality and accuracy are of the utmost importance to us so if you spot an error in any of our products, please send an email to mykaplanreporting@kaplan.com with full details, or follow the link to the feedback form in MyKaplan.

Our Quality Co-ordinator will work with our technical team to verify the error and take action to ensure it is corrected in future editions.

Progression

There are two elements of progression that we can measure: first how quickly students move through individual topics within a subject; and second how quickly they move from one course to the next. We know that there is an optimum for both, but it can vary from subject to subject and from student to student. However, using data and our experience of student performance over many years, we can make some generalisations.

A fixed period of study set out at the start of a course with key milestones is important. This can be within a subject, for example 'I will finish this topic by 30 June', or for overall achievement, such as 'I want to be qualified by the end of next year'.

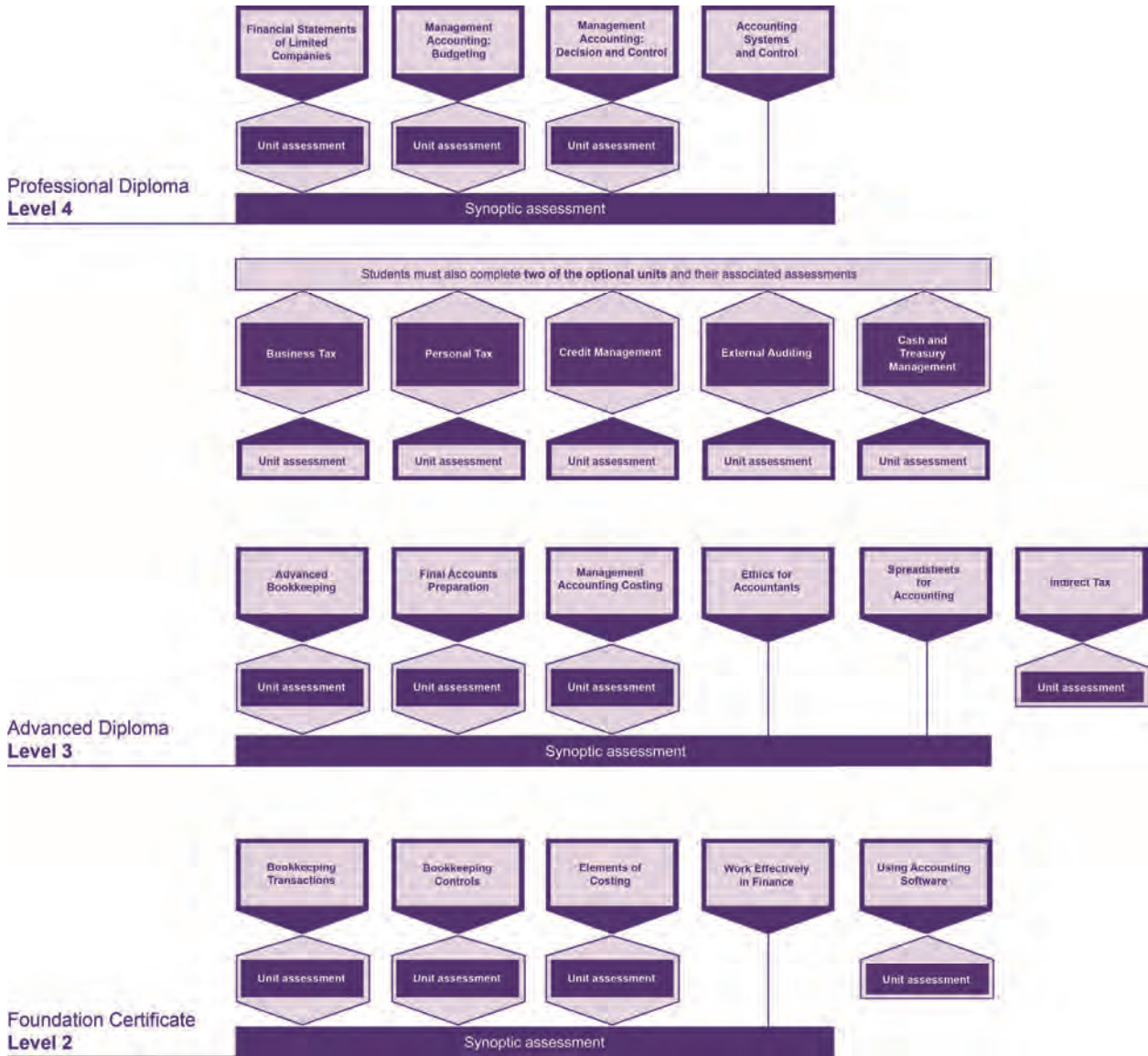
Your qualification is cumulative, as earlier papers provide a foundation for your subsequent studies, so do not allow there to be too big a gap between one subject and another.

