



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).

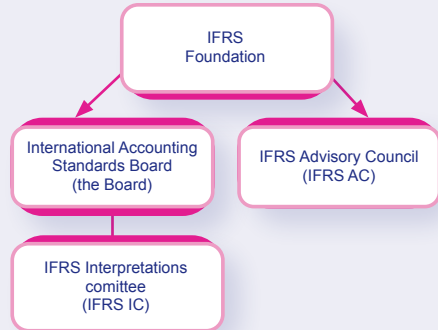


CBA focus

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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