



# AAT

## Drafting and Interpreting Financial Statements

### Pocket Notes

These Pocket Notes support study for the following AAT qualifications:

AAT Professional Diploma in Accounting – Level 4

AAT Diploma in Business Skills – Level 4

AAT Diploma in Professional Accounting at SCQF Level 8

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This document references IFRS® Standards and IAS® Standards, which are authored by the International Accounting Standards Board (the Board), and published in the 2020 blue book.

chapter

# 1

## The reporting frameworks and types of business organisation

- Overview.
- IFRS foundation.
- Legal framework.
- The framework.
- IAS 1 Presentation of Financial Statements.
- Different types of business organisation.
- Differences between preparing accounts for a sole trader and a limited company.
- Differences between a private and a public company.

## Overview

This chapter gives information on:

- the regulatory environment (company law and the IFRS Foundation)
- the conceptual framework (the Conceptual Framework for Financial Reporting).

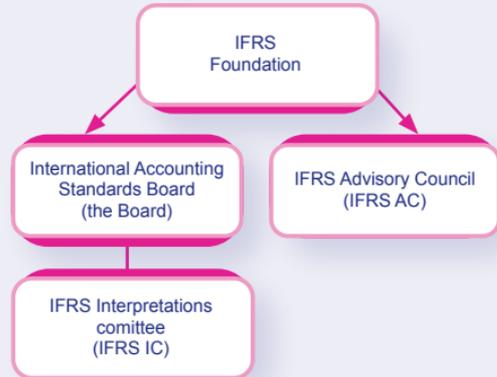


### CBA focus

You may be required to discuss or explain topics in this chapter as part of an examination task.

## IFRS foundation

The structure of the International Financial Reporting Standards Foundation (IFRS Foundation) and its subsidiary bodies is shown below:



### Key points:

- The shareholders can share in the profits of the company without having to work in the business on a day-to-day basis.
- It is easy for a company to borrow money, as they are able to as they are able to raise loan finance by the issue of a debenture.
- If the shareholders die the company will not cease trading which would be the case with a sole trader.
- Companies may have to be audited and have to prepare their financial statements according to prescribed formats.
- There is more administration to deal with in a company such as filing financial statements with the Registrar of Companies.
- Companies are regulated by the Companies Act 2006 and accounting standards issued by the IASB.

## Contents of company financial statements

A set of financial statements includes the following statements:

Statement of financial position

Statement of profit or loss

Statement of changes in equity

Statement of cash flows

The other parts of the financial statements are:

- **Accounting policy note** – to disclose the policies adopted by the company for items in the financial statements.
- **Notes to the financial statements** – to provide more detailed information about the figures included in the statement of financial position, statement of profit or loss and statement of cash flows.



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