We know that exams encourage techniques that lead to some degree of short term retention, the result being that you will simply forget much of what you have already learned unless it is refreshed (look up Ebbinghaus Forgetting Curve for more details on this). This makes it more difficult as you move from one subject to another: not only will you have to learn the new subject, you will also have to relearn all the underpinning knowledge as well. This is very inefficient and slows down your overall progression which makes it more likely you may not succeed at all.

In addition, delaying your studies slows your path to qualification which can have negative impacts on your career, postponing the opportunity to apply for higher level positions and therefore higher pay.

You can use the following diagram showing the whole structure of your qualification to help you keep track of your progress.

FOUNDATION CERTIFICATE SYNOPTIC ASSESSMENT



SYNOPTIC ASSESSMENT GUIDE

Introduction

AAT AQ16 introduces a Synoptic Assessment, which students must complete if they are to achieve the appropriate qualification. In the case of the Foundation Certificate in Accounting, students must pass all of the mandatory assessments and the Synoptic Assessment to achieve the qualification.

As a Synoptic Assessment is attempted following completion of individual units, it draws upon knowledge and understanding from those units. It may be appropriate for students to retain their study materials for individual units until they have successfully completed the Synoptic Assessment for that qualification.

All units within the Foundation Certificate in Accounting are mandatory. Four units are assessed individually in end of unit assessments, but this qualification also includes a synoptic assessment, sat towards the end of the qualification, which draws on and assesses knowledge and understanding from across the qualification.

- Bookkeeping Transactions – end of unit assessment
- Bookkeeping Controls – end of unit assessment
- Elements of Costing – end of unit assessment
- Work Effectively in Finance – assessed within the synoptic assessment only

Note that Using Accounting Software is a unit assessment only and is not assessed as part of the Synoptic Assessment.

Scope of content

To perform this synoptic assessment effectively you will need to know and understand the following:

The synoptic assessment will ask you to apply knowledge and skills gained across the qualification in an integrated way, within a workplace context. Scenarios will change over time to ensure the validity of the assessment.

Assessment objective 1	Demonstrate an understanding of the finance function and the roles and procedures carried out by members of an accounting team
Related learning outcomes	<p>Work Effectively in Finance</p> <p>LO1 Understand the finance function within an organisation</p> <p>LO2 Use personal skills development in finance</p> <p>LO3 Produce work effectively</p> <p>LO4 Understand Corporate Social Responsibility (CSR), ethics and sustainability within organisations</p>
Assessment objective 2	Process transactions complete calculations and make journal entries
Related learning outcomes	<p>Bookkeeping transactions</p> <p>LO2 Process customer transactions</p> <p>LO3 Process supplier transactions</p> <p>LO4 Process receipts and payments</p> <p>LO5 Process transactions through the ledgers to the trial balance</p>

FOUNDATION CERTIFICATE SYNOPTIC ASSESSMENT

Assessment objective 3	Compare, produce and reconcile journals and accounts
Related learning outcomes	<p>Bookkeeping Controls</p> <p>LO3 Use control accounts</p> <p>LO4 Use the journal</p> <p>LO5 Reconcile a bank statement with the cash book</p> <p>Elements of Costing</p> <p>LO2 Use cost recording techniques</p> <p>LO3 Provide information on actual and budgeted costs and income</p>
Assessment objective 4	Communicate financial information effectively
Related learning outcome	<p>Work Effectively in Finance</p> <p>LO3 Produce work effectively</p>

Summary

Underlying unit	LOs required
Work Effectively in Finance	LO1, LO2, LO3, LO4
Bookkeeping Transactions	LO2, LO3, LO4, LO5
Bookkeeping Controls	LO3, LO4, LO5
Elements of Costing	LO2, LO3

THE ASSESSMENT

Test specification for this synoptic assessment

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

From May 2018, the communication task will be an extended written task.

