

PCEF guidance notes

**Area F –  
Corporate reporting  
and financial  
management**

## Area F – Corporate reporting and financial management

### Unit PC11 – Prepare financial and other statements and accounts for external purposes

This unit relates to preparing and presenting accounts for external purposes in line with regulations and accounting standards and guidelines. The overall focus is on higher level accounts work involving the analysis and interpretation of accounts information to assist with clients' decision making and future strategies.

Element reference	Demonstrated behaviour and examples
<b>Element CR1</b> <b>Appraise information for the preparation of financial and other statements and accounts</b>	<ul style="list-style-type: none"><li>• Collate complete and accurate information for the preparation of accounts, investigating areas where there is doubt about the completeness, accuracy and validity of the information</li><li>• Structure the information to enable efficient compilation of the accounts, highlighting any gaps or incomplete information</li><li>• Ensure that any estimates or provisions are reasonable and supportable</li><li>• Investigate any unusual trends or variances, giving explanations where appropriate</li><li>• Appraising financial information against industry averages</li><li>• Identify issues shown by the accounts and provide possible solutions which need to be discussed with clients</li></ul>
<b>Element CR2</b> <b>Prepare and present financial and other statements and accounts</b>	<ul style="list-style-type: none"><li>• Prepare statements and accounts in an appropriate format</li><li>• Determine and apply the relevant accounting standards and legislation</li><li>• Provide variance analysis and explanations and supporting information where appropriate</li><li>• Identify issues shown by the accounts and, in particular, any adverse financial position</li><li>• Discuss the accounts and associated issues with clients</li></ul>

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### Unit PC12 – Prepare financial information for management

This unit is about providing valid and accurate information to clients in an appropriate format to assist them in their decision-making processes. It requires an understanding of clients' businesses in order to offer advice to assist them to make judgements about their businesses.

Element reference	Demonstrated behaviour and examples
<b>Element CR3</b> <b>Appraise financial information for the preparation of management information</b>	<ul style="list-style-type: none"><li>• Identify the financial information requirements of management</li><li>• Collect accurate and relevant data to prepare management information</li><li>• Structure the information to enable the completion of effective management reports and information</li><li>• Review variations between actual and anticipated major ratios and give explanations, where appropriate</li><li>• Prepare graphs of key statistics and analyse trends</li><li>• Obtain and compare market, industry and organisational statistics for a share valuation</li><li>• Discuss variations with clients</li></ul>
<b>Element CR4</b> <b>Prepare and present financial information for management purposes</b>	<ul style="list-style-type: none"><li>• Present information for management purposes (eg periodic management accounts and management reporting packages)</li><li>• Provide any supporting documentation</li><li>• Prepare written reports or presentations to clients</li><li>• Provide advice to clients to enable them to understand the information and make business decisions</li><li>• Highlight any issues affecting clients and recommend appropriate action</li></ul>

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## Area F – Corporate reporting and financial management

**Unit PC11 – Prepare financial and other statements and accounts for external purposes**

ELEMENTS	
CR1	Appraise information for the preparation of financial and other statements and accounts
CR2	Prepare and present financial and other statements and accounts

**EXAMPLE 1****CR1**

I look after my own client portfolio and I prepare financial statements for a number of different clients based in the manufacturing, retail, property development, education and charity sector. In the last quarter I was also involved in reviewing some accounts that were prepared by the junior members in the team. For one of my property development clients I had to assess whether the provisions in the accounts were accurate and the estimates used by the junior accountants were reasonable. There was also missing information that I had to request from the client – both in terms of documents and explanations for certain transactions and relationships between the figures in the accounts. One example was an increase in the gross profit percentage, which was a result of the change in the type of work carried out by the client, with the company supplying less materials and more labour on the contracts they were working on.

One of my charitable trust clients gets its income from investments and makes grants to other organisations in ten different countries. As part of the preparation of these accounts I read the minutes from the trustee meetings at which they decide which organisations to support. I found out that they had pledged to make a grant to an organisation in Asia but the payment had not been made by the year end. Upon investigation with the client it was clear that the payment had been made prior to the year end but it had not left the charity's bank account until afterwards. This payment was not recorded by the client as they were preparing their records on a cash basis. I explained that the accounts are prepared under the accruals concept and the payment should be included as it was made prior to the year end.

**CR2**

One of my responsibilities is to ensure that the accounts are prepared in accordance with the relevant reporting framework and all correct disclosures are included. For one of my clients in the manufacturing industry I prepared their accounts based on the latest Financial Reporting Standards framework. Following the preparation of the accounts I also prepared a detailed variance analysis on the latest Statement of Financial Position and the Income Statement and this flagged an increased expenditure in certain materials that the client was using in the production. The main volatility in the prices was due to fluctuating exchange rates in the past 12 months. This

led to a negative impact on bottom line profit. My concerns were discussed with the client during a meeting where I presented the accounts to him and explained the reasons for the changes. I advised that a futures contract would reduce the volatility and provide stability for future budgeting.

