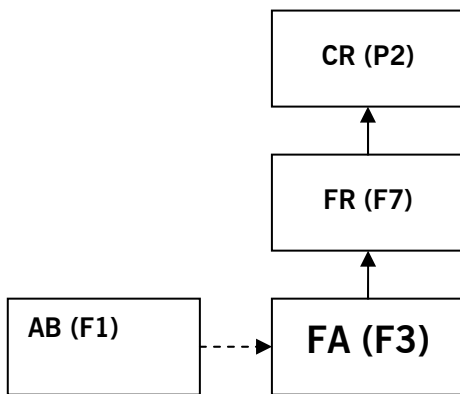


Syllabus



AIM

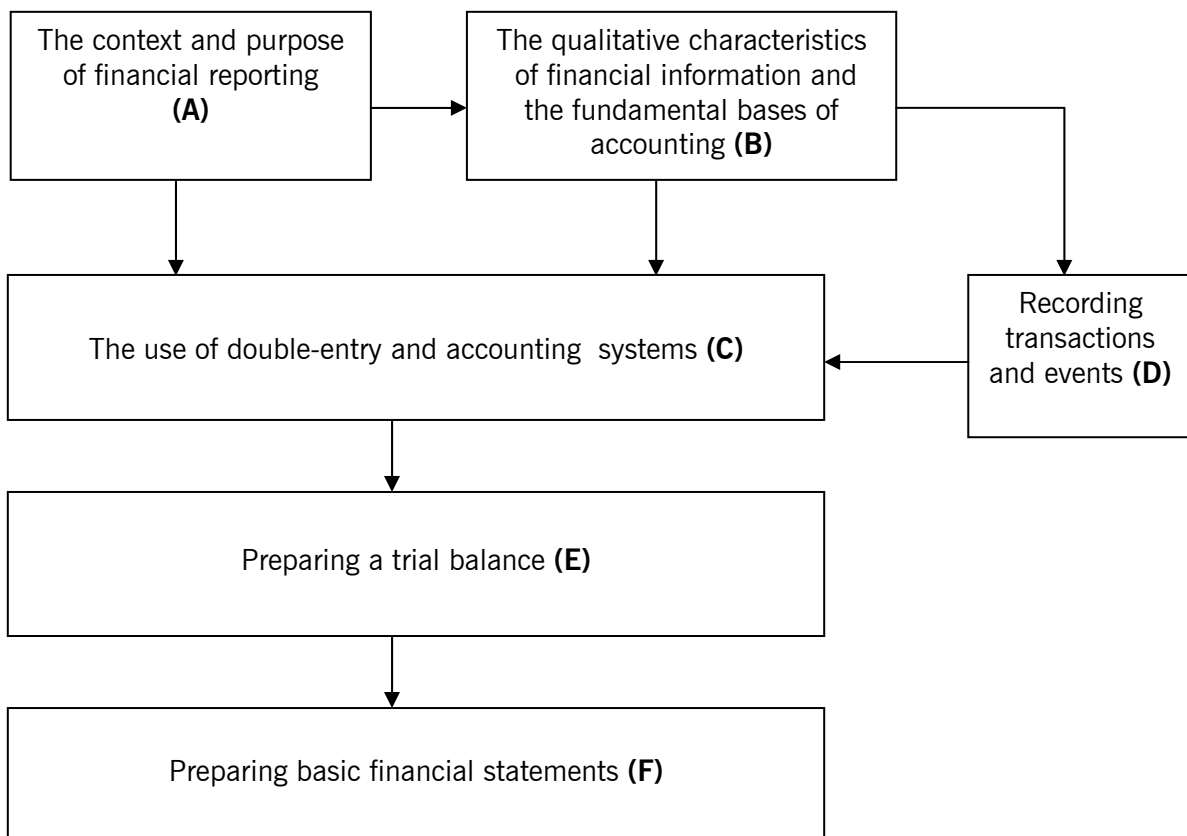
To develop knowledge and understanding of the underlying principles and concepts relating to financial accounting and technical proficiency in the use of double-entry accounting techniques including the preparation of basic financial statements

MAIN CAPABILITIES

On successful completion of this paper, candidates should be able to:

- A. Explain the context and purpose of financial reporting
- B. Define the qualitative characteristics of financial information and the fundamental bases of accounting
- C. Demonstrate the use of double-entry and accounting systems
- D. Record transactions and events
- E. Prepare a trial balance (including identifying and correcting errors)
- F. Prepare basic financial statements for incorporated and unincorporated entities.