The following weighting is based upon the AAT Qualification Specification documentation which may be subject to variation.

Assessment objective	Weighting
A01	
Demonstrate an understanding of the finance function and the roles and procedures carried out by members of an accounting team	24%
A02	
Process transactions, complete calculations and make journal entries	24%
A03	
Compare, produce and reconcile journals and accounts	34%
A04	
Communicate information effectively	18%
Total	100%

The specimen synoptic assessment comprises seven tasks and covers all four assessment objectives.

STUDY SKILLS

Preparing to study

Devise a study plan

Determine which times of the week you will study.

Split these times into sessions of at least one hour for study of new material. Any shorter periods could be used for revision or practice.

Put the times you plan to study onto a study plan for the weeks from now until the assessment and set yourself targets for each period of study – in your sessions make sure you cover the whole course, activities and the associated questions in the workbook at the back of the manual.

If you are studying more than one unit at a time, try to vary your subjects as this can help to keep you interested and see subjects as part of wider knowledge.

When working through your course, compare your progress with your plan and, if necessary, re-plan your work (perhaps including extra sessions) or, if you are ahead, do some extra revision / practice questions.

Effective studying

Active reading

You are not expected to learn the text by rote, rather, you must understand what you are reading and be able to use it to pass the assessment and develop good practice.

A good technique is to use SQ3Rs – Survey, Question, Read, Recall, Review:

1 Survey the chapter

Look at the headings and read the introduction, knowledge, skills and content, so as to get an overview of what the chapter deals with.

2 Question

Whilst undertaking the survey ask yourself the questions you hope the chapter will answer for you.

WORK EFFECTIVELY IN FINANCE – UNIT GUIDE

Work Effectively in Finance is assessed as part of the synoptic assessment only and not as a standalone unit.

Purpose of the unit

This unit will help students to develop the professional skills and behaviours needed in the workplace. Learners will be able to work independently or as part of a team. While this unit is set in the context of the finance function, these skills are transferable to many other working environments.

Students will understand the work of the finance function and why that work is important to an organisation. They will understand that finance employees require more than numerical skills: they also need interpersonal and written communication skills. Students will learn the importance of being an effective employee and what this means, and how to work as part of a finance team. Students will be able to identify activities that develop current skills and knowledge, and those that will help them achieve future career aspirations. Students will understand how to ensure data security and the importance of maintaining confidentiality of information. Students will understand why corporate social responsibility is important and what actions individuals can take to ensure that they behave ethically and support sustainability.

Studying this unit helps to prepare students for Advanced level Ethics for Accountants. The communication and numeracy skills included within this unit will be beneficial to those studying all AAT qualifications. The written communication skills element of this unit will prepare students for work and further study by developing their reading and writing skills. The basic numerical functions covered in this unit are important in all financial computations and, as such, students who successfully complete this unit should have an increased confidence in dealing with financial computations.

Work Effectively in Finance is a mandatory unit in this qualification.

Learning outcomes

On completion of this unit the learner will be able to:

- Understand the finance function within an organisation.
- Use personal skills development in finance.
- Produce work effectively.
- Understand corporate social responsibility (CSR), ethics and sustainability within organisations.

Knowledge

To perform this unit effectively you will need to know and understand the following:

	Chapter
1 Understand the finance function within an organisation	
1.1 Identify the role of the finance function	1
Students need to know:	
<ul style="list-style-type: none"> • the role of the finance function: responsibility for production of statutory financial statements, providing a service (information, support advice and guidance) to both internal and external stakeholders. 	
1.2 Demonstrate an understanding of how finance staff contribute to an organisation's success	1 and 5
Students need to know:	
<ul style="list-style-type: none"> • the importance of establishing good business relationships • the principles of effective communication: content is written clearly, complete, accurate, timely, concise and meets the needs of the recipient, and an appropriate medium is used in a suitable environment 	

The role of the finance function

Introduction

This introductory chapter covers role of an accountant and the policies and procedures that they may come across in the finance function.

