



Learning

Level 5 Unit Descriptions

Valid from December 2015 exams

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TP 2.2 / advice / 6:2011 / V1

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Unit title	Financial Reporting Skills for SMEs	
Unit aim	<p>The aim of this unit is to develop the financial reporting skills of those who manage or seek to manage the day to day finances and financial needs of small and medium enterprises (SMEs) and small and medium practices (SMPs). SME is the inclusive acronym used to describe both types of organisation.</p> <p>The unit will provide knowledge and understanding of the conceptual and regulatory framework for accounting and reporting for SMEs.</p> <p>The unit will develop the ability to prepare financial statements according to the International Accounting Standard for Small and Medium-Sized entities (IFRS for SMEs) and to interpret financial statements prepared according to that standard.</p>	
Level	5	
GLH	48	
Credit value	14	
IFA Code	5FR	
In IFA qualifications	IFA Level 5 Diploma for SME financial managers IFA Level 5 Diploma for SME finance and business managers	
Learning outcomes The learner can...	Assessment criteria The learner will...	Underpinning knowledge
Understand the regulatory framework for financial reporting of SMEs	<p>1.1 Explain the conceptual and regulatory framework for financial reporting of SMEs</p> <p>1.2 Explain the concepts and pervasive principles contained in the IFRS for SMEs</p> <p>1.3 Evaluate the objectives of financial statements for SMEs.</p>	<p>IFRS for SMEs IASB IFA 4FA</p>

<p>Prepare financial statements according to IFRS for SMEs</p>	<p>2.1 Prepare statements of financial position or parts thereof in accordance with the requirements of the IFRS for SMEs.</p> <p>2.2 Prepare statements of comprehensive income and retained earnings (or statements of comprehensive income and changes in equity) or parts thereof in accordance with the requirements of the IFRS for SMEs.</p> <p>2.3 Prepare statements of cash flows or parts thereof in accordance with the requirements of the IFRS for SMEs.</p> <p>2.4 Prepare notes relating to financial statements in accordance with the requirements of the IFRS for SMEs.</p> <p>2.5 Prepare consolidated and separate financial statements in accordance with the requirements of the IFRS for SMEs.</p>	<p>IFRS for SMEs IFA 4FA</p>
<p>Interpret financial Statements</p>	<p>3.1 Interpret the significance of an entity's financial position as presented in the statement of financial position</p> <p>3.2 Interpret the significance of an entity's performance shown in its statement of comprehensive income and statement of changes in equity (or retained profits)</p> <p>3.3 Interpret the significance of an entity's performance shown in its statement of cash flows</p> <p>3.4 Compare and contrast the financial performance of an SME using financial indicators</p> <p>3.5 Report the results of such analysis to internal and external stakeholders.</p>	<p>Ratios: Profitability Working capital Financing Investors</p> <p>Report writing</p>

Recommended reading

<p>Applying IFRS for SMEs, Bruce Mackenzie, Allan Lombard, Danie Coetsee, Tapiwa Njikizana & Raymond Chamboko</p>
<p>Price Waterhouse Coopers http://www.pwc.com/jm/en/assets/document/IFRSSME09.pdf</p>
<p>Deloitte http://www.iasplus.com/standard/ifrsforsmes.htm</p>
<p>International Accounting Standards Board http://www.ifrs.org/ifrs-for-smes/Pages/ifrs-for-smes.aspx http://www.ifrs.org/IFRS-for-SMEs/Pages/Training-Modulea</p>

Unit title	SME Financial Management	
Unit aim	<p>The unit aim is to develop the financial management skills for those who manage or seek to manage the performance, risk and financial decision making needs of small and medium enterprises (SMEs), and small and medium practices (SMPs).</p> <p>The unit will give an understanding, application and analysis of the funding and management of capital within an organization. In particular it will focus on the management and evaluation of investment appraisal decisions. Organisational performance and recommendations for its improvement and growth will also be analysed.</p> <p>Learners will be able to apply investment appraisal techniques to investment decisions and make recommendations. Use valuation models and cost of capital models to determine the value of an organisation and its capital structure cost. Manage foreign exchange risk, credit and gearing. Apply techniques to evaluate and make recommendations for the management of performance, resources, capital structure and risk.</p>	
Level	5	
GLH	60	
Credit value	14	
IFA Code	5FM	
In IFA qualifications	IFA Level 5 Diploma for SME Financial Managers IFA Level 5 Diploma for SME Finance and Business Managers	
Learning outcomes The learner will...	Assessment criteria The learner can...	Underpinning knowledge

