5. Detailed study guide

A The conceptual and regulatory framework for financial reporting

1. The need for a conceptual framework and the characteristics of useful information

a) Describe what is meant by a conceptual framework for financial reporting.[2]

b) Discuss whether a conceptual framework is necessary and what an alternative system might be.[2]

c) Discuss what is meant by relevance and faithful representation and describe the qualities that enhance these characteristics.[2]

d) Discuss whether faithful representation constitutes more than compliance with IFRS® Accounting Standards.[1]

e) Discuss what is meant by understandability and verifiability in relation to the provision of financial information.[2]

f) Discuss the importance of comparability and timeliness to users of financial statements.[2]

g) Discuss the principle of comparability in accounting for changes in accounting policies.[2]

2. Recognition and measurement

a) Define what is meant by 'recognition' in financial statements and discuss the recognition criteria.[2]

b) Apply the recognition criteria to: [2]
   i) assets and liabilities.
   ii) income and expenses.

c) Explain and compute amounts using the following measures: [2]
   i) historical cost
   ii) current cost
   iii) value in use/ fulfilment value
   iv) fair value

d) Discuss the advantages and disadvantages of historical cost accounting.[2]

e) Discuss whether the use of current value accounting fully addresses the issues related to historical cost accounting.[2]

3. Regulatory framework

a) Explain why a regulatory framework is needed, including the advantages and disadvantages of IFRS® Accounting Standards over a national regulatory framework.[2]

b) Explain why IFRS® Accounting Standards on their own are not a complete regulatory framework.[2]

c) Distinguish between a principles based and a rules-based framework and discuss whether they can be complementary.[1]

d) Describe the standard-setting process of the International Accounting Standards Board (IASB®), including revisions to and interpretations of IFRS® Accounting Standards.[2]

e) Explain the relationship of national standard setters to the IASB® in respect of the standard-setting process.[2]

f) Explain the purpose and role of the International Sustainability Standards Board (ISSB™).[2]

4. The concepts and principles of groups and consolidated financial statements

a) Describe the concept of a group as a single economic unit.[2]

b) Explain and apply the definition of a subsidiary within relevant IFRS® Accounting Standards.[2]

c) Using IFRS® Accounting Standards and other regulation, identify and outline the circumstances in which a group is required to prepare consolidated financial statements. [2]

d) Describe the circumstances when a group may claim exemption from the preparation of consolidated financial statements.[1]

e) Explain the need for using coterminous year ends and uniform accounting polices when preparing consolidated financial statements.[2]

f) Explain why it is necessary to eliminate intra-group transactions. [2]

g) Explain the objective of consolidated financial statements. [2]

h) Explain why it is necessary to use fair values for the consideration for an investment in a subsidiary together with the fair values of a subsidiary's identifiable assets and liabilities when preparing consolidated financial statements. [2]

i) Define an associate and explain the principles and reasoning for the use of the equity method of accounting.[2]

B Accounting for transactions in financial statements

1. Tangible non-current assets

a) Define and compute the initial measurement of a non-current asset, including borrowing costs and an asset that has been self-constructed.[2]

b) Identify subsequent expenditure that may be capitalised, distinguishing between asset and expense items.[2]

c) Discuss the requirements of relevant IFRS® Accounting Standards in relation to the revaluation of non-current assets.[2]

d) Account for revaluation and disposal gains and losses for non-current assets.[2]

e) Compute depreciation based on the cost and revaluation models and on assets that have two or more significant parts.[2]

f) Discuss why the treatment of investment properties should differ from other properties.[2]

g) Apply the requirements of relevant IFRS® Accounting Standards to an investment property.[2]

2. Intangible non-current assets

a) Discuss the nature and accounting treatment of internally generated and purchased intangible assets.[2]

b) Distinguish between goodwill and other intangible assets.[2]

c) Describe the criteria for the initial recognition and measurement of intangible assets.[2]

d) Describe the subsequent accounting treatment of intangible assets.[2]

e) Describe and apply the requirements of relevant IFRS® Accounting Standards to research and development.[2]

3. Impairment of assets

a) Define, calculate and account for an impairment loss, including the principle of impairment tests in relation to goodwill.[2]

b) Account for the reversal of an impairment loss on an individual asset.[2]

c) Identify the circumstances that may indicate impairments to assets.[2]

d) Describe what is meant by a cash-generating unit.[2]

e) State the basis on which impairment losses should be allocated and allocate an impairment loss to the assets of a cash-generating unit.[2]