ASSESSMENT CRITERIA

- 1.1 Identify the role of the finance function
- 1.2 Demonstrate an understanding of how finance staff contribute to an organisation's success.
- 1.3 Indicate the role of information in the work of the finance function

CONTENTS

- 1 Where accountants work and what they do
- 2 Key aspects of accounting and solvency
- 3 Policies and procedures within the finance function
- 4 Information received from stakeholders

1

Where accountants work and what they do

1.1 Where do accountants work?

An accountant may work in industry, in an accounts or payroll department or in a practice firm.

1.2 What do they do?

Most accountants work as part of a team and often have to liaise with staff in other departments so they need to be good at working with others and have good communication skills.

These are examples of duties that an accountant or someone working in an accounting environment may undertake:

- (a) Prepare statutory financial statements including a statement of profit or loss and a statement of financial position
- (b) Reconcile reports, identify and correct discrepancies
- (c) Maintain and improve accounting procedures and processes
- (d) Analyse reports
- (e) Banking of cash and cheques
- (f) Preparing sales invoices and credit notes
- (g) Maintaining the sales and purchase ledgers.

The above are just some of the duties someone working in accounts may be involved in but it differs depending on each business.

2 Key aspects of accounting and solvency

Financial accounting information and **management accounting** information will both use the same basic data but they will be presented differently and fulfil different roles.

2.1 Financial accounting

The **financial accounts** record transactions between the business and its customers, suppliers, employees and owners. The managers of the business must account for the way in which funds entrusted to them have been used and, therefore, records of assets and liabilities are needed as well as a statement of any increase in the total wealth of the business.

Financial accounts are presented in the form of a **Statement of Profit or Loss**, detailing all income and expenses, and a **Statement of Financial Position**, which shows details of all assets and liabilities.



Definition

Financial accounting is:

- the classification and recording of monetary transactions; and
- the presentation and interpretation of the results of those transactions in order to assess performance over a period (usually 12 months) and the financial position at a given date
- the recording of day to day transactions and the analysis of capital and revenue expenditure and income
- maintaining both the sales and purchase ledgers and keeping close control on the receivable and payable balances. This will mean that payables balances can be settled when they fall due and other expenses can also be paid on time.

These controls have a direct effect upon the cash flow of the business and thus its financial strength and **solvency** (its ability to pay its way).

2.2 Management accounting

Management accounting is a wider concept involving **professional knowledge and skill** in the preparation and presentation of information to all levels of management in an organisation. The source of such information is the financial and cost accounts. The information is intended to assist management in decision making and in the planning and control of activities in both the short and long term.



Definition

An integral part of management concerned with identifying, presenting and interpreting information which is used for formulating strategy, planning and control, decision making and optimising the use of resources. Management accounting includes:

- the allocation and control of resources
- preparing cash flow forecasts. This accounts for day to day revenue expenditure and income and also future payments of capital expenditure, dividends to shareholders and legal requirements e.g. taxation
- analysis of the accounts to improve performance going forward. For this reason management accounts are usually prepared more often than financial accounts e.g. monthly.

2.3 Financial accounts and management information

It may be helpful to look at a simple statement of profit or loss to see the role of management accounting:

XYZ Company		
Statement of profit or loss for the period X		
	£	£
Turnover		200,000
Cost of sales:		
Materials consumed	80,000	
Wages	40,000	
Production expenses	15,000	
	—————	(135,000)
Gross profit		65,000
Marketing expenses	15,000	
General administrative expenses	10,000	
Financing costs	4,000	
	—————	(29,000)
Net profit		36,000

This statement may be adequate to provide outsiders with an overview of the trading results of the whole business, but managers would need much more detail to answer questions such as:

- What are the major products and are they profitable?
- By how much has inventory of raw materials increased?
- How does the labour cost per unit compare with the cost incurred in the previous period?
- Is the expenditure incurred by the personnel department higher than expected?

The management accounting system reports will provide the answers to these (and many other) questions on a regular basis. In addition, the management accounts will contain detailed information concerning raw materials inventory, work in progress and finished goods, which will provide a basis for the valuation necessary to prepare periodic and final accounts.