RELATIONAL DIAGRAM OF MAIN CAPABILITIES



RATIONALE

The syllabus for Paper F3, *Financial Accounting*, introduces the candidate to the fundamentals of financial accounting, explaining its context and purpose with reference to qualitative characteristics of useful financial information and to the fundamental bases of accounting. The syllabus then concentrates in depth on the basics of the double-entry system and on recording, processing, and reporting business transactions and events. The syllabus then covers the use of the trial balance and how to identify and correct errors, and then the preparation of financial statements for incorporated and unincorporated entities.

DETAILED SYLLABUS

A The context and purpose of financial reporting

1. The reasons for, and objectives of, financial reporting
2. Users' and stakeholders' needs
3. The main elements of financial reports
4. The regulatory framework

B The qualitative characteristics of financial information and the fundamental bases of accounting

1. The qualitative characteristics of financial reporting
2. Alternative bases used in the preparation of financial information

C The use of double-entry and accounting systems

1. Double-entry book-keeping principles including the maintenance of accounting records and sources of information
2. Ledger accounts, books of prime entry, and journals
3. Accounting systems and the impact of information technology on financial reporting

D Recording transactions and events

1. Sales and purchases
2. Cash
3. Inventory
4. Tangible non-current assets
5. Depreciation
6. Intangible non-current assets and amortisation
7. Accruals and prepayments
8. Receivables and payables
9. Provisions and contingencies
10. Capital structure and finance costs

E Preparing a trial balance

1. Trial balance
2. Correction of errors
3. Control accounts and reconciliations
4. Bank reconciliations
5. Suspense accounts

F Preparing basic financial statements

1. Statements of financial position
2. Income statements and statements of comprehensive income
3. Events after the reporting period
4. Accounting for partnerships
5. Statements of cash flows (excluding partnerships)
6. Incomplete records

APPROACH TO EXAMINING THE SYLLABUS

The syllabus is assessed by a two hour paper-based or computer-based examination. Questions will assess all parts of the syllabus and will include both computational and non-computational elements.

The examination will consist of 40 two mark questions, and 10 one mark questions.

Study Guide

A THE CONTEXT AND PURPOSE OF FINANCIAL REPORTING

1. The reasons for and objectives of financial reporting

- a) Define financial reporting – recording, analysing and summarising financial data.^[1]
- b) Identify and define types of business entity – sole trader, partnership, limited liability company.^[1]
- c) Recognise the legal differences between a sole trader, partnership and a limited liability company.^[1]
- d) Identify the advantages and disadvantages of operating as a limited liability company, sole trader or partnership.^[1]
- e) Understand the nature, principles and scope of financial reporting.^[1]

2. Users' and stakeholders' needs

- a) Identify the users of financial statements and state and differentiate between their information needs.^[1]

3. The main elements of financial reports

- a) Understand and identify the purpose of each of the main financial statements.^[1]
- b) Define and identify assets, liabilities, equity, revenue and expenses.^[1]

4. The regulatory framework

- a) Understand the role of the regulatory system including the roles of the International Accounting Standards Committee Foundation (IASCF), the International Accounting Standards Board (IASB), the Standards Advisory Council (SAC) and the International Financial Reporting Interpretations Committee (IFRIC).^[1]
- b) Understand the role of International Financial Reporting Standards.^[1]

B THE QUALITATIVE CHARACTERISTICS OF FINANCIAL INFORMATION AND THE FUNDAMENTAL BASES OF ACCOUNTING

1. The qualitative characteristics of financial reporting

- a) Define, understand and apply accounting concepts and qualitative characteristics:^[1]
 - i) Fair presentation
 - ii) Going concern
 - iii) Accruals
 - iv) Consistency
 - v) Materiality
 - vi) Relevance
 - vii) Reliability
 - viii) Faithful representation
 - ix) Substance over form
 - x) Neutrality
 - xi) Prudence
 - xii) Completeness
 - xiii) Comparability
 - xiv) Understandability
 - xv) Business entity concept

- b) Understand the balance between qualitative characteristics.^[1]

2. Alternative bases used in the preparation of financial information

- a) Identify and explain the main characteristics of alternative valuation bases e.g. historical cost, replacement cost, net realisable value, economic value.^[1]
- b) Understand the advantages and disadvantages of historical cost accounting.^[1]
- c) Understand the provision of International Financial Reporting Standards governing financial statements regarding changes in accounting policies.^[1]
- d) Identify the appropriate accounting treatment if a company changes a material accounting policy.^[1]