**EXAMPLE 2****CR1**

I have prepared and reviewed financial statements for clients across a range of sectors: hospitality, leisure and tourism, and property clients. I undertake an analytical review on all statements, taking previous year figures and comparing them to current year and expectations. Using both our expectations and knowledge of the business any identified differences are discussed with the client.

For a client in the leisure and tourism sector we reviewed their occupancy levels and average room rates to those in the industry and it was discovered there were significant differences. These variances were then discussed with the client during the completion meeting.

I conducted the analytical review for a printing company. The review showed a significant rise in creditors compared to the previous year and profits were lower than anticipated. I therefore conducted a review of profits on a monthly basis and it showed that the final month's profits were significantly lower. On further investigation of the client's records it was identified that a large number of invoices were raised on the first day in the next accounting year. However these were all for work carried out in the current year and therefore it was necessary to make adjustments and these were discussed with the client for approval.

**CR2**

I am responsible for preparing or reviewing the financial statements for a range of clients, in particular I have a number of clients in the hospitality, leisure and tourism and property sectors.

I need to ensure disclosures are correct. For one client the in-house accountant had limited experience of International Financial Reporting Standards reporting and my review discovered that many of the disclosures were not fully compliant and would not be acceptable from an audit point of view. I was required to redraft the financial statements and I also discussed any material adjustments with the client.

A new client was part of a group with a limited company as a holding company, and a subsidiary which was an LLP. It was necessary for me to undertake research to ensure the correct disclosures were included in respect of minority interest and the member's interests were correctly classified within the limited company's consolidated accounts.

As the client manager I attend all finalisation meetings with the client and discuss the accounts and any associated issues.

### **EXAMPLE 3**

#### **CR1**

As financial controller of a small pharmaceutical company, I am responsible for the accurate inputting of data into our software package to enable the production of the annual accounts for audit. This includes production of the purchase ledger, sales ledger, fixed assets, accruals, prepayments, reconciliation of the bank account and payroll. To ensure the accuracy of the information each year, a comparison of the prior year figures is undertaken in order to highlight any inconsistencies. One such anomaly identified during the current year was the R&D expense which was excessively high compared to the prior year. Upon investigation with the relevant budget holder it was discovered that an incorrect accounting treatment had been applied to one of the cost streams and this was subsequently communicated and rectified.

Current year figures were also compared to a detailed forecast to ensure that the actual results are in line with our expectations. Again any variances were investigated with the relevant budget holder and explained to the financial director.

I was also responsible for reviewing the debtors balance on an on-going basis to ensure that the bad debt provision included was reasonable. This would sometimes involve discussions with the credit controller to highlight repeat offenders and the need for more structured payment terms for certain slow-paying customers.

#### **CR2**

I was responsible for the submission of year end accounts to head office and our group auditors which involved preparation of the statutory accounts, related working papers and commentary for the benefit of the auditors within strict regulatory deadlines. This also involved a review of the new reporting standards in place and their impact on the current year figures as well as a discussion of the accounts with management prior to submission to the auditors. Along with the financial statements for the year I produced a fixed assets register, stock schedules, debtors' reports, creditors' reports, trial balance and wages and salaries report.

I also conducted an analysis of the draft accounts in order to highlight any variances or issues that the auditors should be aware of. One such issue identified for the current year was why some trading losses in certain business lines within the company were allowed to continue without being wound up. A reasonable explanation by virtue of a change in external regulation was provided via the commentary and the impact of such was built into the forecasts also prepared. Further future losses were not expected but the business lines remain under close scrutiny.

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ELEMENTS	
CR3	Appraise financial information for the preparation of management information
CR4	Prepare and present financial information for management purposes

**EXAMPLE 1****CR3**

One of my clients is a clothes retailer. The company has 8 stores in the local area and last month the director requested a detailed report on the company's performance over the last year. She was concerned about the falling sales figures and wanted to find out whether there are any other warning issues. She sent me a summary of the accounts and some sales and inventory reports by location. After the review of the information I prepared a number of graphs and diagrams that highlighted the KPIs that the director was interested in and helped the client understand which shops were underperforming, what stock lines were more profitable than others and what days of the month were the busiest based on the sales figures. These allowed me to advise the client on the viability of some of the shops.

As a firm we have access to a research database where we can review latest market and industry reports. I searched for the latest industry reports for the retail industry and analysed my client's results against the industry averages. This analysis provided additional guidance to my client and highlighted areas where the firm was underperforming in comparison to the average industry data, such as average income per shop based on the shop size and location. These were also discussed in detail with the client.

