

**ACCA**

**Applied Knowledge**

**ACCA Diploma in  
Accounting and Business  
(RQF Level 4)**

**Financial Accounting (FA/FFA)**

**Study Text**

## **Contents**

	<b>Page</b>
<b>Chapter 1</b> Introduction to financial reporting	1
<b>Chapter 2</b> The regulatory framework	25
<b>Chapter 3</b> Double-entry bookkeeping	39
<b>Chapter 4</b> Recording transactions and events	69
<b>Chapter 5</b> Inventory	97
<b>Chapter 6</b> Non-current assets: acquisition and depreciation	125
<b>Chapter 7</b> Non-current assets: disposal and revaluation	145
<b>Chapter 8</b> Intangible assets	163
<b>Chapter 9</b> Accruals and prepayments	175
<b>Chapter 10</b> Receivables	191
<b>Chapter 11</b> Payables, provisions and contingent liabilities	209
<b>Chapter 12</b> Capital structure and finance costs	223
<b>Chapter 13</b> Reconciliations	243
<b>Chapter 14</b> The trial balance, errors and suspense accounts	261
<b>Chapter 15</b> Preparing basic financial statements	281
<b>Chapter 16</b> Incomplete records	315
<b>Chapter 17</b> Statement of cash flows	335
<b>Chapter 18</b> Interpretation of financial statements	369
<b>Chapter 19</b> Consolidated statement of financial position	391
<b>Chapter 20</b> Consolidated statement of profit or loss and associates	435

# How to use the Materials

These Kaplan Publishing learning materials have been carefully designed to make your learning experience as easy as possible and to give you the best chances of success in your examinations.

The product range contains a number of features to help you in the study process. They include:

- (1) Detailed study guide and syllabus objectives
- (2) Description of the examination
- (3) Study skills and revision guidance
- (4) Study text
- (5) Question practice

The sections on the study guide, the syllabus objectives, the examination and study skills should all be read before you commence your studies. They are designed to familiarise you with the nature and content of the examination and give you tips on how to best approach your learning.

The **Study text** comprises the main learning materials and gives guidance as to the importance of topics and where other related resources can be found. Each chapter includes

- The **learning objectives** contained in each chapter, which have been carefully mapped to the examining body's own syllabus learning objectives or outcomes. You should use these to check you have a clear understanding of all the topics on which you might be assessed in the examination.
- The **chapter diagram** provides a visual reference for the content in the chapter, giving an overview of the topics and how they link together.
- The **content** for each topic area commences with a brief explanation or definition to put the topic into context before covering the topic in detail. You should follow your studying of the content with a review of the illustration/s. The illustrations are worked examples which will help you to understand better how to apply the content for the topic.
- **Test your understanding** sections provide an opportunity to assess your understanding of the key topics by applying what you have learned to short questions. Answers can be found at the back of each chapter.
- **Summary diagrams** complete each chapter to show the important links between topics and the overall content of the syllabus. These diagrams should be used to check that you have covered and understood the core topics before moving on.
- **Question practice** is provided at the back of each text.

Quality and accuracy are of the utmost importance to us so if you spot an error in any of our products, please send an email to [mykaplanreporting@kaplan.com](mailto:mykaplanreporting@kaplan.com) with full details, or follow the link to the feedback form in MyKaplan.

Our Quality Coordinator will work with our technical team to verify the error and take action to ensure it is corrected in future editions.

## Icon Explanations



**Definition** – Key definitions that you will need to learn from the core content.



**Key point** – Identifies topics that are key to success and are often examined.



**Test your understanding** – Exercises for you to complete to ensure that you have understood the topics just learned.



**Illustration** – Worked examples help you understand the core content better.



**Tricky topic** – When reviewing these areas care should be taken and all illustrations and Test your understanding exercises should be completed to ensure that the topic is understood.