<p>Evaluate investment appraisal methods and advise on strategy for SME capital projects</p>	<p>1.1 Apply the concept of the time value of money to appraise investment decisions.</p> <p>1.2 Select and apply alternative appropriate investment appraisal techniques</p> <p>1.3 Discuss the benefits and limitations of different investment appraisal methods</p> <p>1.4 Evaluate and make recommendations on capital and investment strategy</p> <p>1.5 Undertake a review of capital projects.</p>	<ul style="list-style-type: none"> • Capital budgeting • The investment appraisal process • Identification of relevant cash flows • Methods of investment appraisal: • Accounting rate of return (ARR) • Payback period • Net present value • Discounted payback period • Internal rate of return (IRR) • Advantages and disadvantages of investment appraisal methods
<p>Assess the performance of an SME and SMP business</p>	<p>2.1 Analyse the critical success factors for the business</p> <p>2.2 Use performance indicators to evaluate the performance of the business</p> <p>2.3 Use a variety of techniques to evaluate business performance and make recommendations for improvement.</p>	<ul style="list-style-type: none"> • SWOT and PESTLE analyses • Competitor analysis • Customer profitability analysis • Life cycle costing • Balanced scorecard • Shareholder value • - Economic value added
<p>Assess and advise an SME on managing financial risks</p>	<p>3.1 Use hedging instruments to manage currency exchange rate risks</p> <p>3.2 Identify the factors affecting the granting of credit in the UK and internationally</p> <p>3.3 Advise management and shareholders on the management of gearing (leverage).</p>	<ul style="list-style-type: none"> • Translation, transaction and economic risks • Use of forward exchange contracts • Use of debt financing • - Financial gearing and the impact of leverage
<p>Evaluate sources of long-term finance and their impact on financial structure and performance for an SME</p>	<p>5.1 Make recommendations on the management of debt finance and equity</p> <p>5.2 Use the dividend valuation model (DVM) to determine the share price and cost of capital</p> <p>5.3 Discuss and apply the capital asset pricing model (CAPM) and know how to determine the weighted average cost of capital (WACC).</p>	<ul style="list-style-type: none"> • Sources of finance • Dividend valuation model (DVM) • Capital asset pricing model (CAPM) and weighted average cost of capital (WACC)

Recommended reading

Please note that where more than one book is detailed against a learning outcome any of the titles are suitable. It is not necessary to purchase each title listed against a learning outcome.

Learning outcome	Book name and author	Edition	Relevant chapters	ISBN No
Evaluate investment appraisal methods and advise on strategy for SME capital projects	Management & Cost Accounting, Colin Drury	Latest edition	Chs 13 & 14	ISBN 10: 1408048566 ISBN 13: 978-1408048566
	Corporate finance, Moles, Parrino & Kidwell	Latest edition	Chs 5, 7, 10, 13	ISBN 10: 0470683708 ISBN 13: 978-0470683705
	Management accounting for decision makers, Peter Atrill and Eddie McLaney	Latest edition	Ch 8	ISBN 10: 0273762265 ISBN 13: 978-0273762263
Assess the performance of an SME business	Business accounting, Frank Wood & Alan Sangster	Latest edition	Ch 47	ISBN 10: 0273759280 ISBN 13: 978-0273759287
	Business Accounting 2, Frank Wood & Alan Sangster	Latest edition	Chs 27, 28	ISBN 10: 0273767925 ISBN 13: 978-0273767923
	Management accounting for decision makers, Peter Atrill and Eddie McLaney	Latest edition	Ch 9	See above
	Corporate finance, Moles, Parrino and Kidwell	Latest edition	Ch 20	See above
Evaluate sources of long term finance and their impact on financial structure for an SME	Business accounting & finance, Tony Davies & Ian Crawford	Latest edition	Ch 14, 15	ISBN-10: 027372312X ISBN-13: 978-0273723127