4. Inventories and agriculture

a) Describe and apply the principles of inventories valuation.[2]

b) Apply the requirements of relevant IFRS® Accounting Standards for biological assets and agricultural produce.[2]

5 Financial instruments

a) Explain the need for an accounting standard on financial instruments.[1]

b) Define financial instruments in terms of financial assets and financial liabilities.[1]

c) Explain and account for the factoring of receivables.[2]

d) Indicate for the following categories of financial instruments how they should be measured and how any gains and losses from subsequent measurement should be treated in the financial statements: [2]
   i) amortised cost
   ii) fair value through other comprehensive income, including an irrevocable election for equity instruments that are not held for trading
   iii) fair value through profit or loss

e) Distinguish between debt and equity.[2]

f) Apply the requirements of relevant IFRS® Accounting Standards to the issue and finance costs of: [2]
   i) equity
   ii) redeemable preference shares and debt instruments with no conversion rights (principle of amortised cost)
   iii) convertible debt

6. Leasing

a) Account for right-of-use assets and lease liabilities in the records of the lessee.[2]

b) Explain the exemption from the recognition criteria for leases in the records of the lessee.[2]

c) Account for sale and leaseback transactions where sales proceeds are equal to fair value.[2]

7. Provisions and events after the reporting period

a) Explain why an accounting standard on provisions is necessary.[2]

b) Distinguish between legal and constructive obligations.[2]

c) State when provisions may and may not be made and demonstrate how they should be accounted for.[2]

d) Explain how provisions should be measured.[1]

e) Define contingent assets and liabilities and describe their accounting treatment and required disclosures.[2]

f) Identify and account for:[2]
   i) warranties/ guarantees
   ii) onerous contracts
   iii) environmental, decommissioning and similar provisions
   iv) restructuring

g) Events after the reporting period:[2]
   i) distinguish between and account for adjusting and non-adjusting events after the reporting period
   ii) identify items requiring separate disclosure, including their accounting treatment and required disclosures

8. Taxation

a) Account for current taxation in accordance with relevant IFRS® Accounting Standards.[2]

b) Explain the effect of taxable and deductible temporary differences on accounting and taxable profits.[2]

c) Compute and record deferred tax amounts in the financial statements.[2]

9. Reporting financial and non-financial performance

a) Discuss the importance of identifying and reporting the results of discontinued operations.[2]

b) Define and account for non-current assets held for sale and discontinued operations.[2]

c) Indicate the circumstances where separate disclosure of material items of income and expense is required.[2]

d) Account for changes in accounting estimates, changes in accounting policy and correction of prior period errors.[2]

e) Earnings per share (eps):[2]
i) calculate the eps in accordance with relevant IFRS® Accounting Standards (dealing with bonus issues, full market value issues and rights issues)
ii) explain the relevance of the diluted eps and calculate the diluted eps involving convertible debt and share options (warrants)

f) Describe the objective, scope and core content of IFRS® Sustainability Standard 1 *General Requirements for Disclosure of Sustainability-related Financial Information.* [1]

10. Revenue

a) Explain and apply the principles of recognition of revenue:[2]
(i) Identification of contracts
(ii) Identification of performance obligations
(iii) Determination of transaction price
(iv) Allocation of the price to performance obligations
(v) Recognition of revenue when/as performance obligations are satisfied.

b) Explain and apply the criteria for recognising revenue generated from contracts where performance obligations are satisfied over time or at a point in time.[2]

c) Describe the acceptable methods for measuring progress towards complete satisfaction of a performance obligation.[2]

d) Explain and apply the criteria for the recognition of contract costs.[2]

e) Apply the principles of recognition of revenue, and specifically account for the following types of transaction:[2]
i) principal versus agent
ii) repurchase agreements
iii) bill-and-hold arrangements
iv) consignment arrangements

f) Prepare financial statement extracts for contracts where performance obligations are satisfied over time or at a point in time.[2]

11. Government grants

a) Apply relevant IFRS® Accounting Standards in relation to accounting for government grants.[2]

12. Foreign currency transactions

a) Explain the difference between functional and presentation currency and explain why adjustments for foreign currency transactions are necessary.[2]

b) Account for the translation of foreign currency transactions and monetary/ non-monetary foreign currency items at the reporting date.[2]