2.4 Summary of the differences between management and financial accounting

The main differences between financial accounts and management accounts can be summarised in the following table.

<i>Financial accounts</i>	<i>Management accounts</i>
Limited companies are required by law to prepare them.	Records are not mandatory.
Accordingly, the cost of record-keeping is a necessity.	Accordingly, the cost of record-keeping needs to be justified.
Objectives and uses are not defined by management.	Objectives and uses can be decided by management.
Mainly a historical record.	Regularly concerned with future results as well as historical data.
Information must be compiled prudently and in accordance with legal and accounting requirements.	Information should be compiled as management requires – the key criterion being relevance.
Prepared for external reporting.	Prepared for internal use only.

2.5 Solvency



Definition

Solvency refers to the financial soundness of a business that allows it to discharge its monetary obligations (such as paying payables on time) as they fall due. To this end they must ensure that they have cash available to meet these obligations.

Management accounting is concerned with the allocation and control of resources. The Management Accountant forecasts the cash flow based on information from the financial accounting function. This would account not only for day to day revenue expenditure and income but future payments for capital expenditure, dividends and taxation, including VAT.

This has an effect on the overall **solvency** of the business.

2.6 Ways to ensure and improve financial solvency

- Regular reconciliation of bank balances e.g. to highlight bank charges, interest (both paid and received), direct debits going out and BACS receipts from customers.
- Awareness of bank balances e.g. you know if you are likely to go overdrawn and can therefore plan for any charges, or find other ways to avoid an overdraft.
- Awareness of how much is owed to the company e.g. Sales Ledger Control Account.
- Credit control measures e.g. chasing bad debts.
- Awareness of amounts owing e.g. long term obligations (loans or mortgages) and when they are due for repayment.
- Awareness of payments to suppliers e.g. current liabilities and when due.
- Completing weekly payments to suppliers e.g. taking advantage of credit terms and ensuring that the company is making full use of free credit available.
- Awareness of forward planning e.g. cash flow statements – ask suppliers to extend credit terms if you know you cannot pay in time.

3 Policies and procedures within the finance function

3.1 Policies and procedures within the finance function

Members of staff working in the finance function will need to comply with both internal and legal policies and procedures. These policies and procedures will be looked at in more detail in Chapter 5.

Below are some examples of policies and procedures which accounting and payroll staff may need to comply with:

Legal	Internal policies
<ul style="list-style-type: none"> • VAT return submission and payment date • Corporation tax • Health and safety regulations • Data protection act • The submission of statutory financial statements 	<ul style="list-style-type: none"> • Overtime payment procedures • Purchase ledger payment procedures • Expenses policy • Authorised signatories

4 Information received from stakeholders

4.1 Stakeholders



Definition

Stakeholders are parties that have an interest in an organisation or project, they can be internal or external to the organisation. Stakeholders in a typical organisation include; its investors, employees, customers, suppliers, the government and the community.

The finance function within an organisation has a responsibility to supply information to both internal stakeholders (other departments) and external stakeholders.

4.2 Types of information

The finance function will receive different types of information from stakeholders. This includes:

Bank statements – received from an external stakeholder (the bank or building society) showing a breakdown of receipts and payments made from the bank.

Invoices and credit notes – received from external stakeholders (suppliers) for goods purchased on credit and for goods returned.

Statement of account – received from external stakeholders (suppliers) showing a breakdown of the transactions during the period.

Internal business documentation – received from internal stakeholders (other departments), for example, they will receive a monthly analysis from payroll of amounts paid to employees.

As well as receiving information, the finance function will also provide information. This includes; information to help managers make decisions, budgetary information, taxation figures and cash flow information.

4.3 Useful information

It is important that the finance function provide useful information as this information is often used by stakeholders to make decisions. The characteristics of useful information are:

Completeness – enough information to allow decisions to be made but not so much to confuse the issue.

Timeliness – information must reach the stakeholder in time to fulfil their decision needs.

Accurate – information is correct and reliable.

Fit for purpose – it should meet the needs of the person requesting the information.

5 Summary

This introductory chapter outlined the differences between management and financial accounting and how their roles ensure and improve solvency within an organisation.

Stakeholders and the importance of useful information were reviewed. Legal and internal policies and procedures were also introduced.