Unit title	SME Management Accounting and Financial Controls	
Unit aim	<p>The aim of this unit is to develop the financial management skills of those who manage or seek to provide information for performance management, continuous improvement, budgetary and financial control and the management of internal risk in small and medium enterprises (SMEs) and small and medium practices (SMPs).</p> <p>Learners will be able to use analytical tools to evaluate performance and to make recommendations about continuous improvement in an organisation. They will also be able to use techniques to implement budgetary and financial control and evaluate, and manage internal risk.</p>	
Level	5	
GLH	60	
Credit value	14	
IFA Code	5MA	
In IFA qualifications	<p>IFA Level 5 Diploma for SME Financial Managers</p> <p>IFA Level 5 Diploma for SME Finance and Business Managers</p>	
Learning outcomes The learner will...	Assessment criteria The learner can...	Underpinning knowledge
Evaluate actual business performance and quality improvement against set targets for an SME	<p>1.1 Evaluate actual business performance against business targets.</p> <p>1.2 Assess continuous quality improvement techniques.</p> <p>1.3 Evaluate cost reduction methods using value engineering, value analysis and life cycle costing methods.</p> <p>1.4 Propose appropriate business performance improvements, with consideration of the external and internal factors that influence an SME.</p>	<p>Variance analysis;</p> <p>Target setting;</p> <p>Strategic management accounting practices, such as value engineering, value analysis and life cycle costing;</p> <p>Balanced scorecard;</p> <p>Understanding of cost drivers, cost functions and cost behaviours</p>

<p>Prepare budgets for an SME</p>	<p>2.1 Prepare sensitivity analysis and flexible budgets.</p> <p>2.2 Apply budgetary techniques and use incremental budgeting, activity based budgeting and zero based budgeting.</p> <p>2.3 Assess the limiting factors affecting budgets.</p>	<p>Budgeting process; Functions and administration of budgets; sales/production budgets; sensitivity analysis; flexible budgets; incremental budgeting, activity based budgeting, zero-based budgeting; limits to budgeting</p>
<p>Understand the main causes of costs and sales variances for an SME</p>	<p>3.1 Analyse the main elements of costs in standard costing.</p> <p>3.2 Using costs and sales variances, propose appropriate improvement plans to address issues.</p> <p>3.3 Reconcile actual contribution or profit to budgeted contribution or profit.</p>	<p>Operation of a standard costing system; Variance analysis, including the ability to suggest improvements; How standards are set; Reconciliation of budgeted profit to actual profit (or contribution); Absorption costing; analysis of variances and reconciliation of budgeted and actual profit.</p>
<p>Understand and assess the relationship between appropriate financial controls and risk management processes in an SME</p>	<p>4.1 Analyse the impact of a financial control environment on the effective functioning of an organization.</p> <p>4.2 Discuss the role of the internal control function in an SME and make recommendations for its improvement in the management of risk.</p>	<p>Different kinds of controls, e.g. behavioural, social and output controls, feedback and feed forward controls; Advantages and disadvantages of controls; Understanding of key business risks; people risks, process risks. Role of internal control function; how controls help to management risk.</p>

Recommended reading

Please note that where more than one book is detailed against a learning outcome any of the titles are suitable. It is not necessary to purchase each title listed against a learning outcome.