C Analysing and interpreting the financial statements of single entities and groups

1. Limitations of financial statements

a) Indicate the problems of using historical information to predict future performance and trends.[2]

b) Discuss how financial statements may be manipulated to produce a desired effect.[2]

c) Explain why figures in a statement of financial position may not be representative of average values throughout the period for example, due to:[2]
   i) seasonal trading
   ii) major asset acquisitions near the end of the accounting period.

e) Explain how the use of consolidated financial statements might limit interpretation techniques.[2]

2 Calculation and interpretation of accounting ratios and trends to address users' and stakeholders' needs

a) Define and compute relevant financial ratios.[2]

b) Explain the aspects of performance that specific ratios are intended to assess.[2]

c) Analyse and interpret ratios to give an assessment of an entity's/ group's performance and financial position in comparison with: [2]
   i) prior period's financial statements
   ii) another similar entity/ group for the same reporting period
   iii) industry average ratios.

d) Interpret financial statements (including statements of cash flows) together with other financial and non-financial information to assess the performance and financial position of an entity and to give advice from the perspectives of different stakeholders.[2]

e) Discuss how the use of current values affects the interpretation of financial statements and how this would compare to using historical cost.[2]

f) Indicate other information, including non-financial information, which may be of relevance to the assessment of an entity's performance and financial position.[1]

3. Limitations of interpretation techniques

a) Discuss the limitations in the use of ratio analysis for assessing performance and financial position.[2]

b) Discuss the effect that changes in accounting policies or the use of different accounting polices between entities can have on the ability to interpret performance and financial position.[2]

c) Compare the usefulness of cash flow information with that of a statement of profit or loss or a statement of profit or loss and other comprehensive income.[2]

d) i) explain why the trend of eps may be a more accurate indicator of performance than a company's profit trend and the importance of eps as a stock market indicator[2]
   ii) discuss the limitations of using eps as a performance measure.[2]

4. Not-for-profit and public sector entities

a) Explain how the interpretation of the financial statement of a not-for-profit or public sector organisation might differ from that of a profit-oriented entity with reference to the different aims, objectives and reporting requirements.[1]

D Preparation of financial statements

1. Preparation of single entity financial statements

a) Prepare an entity's statement of financial position and statement of profit or loss and other comprehensive income in accordance with the structure and content prescribed within IFRS® Accounting Standards and with accounting treatments as identified within syllabus areas A, B and C.[2]

b) Prepare and explain the contents and purpose of the statement of changes in equity.[2]

c) Prepare extracts from a statement of cash flows for a single entity in accordance with relevant IFRS® Accounting Standards, using the indirect method only.[2]

2. Preparation of consolidated financial statements for a simple group

a) Prepare a consolidated statement of financial position for a simple group (parent and up to two subsidiaries controlled by the parent and one associate of the parent) dealing with pre- and post-acquisition profits, non-controlling interests (at fair value or as a proportion of net assets at the acquisition date) and goodwill.[2]

b) Prepare a consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income for a simple group with an acquisition or disposal in the period and non-controlling interests.[2]

c) Explain and account for other components of equity, for example, share premium and revaluation surplus.[2]

d) Account for the effects of intra-group transfer of assets and intra-group dividends.[2]

e) Account for the effects of fair value adjustments, including their effect on goodwill, to: [2]
i) depreciating and non- depreciating non-current assets
ii) inventories
iii) monetary liabilities
iv) assets and liabilities not included in the subsidiary's own statement of financial position, including contingent assets and contingent liabilities

f) Account for the impairment of goodwill.[2]

g) Describe and apply the required accounting treatment for goodwill.[2]

h) Indicate why the fair value of a consideration for an investment may be less than the fair value of the acquired identifiable net assets and how the difference (gain from a bargain purchase) should be accounted for.[2]

i) Explain and illustrate the effect of the disposal of a parent's investment in a subsidiary in the parent's individual financial statements and/ or those of the group, including as a discontinued operation (restricted to disposals of the parent's entire investment in the subsidiary).[2]

E Employability and technology skills

1. Use computer technology to efficiently access and manipulate relevant information.

2. Work on relevant response options, using available functions and technology as would be required in the workplace.

3. Navigate windows and computer screens to create and amend responses to exam requirements, using the appropriate tools.

4. Present data and information effectively, using the appropriate tools.