C THE USE OF DOUBLE-ENTRY AND ACCOUNTING SYSTEMS

1. Double-entry book-keeping principles including the maintenance of accounting records and sources of information

- a) Identify and explain the function of the main data sources in an accounting system.^[1]
- b) Outline the contents and purpose of different types of business documentation, including: quotation, sales order, purchase order, goods received note, goods despatched note, invoice, statement, credit note, debit note, remittance advice, receipt.^[1]
- c) Understand and apply the concept of double-entry accounting and the duality concept.^[1]
- d) Understand and apply the accounting equation.^[1]
- e) Understand how the accounting system contributes to providing useful accounting information and complies with organisational policies and deadlines.^[1]
- f) Identify the main types of business transactions e.g. sales, purchases, payments, receipts.^[1]

2. Ledger accounts, books of prime entry and journals

- a) Identify the main types of ledger accounts and books of prime entry, and understand their nature and function.^[1]
- b) Understand and illustrate the uses of journals and the posting of journal entries into ledger accounts.^[1]
- c) Identify correct journals from given narrative.^[1]
- d) Illustrate how to balance and close a ledger account.^[1]

3. Accounting systems and the impact of information technology on financial reporting

- a) Understand the basic function and form of accounting records in a typical manual system.^[1]

- b) Understand the basic function and form of accounting records in a typical computerised system.^[1]
- c) Compare manual and computerised accounting systems.^[1]
- d) Identify advantages and disadvantages of computerised accounting systems.^[1]
- e) Understand the uses of integrated accounting software packages.^[1]

D RECORDING TRANSACTIONS AND EVENTS

1. Sales and purchases

- a) Record sale and purchase transactions in ledger accounts and in day books.^[1]
- b) Understand and record sales and purchase returns.^[1]
- c) Understand the general principles of the operation of a sales tax.^[1]
- d) Calculate sales tax on transactions and record the consequent accounting entries.^[1]
- e) Account for discounts allowed and discounts received.^[1]

2. Cash

- a) Record cash transactions in ledger accounts.^[1]
- b) Understand the need for a record of petty cash transactions.^[1]
- c) Describe the features and operation of a petty cash imprest system.^[1]
- d) Account for petty cash using imprest and non-imprest methods.^[1]
- e) Understand the importance of, and identify controls and security over the petty cash system.^[1]

3. Inventory

- a) Recognise the need for adjustments for inventory in preparing financial statements.^[1]

- b) Record opening and closing inventory.^[1]
- c) Identify the alternative methods of valuing inventory.^[1]
- d) Understand and apply the IASB requirements for valuing inventories.^[1]
- e) Recognise which costs should be included in valuing inventories.^[1]
- f) Understand the use of continuous and period end inventory records.^[1]
- g) Calculate the value of closing inventory using FIFO (first in, first out) and AVCO (average cost).^[1]
- h) Understand the impact of accounting concepts on the valuation of inventory.^[1]
- i) Identify the impact of inventory valuation methods on profit and on assets.^[1]

4. Tangible non-current assets

- a) Define non-current assets.^[1]
- b) Recognise the difference between current and non-current assets.^[1]
- c) Explain the difference between capital and revenue items.^[1]
- d) Classify expenditure as capital or revenue expenditure.^[1]
- e) Prepare ledger entries to record the acquisition and disposal of non-current assets.^[1]
- f) Calculate and record profits or losses on disposal of non-current assets in the income statement including part exchange transactions.^[1]
- g) Record the revaluation of a non-current asset in ledger accounts, the statement of comprehensive income and in the statement of financial position.^[1]
- h) Calculate the profit or loss on disposal of a revalued asset.^[1]

- i) Illustrate how non-current asset balances and movements are disclosed in financial statements.^[1]
- j) Explain the purpose and function of an asset register.^[1]

5. Depreciation

- a) Understand and explain the purpose of depreciation.^[1]
- b) Calculate the charge for depreciation using straight line and reducing balance methods.^[1]
- c) Identify the circumstances where different methods of depreciation would be appropriate.^[1]
- d) Illustrate how depreciation expense and accumulated depreciation are recorded in ledger accounts.^[1]
- e) Calculate depreciation on a revalued non-current asset including the transfer of excess depreciation between the revaluation reserve and retained earnings.^[1]
- f) Calculate the adjustments to depreciation necessary if changes are made in the estimated useful life and/or residual value of a non-current asset.^[2]
- g) Record depreciation in the income statement and statement of financial position.^[1]

6. Intangible non-current assets and amortisation

- a) Recognise the difference between tangible and intangible non-current assets.^[1]
- b) Identify types of intangible assets.^[1]
- c) Identify the definition and treatment of “research costs” and “development costs” in accordance with International Financial Reporting Standards.^[1]
- d) Calculate amounts to be capitalised as development expenditure or to be expensed from given information.^[1]
- e) Explain the purpose of amortisation.^[1]