Learning outcome	Book name and author	Edition	Relevant chapters	ISBN No
Evaluate actual business performance and quality improvement against set targets for an SME	Business accounting & finance, Tony Davies & Ian Crawford	Latest edition	Ch 10	ISBN 10: 027372312X ISBN 13: 978-0273723127
	Management & cost accounting, Colin Drury	Latest edition	Chs 22,23	ISBN 10: 1408048566 ISBN 13: 978-1408048566
	Management accounting for decision makers, Peter Attrill and Eddie McLaney	Latest edition	Ch 9	ISBN 10: 0273762265 ISBN 13: 978-0273762263
Prepare budgets for an SME	Business accounting & finance, Tony Davies & Ian Crawford	Latest edition	Ch 11, 12, 13	See above
	Management & cost accounting, Colin Drury	Latest edition	Ch 15	See above
	Management accounting for decision makers, Peter Attrill and Eddie McLaney	Latest edition	Ch 6	See above
Understand the main causes of costs and sales variances for an SME	Management & cost accounting, Colin Drury	Latest edition	Ch 17, 18	See above
	Management accounting for decision makers, Peter Attrill and Eddie McLaney	Latest edition	Ch 7	See above
Understand and assess the relationship between appropriate financial controls and risk management processes in an SME	Management & cost accounting, Colin Drury	Latest edition	Ch 16	As above
	Auditing and Assurance Services, Alvin Arens, Randal Elder, Mark Beasley	Latest edition	Ch 14-23	ISBN 10: 027379005 ISBN 13: 978-0273790006

Unit title	Skills for the SME Manager	
Unit aim	<p>The aim of this unit is to develop a broad range of professional skills and knowledge for accountants and finance managers who work in, or seek to work for small and medium enterprises (SMEs) and small and medium practices (SMPs). SME is the inclusive acronym used to describe both types of organisation.</p> <p>The scope of the unit is broad and recognises that accountants in SMEs are usually the first point of contact for a range of operational, technical and professional business skills that will help the SME towards long term success.</p> <p>The unit design encompasses four discrete but complementary learning outcomes focused on managing people, operations/project management, information technology and business strategy in the SME. The unit aims to equip SME accountants with the know-how necessary to respond to typical SME business scenarios.</p>	
Level	5	
GLH	36	
Credit value	15	
IFA Code	5SK	
In IFA qualification	IFA Level 5 Diploma for SME Finance and Business Managers	
Learning outcomes The learner will...	Assessment criteria The learner can...	Underpinning knowledge

<p>Apply methods to maximise the contribution of employees within an SME</p>	<p>1.1 Evaluate the recruitment, selection, induction, training and development policies and practices of an SME.</p> <p>1.2 Apply theories on human resource management and staff motivation.</p> <p>1.3 Apply teamwork development theories to SME projects and operations.</p> <p>1.4 Develop a human resource plan that can help SMEs with staff retention, succession planning and supporting growth.</p>	<ul style="list-style-type: none"> • Main steps in a recruitment process suitable for a SME • Key theories of motivation in an SME context (e.g. Herzberg, Maslow, Mayo etc) • Teamwork theories (e.g. Tuckmann and Belbin) • Staff retention, succession planning and the flexible use of employees (permanent, part-time and agency) • Management and leadership styles (Theory X/Y, Blake/Moulton)
<p>Apply project and operations management principles within an SME environment</p>	<p>2.1 Apply project management tools and techniques.</p> <p>2.2 Evaluate the importance of stakeholders and apply techniques to manage them.</p> <p>2.3 Apply principles of operations management and capacity planning.</p> <p>2.4 Apply lean supply chain principles and inventory management systems.</p>	<ul style="list-style-type: none"> • Project planning and time analysis (critical path analysis) and bottom-up budgeting • Tracking and control (understand Gantt charts) • The importance of key stakeholders in a project or business (Mendelow matrix) • Staff capacity planning based on forecast demand • JIT and lean supply theory • Basic EOQ calculations
<p>Assess and maximise the opportunities provided by information systems and technology in SMEs</p>	<p>3.1 Assess and maximize the opportunities provided by modern information systems and technologies.</p> <p>3.2 Explain how to maximise the potential of the internet within SMEs to drive down cost, increase revenue and improve information flows.</p> <p>3.3 Analyse options for procuring new system applications and recommending systems implementation and changeover methods.</p> <p>3.4 Compare and contrast the value of in-house IT services with outsourced vendor solutions.</p>	<ul style="list-style-type: none"> • Modern hardware, software, operating systems and networking concepts • Using internet based resources for business purposes. • Options for buying new system applications (bespoke, package and end-user development) • Different change-over methods from one system to another • Advantages and disadvantages of outsourcing IT services

