

Teacher guide

Interpreting accounts - ACCA

Where does the lesson fit?

This session would fit into a module on finance, or alternatively could be used to consider strategy. It would be part of assessing the financial performance of a business through the interpretation of financial information, and could be followed by a lesson that looks at how a business could develop a strategy to improve or build upon its current position.

Suggested resources & activities related to ACCA and accounts

- ACCA Full case study
- MP3 of case study
- Interpreting accounts PowerPoint
- ACCA crossword
- ACCA word search

Suggested timings for the session

10 mins	Starter e.g. ACCA word search or crossword
5 mins	Use the interpreting accounts PowerPoint to discuss the topic
5 mins	Read the case study
10 mins	Questions
20 mins	Task
10 mins	What have you learned?

Answers to questions

1. Describe the main purpose of accounting documents.

Accounting documents provide a summary of the transactions that take place within a business over a given time period. They can therefore be used to assess how well a business performed financially.

2. Explain why the shareholders of a PLC will be interested in the published accounts of the business.

The shareholders are the owners of a PLC, and therefore they will be very interested in the financial performance of the business since it will have a direct impact upon the dividend that they may receive. In addition, shareholders are likely to be interested in the long-term success of a business, and an indication of this is the success of the current business strategy.

3. Evaluate the importance of accounting documents in developing a business strategy

The published accounts are a very good indication of whether the business has got its current strategy correct. This in itself can be a good indication of any future strategic changes that might need to be made in order to improve performance or build upon past success.

Therefore, the accounting documents are undoubtedly useful in developing a business strategy. However, it is important to recognise that the accounting documents that are published are in effect internal historical documents and whilst they may paint a picture of success obtained from previous strategies, they do not guarantee success with future strategies. This is because they take no account of any changes that may be occurring in the external environment. These documents should therefore be used as part of a wider set of tools when developing future business strategies.

4. Analyse why it is important that accounting documents are accurate.

There are a number of reasons why it is crucial that accounting documents are accurate. Perhaps the most obvious reason is the legal one. Accounting documents that are not accurate could result in legal issues ranging from fraud (if the inaccuracy was deliberate) to tax issues if it emerges that a business has not paid sufficient taxes. Aside from the legal issues, inaccurate accounting documents can lead to a variety of problems. Assuming that the inaccuracies are not known, it may lead to incorrect management decisions as they are being based on inaccurate information. This could be extremely costly for the business, and in the worst case scenario inaccurate accounting information could actually lead a business to go into administration.

What have you learned?

Expected learning is likely to focus upon the difference between the three key financial documents. Learners should understand what information each document provides, and be able to combine the information to form a coherent view of the performance of a business during the time period covered by the accounts.