

# Unit Description

## Creating Value and Measuring Performance for SMEs

### Level 4 – 4VP

Valid from December 2015

<b>Unit title</b>	<b>Creating Value and Measuring Performance for SMEs</b>	
<b>Unit aim</b>	<p>The aim of this unit is to develop the knowledge and ability of individuals to enable them to measure performance and assess the financial position of small and medium enterprises (SMEs) and small and medium practices (SMPs).</p> <p>Individuals will have the skills to provide relevant information for short term and long term decision making; costing and pricing whilst ensuring that employees are motivated to achieve individual objectives and the objectives of the business as a whole.</p>	
<b>Level</b>	4	
<b>Total Qualification Hours</b>	150	
<b>Guided Learning Hours</b>	0	
<b>IFA Code</b>	4VP	
<b>In IFA qualification</b>	IFA Level 4 Diploma for SME Financial Accountants	
<b>Learning outcomes</b> The learner will...	<b>Assessment criteria</b>  The learner can...	<b>Underpinning knowledge</b>

<p>1. Understand the techniques required to measure performance and assess the financial position of an SME and SMP.</p>	<p>1.1 Calculate the performance indicators to assess and monitor the financial position, performance and efficiency of an SME and SMP.</p> <p>1.2 Create and develop relevant key performance indicators relevant to the business of an SME and SMP including the application of:</p> <ul style="list-style-type: none"> <li>• Benchmarking</li> <li>• Balanced scorecard</li> </ul> <p>1.3 Explain the rationale for using quantitative and qualitative measures to assess SME performance and position</p> <p>1.4 Interpret and report on the results of performance indicators, identifying trends, and suggestions for improvements</p> <p>1.5 Discuss the importance of quality improvement</p>	<ul style="list-style-type: none"> <li>• The calculation of: <ul style="list-style-type: none"> <li>○ liquidity ratios</li> <li>○ profitability ratios,</li> <li>○ working capital ratios,</li> <li>○ efficiency and resource utilisation ratios</li> </ul> </li> <li>• The ability to develop and calculate relevant performance indicators for a business measuring profitability and performance and apply benchmarking and balance scorecard as a method of appraisal</li> <li>• The ability to distinguish between qualitative and quantitative measures and apply this to a case study.</li> <li>• The ability to distinguish between qualitative and quantitative measures and apply this to a case study</li> <li>• The ability to explain why quality and continuous improvement is important with knowledge of the different testing and sampling methods/total quality management and internal and external quality costs.</li> </ul>
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<p>2. Be able to use a range of cost accounting techniques and pricing strategies effectively to achieve competitive advantage for an SME and SMP</p>	<p>2.1 Apply costing approaches to provide information for management:</p> <ul style="list-style-type: none"> <li>• Traditional absorption costing</li> <li>• Marginal costing</li> <li>• Target costing</li> </ul> <p>2.2 Discuss the purpose of contribution and its relationship with cost volume profit analysis.</p> <p>2.3 Use indexation factors to forecast information for costing purposes</p> <p>2.4 Explain the purpose of responsibility accounting.</p> <p>2.5 Apply a range of market based pricing strategies</p> <p>2.6 Explain how pricing can help an SME achieve advantage over their competitors</p>	<ul style="list-style-type: none"> <li>• The ability to perform calculations for 'cost per unit' under the different methods and explain the differences between each of the costing methods with recommendations of suitability for a particular business.</li> <li>• The ability to perform calculations, apply marginal costing principles, explaining the term contribution and its importance in preparing a range of short term decision making calculations (breakeven point, margin of safety, contributions/sales ratio.</li> <li>• The ability to use different indexation factors e.g. retail price index for forecasting purposes.</li> <li>• The ability to explain different types of responsibility such as cost centres, profit centres, revenue centres etc.</li> <li>• The ability to perform calculations and explain the theory for the following pricing strategies:             <ul style="list-style-type: none"> <li>○ Marginal pricing, cost plus pricing, customer based pricing, competitive pricing (skimming and penetration), mark up and margins</li> </ul> </li> <li>• The ability to relate pricing theory to a case study stating relevant methods that a business can achieve advantage over its competitors.</li> </ul>
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<p>3. Understand the different methods that an SME can use to appraise the financial viability of an investment</p>	<p>3.1 Apply relevant appraisal techniques for long term investments.</p> <p>3.2 Explain the advantages and disadvantages of different investment appraisal techniques.</p> <p>3.3 Calculate a discount factor for discounted cash flows using a given cost of capital percentage.</p> <p>3.4 Explain the difference between cashflows and profit, applying relevant costing techniques.</p>	<ul style="list-style-type: none"> <li>• The ability to perform calculations and explain the theory for the following investment appraisal techniques             <ul style="list-style-type: none"> <li>○ Accounting rate of return (ARR), discounted cash flows, Internal rate of return (IRR), payback periods</li> </ul> </li> <li>• The ability to explain the advantages and disadvantages of the different investment appraisal techniques stated in 3.1.</li> <li>• Explain the difference between cashflows and profit applying relevant costing techniques.</li> </ul>
<p>4. Be able to explain successful employee management techniques as a method of improving quality</p>	<p>4.1 Identify general motivational methods for management to improve staff performance.</p> <p>4.2 Identify different methods of rewarding staff for good performance.</p> <p>4.3 Explain the key factors in setting appropriate personal targets for employees.</p>	<p>Assesses the ability to motivate employees to meet personal and business objectives. Questions on this learning outcome will be based around a case study. Reference to motivational theories such as Herzberg, Maslow will be awarded credit but are not required to achieve full marks.</p>

**Recommended reading:**

4VP Creating Value and Measuring Performance online learning material, IFA

Key Performance Indicators: Developing, Implementing and Using Winning KPIs (By David Parmenter)

Management Accounting (elements of business series) (By Leslie Chadwick)

Pricing Strategies: A Marketing Approach (By Robert M Schindler)

Issues in Management Accounting (By Trevor Hopper)