<p>Analyse SME business strategy and marketing planning to focus on long term success.</p>	<p>4.1 Discuss different approaches to the formulation of strategy and make recommendations.</p> <p>4.2 Evaluate competitive situations and opportunities.</p> <p>4.3 Evaluate sales and marketing strategies for an SME using the marketing mix and other models.</p> <p>4.4 Analyse customer behaviours, market research methods and pricing strategies.</p>	<ul style="list-style-type: none"> • The general process of strategy formulation, and simple tools such as SWOT, PESTLE, Porter's Generic strategies • Different approaches to strategy e.g. rational, emergent, resource-based • Competitive situations and opportunities (Porter's value chain) • The marketing mix and BCG matrix
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Reading and learning guidance

The unusually wide nature of this unit content makes it impracticable to recommend a single text that will cover all the learning outcomes. The unit also has a distinct practical emphasis – i.e. not simply theory, but theory as applied to a particular SME business scenario to tackle a particular challenge. Students should remember this when preparing for the exam. Previous exam papers provide a good indication of the type of question to expect.

This document does define the key elements of knowledge that is expected, and gives guidance as to the sources that can be used to attain the required knowledge.

Learning outcome	Book name and author
Apply methods to maximize the contribution of employees within an SME	
Apply project and operations management principles within an SME environment	Project Management, Maylor H Operations Management, Slack Chambers and Johnson
Assess and maximise the opportunities provided by information systems and technology in SMEs	Management Information Systems, Laudon K and Laudon J Business information systems: analysis design and practice, Curtis G and Cobham D
Analyse SME business strategy and marketing planning to focus on long-term success	Strategies for growth in SMEs: the role of information and information systems, Levy M and Powell P Successful marketing for the small business

Unit title	The SME Legal and Regulatory Environment	
Unit aim	<p>The aim of this unit is to develop knowledge and understanding of the legal and regulatory framework for accountants and finance managers who work in, or seek to work for small and medium enterprises (SMEs) and small and medium practices (SMPs). SME is the inclusive acronym used to describe both types of organisation.</p> <p>The unit will provide an understanding of the relevant principles and rules of law and develop the practical know-how sufficient to respond to typical SME business scenarios and challenges.</p> <p>The scope of the unit will allow accountants and finance managers in SMEs to tackle principles of contract,</p>	
Level	5	
GLH	96	
Credit value	17	
IFA Code	5LG	
In IFA qualification:	IFA Level 5 Diploma for SME Finance and Business Managers	
Learning outcomes The learner will...	Assessment criteria The learner can...	Underpinning knowledge