**Supplementary reading** – These sections will help to provide a deeper understanding of core areas. The supplementary reading is **NOT** optional reading. It is vital to provide you with the breadth of knowledge you will need to address the wide range of topics within your syllabus that could feature in an exam question. **Reference to this text is vital when self-studying.**



**Links to other syllabus areas** – This symbol refers to areas of interaction with other parts of your syllabus, either in terms of other ACCA subjects that you have studied, or may go on to study, or even further professional qualifications that you may decide to pursue on completion of ACCA.

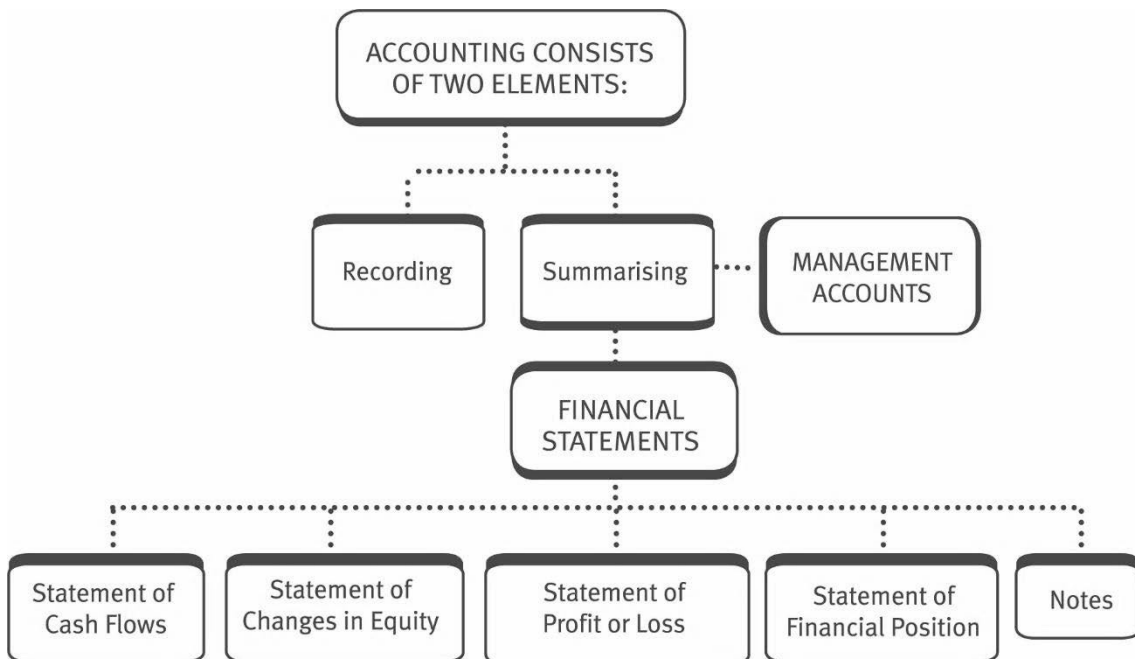
# Introduction to financial reporting

## **Chapter learning objectives**

Upon completion of this chapter you will be able to:

- define financial reporting
- identify and define types of business entity
- identify users of the financial statements and their information needs
- identify the purpose of the main financial statements
- define the elements of the financial statements
- define and explain accounting concepts and characteristics.

## 1 Overview of accounting



### Introduction



Much of the content of this chapter is likely to be new to you. However, it forms an important foundation for your current ACCA FA studies and other exams as you progress through the ACCA qualification, particularly Financial Reporting and Strategic Business Reporting.

The financial accounting and reporting system of an entity records and summarises the financial performance and position of a business. This information is crucial to the various stakeholders of an entity who will analyse that information to make significant economic decisions. It is of vital importance that these stakeholders have good quality information to be able to make informed decisions.

Although the focus of the ACCA Financial Accounting syllabus is directed towards commercial business entities, the syllabus content can be applied to non-commercial entities such as charities, along with public and governmental organisations.

This chapter explores the nature of business entities and their stakeholders and identifies what their primary information requirements are and how this fits into the process of financial reporting.