**CR4**

I reviewed the monthly management accounts for a small limited company in the building sector. The main focus was key performance indicators (KPIs) like gross and net profit percentages, direct labour costs and work in progress calculations. I ensured that all of the KPIs were correctly calculated as the company had some existing borrowing covenants, which were dependent on some of the above KPIs. I also focused on the dividend payments that the company was paying. As the client was in the building industry, there was a big level of seasonality as the winter months tend to be very poor trading months. The dividends were projected to be the same over all four quarters. Following my review of the year-to-date performance at the end of the ninth month, it was highlighted that the company may not have enough profit to support the full payment of the final quarter dividends, which meant that these dividends may be classified as illegal. I explained my concerns to the client and advised him to reduce the dividends payable in the final quarter until the year end numbers were finalised. During my meeting with the client I showed him a presentation, which included a summary of the company's performance and graph for all of the KPIs he was concerned about. I also issued a formal report to him following our meeting.

**EXAMPLE 2****CR3**

One of my clients in the hospitality industry required additional funding to expand their operations by replacing their field kitchens. Each kitchen cost around £20,000 and they need to replace 10 of them over the next 12 months. I reviewed the management accounts pack prepared by my colleagues in the Internal Client Services department. I reviewed the graphs of key statistics and analysed trends to ensure that cash flow forecasts and return on investment calculations were reasonable and supported the outlay. I also ensured that any banking covenants had not been breached. Where there were any variations I liaised with the clients to ensure explanations could be provided. This information was then sent onto the bank to support my client's funding request.

At a Trustee meeting for a pension fund client the Trustees requested a review of their administrative expenses. They wanted to ascertain whether the administrative expenses they were paying was in line with other schemes of a similar size and complexity and they requested a detailed report be prepared. I researched other funds in the pension industry and obtained as much information as I could from their published accounts. I was able to work with one of our firm's pension specialists to help me analyse the data obtained. A report with supporting evidence such as average cost per head was then prepared and presented to the board of trustees. The outcome was that the expenses were in-line with other schemes and therefore no further action was required.

**CR4**

For some of my larger clients, I analysed their monthly management accounts and reported trends back to client management on a quarterly basis. I prepared a detailed analysis of actual income and costs and prepared charts and graphs of their performance against industry averages. A written explanation was also provided of my findings. For one of my clients in the dry cleaning industry, I discovered that one location was under-performing by some way when compared to other locations in similar areas. I highlighted this to management and they were able to investigate the issue, which turned out to be a combination of long-term road works in the area putting customers off making the trip and an inexperienced shop manager. Whilst there was very little the client could do about the road works, they were able to provide further training and support to the manager.

A UK Group in the property sector has a German parent company and I prepared management information. This included monthly management accounts, completion of monthly presentation packs for actual figures. Quarterly completion of budgets and a detailed variance analysis on actual to budgets. At the year-end I prepared draft tax computations and this identified that the company should review their research and development expenditure and there was an opportunity to claim relief on this expenditure. I then passed this work onto R&D specialists that were able to assist the client in this specialist area.

### **EXAMPLE 3**

#### **CR3**

In order to present meaningful management reports of the food and drink manufacturing company, I reviewed in detail the management information each month and investigated any material differences before preparing the Board reports. I provided a detailed commentary on all major variations against the forecast and budget paying particular attention to the aged debt reporting and bank covenants in place to ensure there is no potential breach at any point over the financial year. As part of the analysis against forecast I highlighted forecast under-spends and identified other departments who could utilise this underspend whilst ensuring overall efficiency across the company as a whole. My analysis helped the Board to prepare more accurate financial forecasts and plan and to set financial objectives that were realistic.

Monthly meetings were conducted with departmental budget holders to discuss and explain any such variances as is necessary to ensure that any issues are duly highlighted and resolved. One month I identified that some departments had higher than expected costs for working overtime and I discussed this with them. It turned out that one of our suppliers was late with a delivery, meaning that some employees had to work overtime to get our products out in time. The department heads had already started negotiating compensation with the supplier for the following month to claw back some of the overtime incurred.

#### **CR4**

It is my responsibility to ensure the timely and accurate production of monthly management accounts for two UK subsidiaries which are accompanied by a reporting pack for presentation to the Board as well as detailed divisional reports for the budget managers. The reporting pack contains cash flow forecasts for the upcoming quarter to ensure sufficient liquidity and to enable management to determine whether sufficient funds are in place for upcoming payments and capital expenditure as well as a full commentary which aids both an understanding of the numbers (for the non-finance staff) as well as an explanation as to all major variances.

The production of this pack involved collating data from, and speaking to, each subsidiary and presenting this in a readable and meaningful format as well as highlighting results of identified key performance indicators and key operational indicators within the reporting pack in order to help the Board make key decisions. One month I had discussed with the canning department why the unit cost of each can seemed to be higher than expected. I discovered that the canning machine which was some years old was breaking down on a regular basis, resulting in wasted materials. I was able to use this information to prepare a cost-benefit analysis to support my recommendation to the Board that the machinery be replaced.