<p>Understand the rules of contract law</p>	<p>1.1 Explain the elements of contract formation</p> <p>1.2 Explain the contents of a contract</p> <p>1.3 Identify common commercial clauses and explain how they affect the business transaction</p> <p>1.4 Explain the rules of misrepresentation</p> <p>1.5 Discuss how contracts come to an end through performance and frustration</p> <p>1.6 Explain the consequences of breach of contract.</p>	<p>Understand the rules relating to the essential elements of a contract such as offer, acceptance and consideration including:</p> <ul style="list-style-type: none"> • Define a contract and explain the doctrine of privity of contract and the main exception to it. • Define a binding offer and differentiate between an offer and an invitation to treat. • Describe how offers come to an end (lapse of time, counter-offers, revocation). • Explain the rules relating to the communication of acceptance of offers and any exceptions to the general rule • Define consideration and explain the rules on valid consideration (must not be past, must be more than one is already bound to do, part payment of debts). • Explain the use of rebuttable presumptions by the court in agreements which are social and those made in the commercial context in deciding whether there is an intention to create legal relations between the parties. • Define misrepresentation, explain the different types and remedies for them. • Classify the contents of a contract in conditions, warranties and innominate terms and explain the importance of the distinction. • Identify the common types of clauses in commercial contracts and explain the rules which are applicable to them. (Exclusion/exemption and limitation clauses and the current legislation affecting them. Liquidated damages/penalty clauses. Title retention clauses. Force majeure clauses. • Explain how contracts come to an end through performance and frustration and breach.
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<p>Understand the rules relating to the statutory control of trading transactions</p>	<p>2.1 Explain the implied terms of current legislation for the Sale of Goods</p> <p>2.2 Explain the implied terms of the current legislation relating to those contracts where services are provided.</p> <p>2.3 Identify the provisions of the current legislation and EU regulations relating to distance selling.</p>	<ul style="list-style-type: none"> • Explain the implied terms of the Sale of Goods Act s.12 tp 15 and the consequences of a breach of these terms. • Explain the implied terms of the Supply of Goods and Services Act. • Explain the provisions of the Consumer Protection (Distance Selling) regulations.
<p>Understand how the employment relationship is regulated by law</p>	<p>3.1 Distinguish an employment contract from other types of contract</p> <p>3.2 Identify and explain the duties implied by the common law in the employment relationship</p> <p>3.3 Explain how current legislation affects the employment contract.</p> <p>3.4 Explain the different types of dismissal.</p> <p>3.5 Analyse the requirements for a fair dismissal.</p>	<ul style="list-style-type: none"> • Explain the differences between employees and independent contractors and the tests used to distinguish between them. • Explain the common law duties of the employer and the employee. • Explain the statutory duties of employers (Employment Rights Act, Working Time Regulations, National Minimum Wage Act, Equality Act) • Explain the following ways in which the employment contract comes to an end; summary, wrongful, constructive and unfair dismissal: <ul style="list-style-type: none"> ○ Explain the potentially fair reasons for dismissal ○ Define redundancy and explain the remedies available for both unfair dismissal and redundancy.

<p>Understand the rules of law which relate to SMEs</p>	<p>4.1 Analyse the advantages and disadvantages of different types of business organizations.</p> <p>4.2 Explain how the statutory framework affecting directors and partners.</p> <p>4.3 Explain the legal framework governing a business in financial difficulties.</p> <p>4.4 Explain the legal framework governing the criminal and fraudulent actions of officers and other employees of a company.</p>	<ul style="list-style-type: none"> • Identify the different types of business organisation (sole trader, partnership, limited liability partnerships, public and private limited companies), and explain the differences. • Explain the liability of partners in contract and tort. • Explain how and why partnerships can be formed and dissolved. • Explain the concept of a separate legal personality, and identify those occasions when incorporation may be lifted. • Identify the nature of the memorandum of association and the articles of association. • Explain how the articles might be altered and the constraints on such alteration. • Identify the ways in which directors of limited companies may be appointed and removed from office, including disqualification under the Company Directors Disqualification Act. • Identify the duties imposed on directors by the Companies Act 2006. • Explain the circumstances when the compulsory liquidation can occur under the Insolvency Act 1986, and explain the difference between a members' and a creditors' voluntary winding up. • Identify the circumstances when administration may be an alternative to liquidation. • Distinguish between fraudulent and wrongful trading. • Outline the rules on insider dealing in Criminal Justice Act
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Recommended reading

Business Law Concentrate: Law Revision and Study Guide, James Marson – 2nd edition (2013), OUP

ISBN 10: 0199609063

ISBN 13: 978-0199609062

Other reading

Learning outcome	Book name and author	Edition	ISBN No
Understand the rules of contract law	Business Law, Ewan Macintyre	Latest edition	ISBN 10:1292010835 ISBN 13: 978-1292010830
Understand the rules relating to the statutory control of trading transactions	Law Express: Consumer and Commercial Law, Judith Tillson	Latest edition	See above
Understand the law of agency	See recommended reading		
Understand the rules of law which relate to SMEs	Law Express: Company Law, Chris Taylor	Latest edition	ISBN 10: 1408271710 ISBN 13: 978-1408271711