## Financial accounting and management accounting

### Financial accounting

Financial accounting is initially concerned with the recording, classification and summarisation of individual transactions. From this information, annual financial statements are produced for external stakeholders such as providers of finance and potential investors. These financial statements are a report on the directors' stewardship of the funds entrusted to them by the shareholders.

Investors need to be able to choose which companies to invest in and to evaluate their investments. In order to facilitate evaluation and comparison, financial accounts are prepared using accepted accounting conventions and standards. International Accounting Standards (IAS® Standards) and International Financial Reporting Standards (IFRS® Standards) help to reduce the differences in the way that companies draw up their financial statements in different countries.

The financial statements of limited companies are public documents, although they do not reveal details about, for example, the profitability of individual products or services sold by a company.

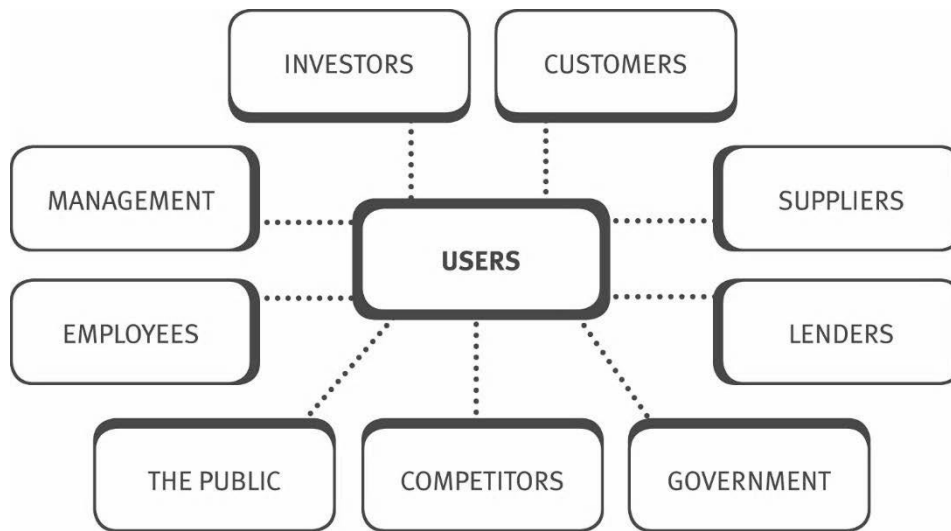
### Management accounting

Management require much more detailed and up-to-date information in order to control the entity and plan for the future. Management needs to be able to cost-out products and production methods, assess profitability and so on. In order to facilitate this, management accounts present information in any way that may be useful to management, for example by operating unit or product line.

Management accounting is an integral part of management activity concerned with identifying, presenting and interpreting information used for:

- formulating strategy
- planning and controlling activities
- decision making, and
- optimising the use of resources.

## 2 Users of financial statements



The main users (stakeholders) of financial statements are commonly grouped as follows:

- **Investors** and potential investors are interested in the profit and returns they may receive along with the security of their investment. Future profits may be estimated from the target entity's past performance as shown in the statement of profit or loss. The security of their investment will be indicated by the financial strength and solvency of the entity as shown in the statement of financial position. The largest and most sophisticated groups of investors are the institutional investors, such as pension funds and unit trusts.
- **Employees** and trade union representatives need to know if an employer can offer secure employment and possibly also pay rises. They will also have a keen interest in the salaries and benefits enjoyed by senior management. Information regarding divisional profitability will also be useful if a part of the entity is threatened with closure.
- **Lenders** need to know if they will be repaid. This will depend on the solvency of the entity, which should be revealed by the statement of financial position. Long-term loans may also be backed by 'security' given by the entity over specific assets. The value of these assets will be indicated in the statement of financial position.
- **Government** agencies need to know how the economy is performing in order to plan financial and industrial policies. The tax authorities also use financial statements as a basis for assessing the amount of tax payable by an entity.
- **Suppliers** need to know if they will be paid. New suppliers may also require reassurance about the financial health of an entity before agreeing to supply it with goods or services.





You are viewing a sample

**Interested in the full version?**