- f) Calculate and account for the charge for amortisation.^[1]

7. Accruals and prepayments

- a) Understand how the matching concept applies to accruals and prepayments.^[1]
- b) Identify and calculate the adjustments needed for accruals and prepayments in preparing financial statements.^[1]
- c) Illustrate the process of adjusting for accruals and prepayments in preparing financial statements.^[1]
- d) Prepare the journal entries and ledger entries for the creation of an accrual or prepayment.^[1]
- e) Understand and identify the impact on profit and net assets of accruals and prepayments.^[1]

8. Receivables and payables

- a) Explain and identify examples of receivables and payables.^[1]
- b) Identify the benefits and costs of offering credit facilities to customers.^[1]
- c) Understand the purpose of an aged receivables analysis.^[1]
- d) Understand the purpose of credit limits.^[1]
- e) Prepare the bookkeeping entries to write off an irrecoverable debt.^[1]
- f) Record an irrecoverable debt recovered.^[1]
- g) Identify the impact of irrecoverable debts on the income statement and on the statement of financial position.^[1]
- h) Prepare the bookkeeping entries to create and adjust an allowance for receivables.^[1]
- i) Illustrate how to include movements in the allowance for receivables in the income statement and how the closing balance of the allowance should appear in the statement of financial position.^[1]

- j) Account for contras between trade receivables and payables.^[1]

- k) Prepare, reconcile and understand the purpose of supplier statements.^[1]

- l) Classify items as current or non-current liabilities in the statement of financial position.^[1]

9. Provisions and contingencies

- a) Understand the definition of “provision”, “contingent liability” and “contingent asset”.^[1]
- b) Distinguish between and classify items as provisions, contingent liabilities or contingent assets.^[1]
- c) Identify and illustrate the different methods of accounting for provisions, contingent liabilities and contingent assets.^[1]
- d) Calculate provisions and changes in provisions.^[1]
- e) Account for the movement in provisions.^[1]
- f) Report provisions in the final accounts.^[1]

10. Capital structure and finance costs

- a) Understand the capital structure of a limited liability company including:^[1]
 - i) Ordinary shares
 - ii) Preference shares (redeemable and irredeemable)
 - iii) Loan notes.
- b) Record movements in the share capital and share premium accounts.^[1]
- c) Identify and record the other reserves which may appear in the company statement of financial position.^[1]
- d) Define a bonus (capitalisation) issue and its advantages and disadvantages.^[1]
- e) Define a rights issue and its advantages and disadvantages.^[1]

- f) Record and show the effects of a bonus (capitalisation) issue in the statement of financial position.^[1]
 - g) Record and show the effects of a rights issue in the statement of financial position.^[1]
 - h) Record dividends in ledger accounts and the financial statements.^[1]
 - i) Calculate and record finance costs in ledger accounts and the financial statements.^[1]
 - j) Identify the components of the statement of changes in equity.^[1]
- b) Understand how control accounts relate to the double-entry system.^[1]
 - c) Prepare ledger control accounts from given information.^[1]
 - d) Perform control account reconciliations for accounts receivable and accounts payable.^[1]
 - e) Identify errors which would be highlighted by performing a control account reconciliation.^[1]
 - f) Identify and correct errors in control accounts and ledger accounts.^[1]

E PREPARING A TRIAL BALANCE

1. Trial balance

- a) Identify the purpose of a trial balance.^[1]
- b) Extract ledger balances into a trial balance.^[1]
- c) Prepare extracts of an opening trial balance.^[1]
- d) Identify and understand the limitations of a trial balance.^[1]

2. Correction of errors

- a) Identify the types of error which may occur in bookkeeping systems.^[1]
- b) Identify errors which would be highlighted by the extraction of a trial balance.^[1]
- c) Understand the provision of International Financial Reporting Standards governing financial statements regarding material errors which result in prior period adjustment.^[1]
- d) Prepare journal entries to correct errors.^[1]
- e) Calculate and understand the impact of errors on the income statement, statement of comprehensive income and statement of financial position.^[1]

3. Control accounts and reconciliations

- a) Understand the purpose of control accounts for accounts receivable and accounts payable.^[1]

4. Bank reconciliations

- a) Understand the purpose of bank reconciliations.^[1]
- b) Identify the main reasons for differences between the cash book and the bank statement.^[1]
- c) Correct cash book errors and/or omissions.^[1]
- d) Prepare bank reconciliation statements.^[1]
- e) Derive bank statement and cash book balances from given information.^[1]
- f) Identify the bank balance to be reported in the final accounts.^[1]

5. Suspense accounts

- a) Understand the purpose of a suspense account.^[1]
- b) Identify errors leading to the creation of a suspense account.^[1]
- c) Record entries in a suspense account.^[1]
- d) Make journal entries to clear a suspense account.^[1]

F PREPARING BASIC FINANCIAL STATEMENTS

1. Statements of financial position

- a) Recognise how the accounting equation and business entity convention underlie the statement of financial position.^[1]
- b) Understand the nature of reserves.^[1]
- c) Identify and report reserves in a company statement of financial position.^[1]
- d) Prepare extracts of a statement of financial position from given information.^[1]
- e) Understand why the heading retained earnings appears in a company statement of financial position.^[1]

2. Income statements and statements of comprehensive income

- a) Prepare extracts of an income statement and statement of comprehensive income from given information.^[1]
- b) Understand how accounting concepts apply to revenue and expenses.^[1]
- c) Calculate revenue, cost of sales, gross profit, profit for the year, and total comprehensive income from given information.^[1]
- d) Disclose items of income and expenditure in the income statement.^[1]
- e) Record income tax in the income statement of a company including the under and overprovision of tax in the prior year.^[1]
- f) Understand the interrelationship between the statement of financial position, income statement and statement of comprehensive income.^[1]
- g) Identify items requiring separate disclosure on the face of the income statement.^[1]

3. Events after the reporting period

- a) Define an event after the reporting period in accordance with International Financial Reporting Standards.^[1]
- b) Classify events as adjusting or non-adjusting.^[1]
- c) Distinguish between how adjusting and non-adjusting events are reported in the financial statements.^[1]

4. Accounting for partnerships

- a) Understand and identify the typical content of a partnership agreement, including profit-sharing terms.^[1]
- b) Understand the nature of:^[1]
 - i) Capital accounts
 - ii) Current accounts
 - iii) Division of profits
- c) Calculate and record the partners' shares of profit/losses.^[1]
- d) Account for guaranteed minimum profit shares.^[1]
- e) Calculate and record partners' drawings.^[1]
- f) Calculate and record interest on drawings.^[1]
- g) Calculate and record interest on capital.^[1]
- h) Calculate and record partner salaries.^[1]
- i) Prepare an extract of a current account.^[1]
- j) Prepare an extract of a capital account.^[1]
- k) Prepare extracts of the income statement, including division of profit, and statement of financial position of a partnership.^[1]
- l) Define goodwill, in relation to partnership accounts.^[1]
- m) Identify the factors leading to the creation of goodwill in relation to partnership accounts.^[1]
- n) Calculate the value of goodwill from given information.^[1]

Note: Questions on partnerships may include the effect of admission of new partners

5. Statements of cash flows (excluding partnerships)

- a) Differentiate between profit and cash flow.^[1]
- b) Understand the need for management to control cash flow.^[1]
- c) Recognise the benefits and drawbacks to users of the financial statements of a statement of cash flows.^[1]
- d) Classify the effect of transactions on cash flows.^[1]
- e) Calculate the figures needed for the statement of cash flows including:^[1]
 - i) Cash flows from operating activities
 - ii) Cash flows from investing activities
 - iii) Cash flows from financing activities
- f) Calculate the cash flow from operating activities using the indirect and direct method.^[1]
- g) Prepare extracts from statements of cash flows from given information.^[1]
- h) Identify the treatment of given transactions in a company's statement of cash flows.^[1]

6. Incomplete records

- a) Understand and apply techniques used in incomplete record situations:^[1]
 - i) Use of accounting equation
 - ii) Use of ledger accounts to calculate missing figures
 - iii) Use of cash and/or bank summaries
 - iv) Use of profit percentages to calculate missing figures.

READING LIST

December 2010

ACCA's official publishers:

BPP Learning Media

Contact number: +44(0)20 8740 2222

Website: www.bpp.com

Kaplan Publishing

Contact number: +44(0)118 989 0629

Website: www.kaplanpublishing.co.uk

Alternative reading:

Accountancy Tuition Centre (ATC) International

Contact: info@atc-global.com

Website: www.atc-global.com

Emile Woolf Publishing Limited

Contact number: +44 (0)1344 751674

Website: www.emilewoolfpublishing.com

Get Through Guides

Contact number: +44 (0)845 257 5729

Website: www.GetThroughGuides.com

June 2011

The reading list for June 2011 will be published in October 2010.