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FIA Passcards

FIA FFA / ACCA Paper F3
Financial Accounting

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Financial Accounting

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Welcome to BPP Learning Media's new **FIA FFA/ACCA F3 Passcards.**

- They **save you time**. Important topics are summarised for you.
- They incorporate **diagrams** to kick start your memory.
- They follow the overall **structure** of BPP Learning Media's Interactive Texts, but BPP Learning Media's new **Passcards** are not just a condensed book. Each card has been separately designed for clear presentation. Topics are self contained and can be grasped visually.
- **Passcards** are still **just the right size** for pockets, briefcases and bags.
- **Passcards focus on the exam** you will be facing.

Run through the complete set of **Passcards** as often as you can during your final revision period. The day before the exam, try to go through the **Passcards** again. You will then be well on your way to completing your exam successfully.

Good luck!

Notes

1: Introduction to accounting

Topic List

- The purpose of financial reporting
- Types of business entity
- Users
- Governance
- The main financial statements

This chapter looks at why financial statements are prepared, the different types of business entities and the users of financial statements.

We also look at the main financial statements: the statement of financial position and the statement of profit or loss.

The purpose of financial reporting

A business has a number of functions, the most prominent is to make a profit for the owners

↓

Profit is the excess of income over expenditure

Financial data → Books of prime entry → Ledger accounts → Trial balance → Financial statements

Types of business entity

Sole traders – Rrefers to ownership, sole traders can have employees

Partnerships – Two or more people working together to earn profits

Personally responsible for debts of business

Limited liability company – Owners have liability limited to the amount they pay for their shares

– A limited liability company has a separate legal identity from its owners

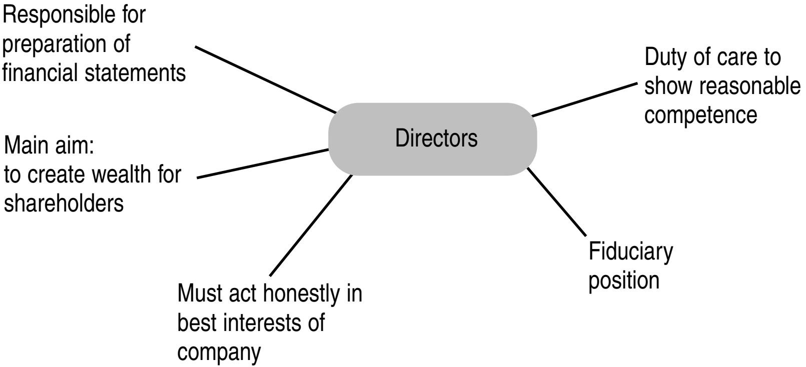
Users of accounts

- Managers of the company
- Shareholders of the company
- Trade contacts
- Providers of finance to the company
- Taxation authorities
- Employees of the company
- Financial analysts and advisors
- Government and their agencies
- The public

The larger the entity, the greater the interest from various groups of people

Different users have different needs

Governance


Directors
Responsible for preparation of financial statements
Main aim: to create wealth for shareholders
Must act honestly in best interests of company
Fiduciary position
Duty of care to show reasonable competence

Main financial statements

Statement of financial position

A list of assets owned by the entity and liabilities owed by the entity on a particular date

- Total assets = Total liabilities + capital
- Amount invested by owner is **capital**

Statement of profit or loss

A record of income generated and expenditure incurred over a given period

Asset

Something valuable which an entity owns or has use of

Liability

Something owed to somebody else

Revenue

Income generated by a business

Expenses

Costs of running a business

2: The regulatory framework

Topic List

This is a look at the regulatory system and the role played by the IASB.

Influences upon financial accounting

National law

Form and content of accounts may be regulated by national legislation. 'Fair presentation'.

Accounting standards

The IASB produces standards.

Other international issues

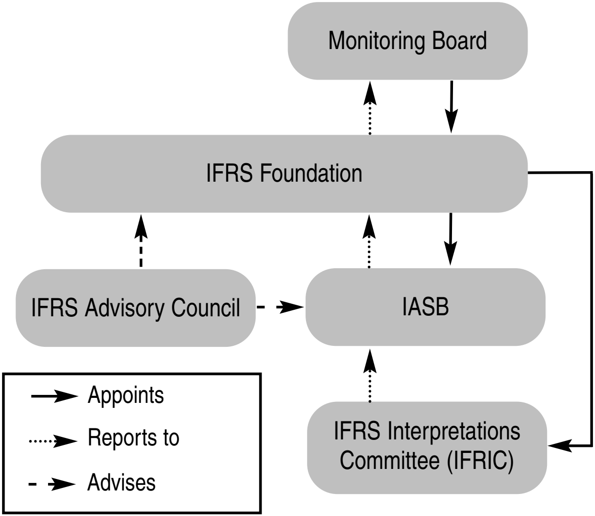
GAAP

Drawn from:

- Local company law
- Accounting standards
- Statutory requirement in other countries
- Stock exchanges

Accounting concepts and individual judgement

Can lead to subjectivity. Accounting standards developed to address subjectivity.


Monitoring Board
IFRS Foundation
IFRS Advisory Council
IASB
IFRS Interpretations Committee (IFRIC)
Appoints
Reports to
Advises

Objectives of IFRS Foundation are to:

1) Develop a single set of high quality, understandable, enforceable and globably accepted IFRSs through standard-setting body IASB
2) Promote use and rigorous application of these standards
3) Take account of the needs of emerging economies and SMEs
4) Bring about convergence of national accounting standards and IFRSs to high quality solutions

3: The qualitative characteristics of financial information

Topic List

The IASB's *Conceptual Framework*

Modern accounting is based on certain concepts and conventions.

Get to grips with these and you should be well equipped to discuss accounting standards and their strengths and weaknesses.

Underlying Assumption

Going concern

The entity will continue in operation for the foreseeable future. There is no intention to put the entity into liquidation

Accruals

Revenue and costs must be recognised as they are earned or incurred, not as money is received or paid

Not an underlying assumption but accounts should be prepared on an accruals or matching basis

Qualitative characteristics

Conceptual Framework → Qualitative characteristics make info in financial statements useful to users

Two fundamental characteristics

- Relevance
- Faithful representation

Relevance

– Info is relevant when it influences decisions of users, affected by nature and materiality

Materiality

Info is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements

Faithful representation

– Financial information must faithfully represent the underlying economic phenomena

– Complete, neutral, free from error

Enhancing characteristics: comparability; verifiability; timeliness; understandability

Comparability

- Users must be able to compare financial statements through time and with other entities
- Disclose accounting policies
- Disclose corresponding info for comparative periods

Verifiability

- Information that can be independently verified

Timeliness

- Information is available in time to be capable of influencing decisions

Understandability

– Users must be able to understand financial statements
– Users assumed to have some economic, business and accounting knowledge
– Complex matters should not be left out if relevant

Reliability

Info is reliable when it is free from material error and bias and can be depended upon to represent faithfully what it either purports to represent or could reasonably be expected to represent.

Other concepts

Business entity concept

- In accounting, the business is treated as separate to its owners.

  Not the same as limited liability!

Fair presentation

- Financial statements are required to present fairly in all material respects the financial results and position of the business.
- Compliance with IFRSs will achieve this.

Consistency

- Presentation and classification of items should remain consistent from one period to the next.

Notes

4: Sources, records and books of prime entry

Topic List

This chapter covers the main sources of data and the function each source or record has.

We will see how the documents are recorded in books of original entry to reflect business transactions.

Source documents

Business transactions are nearly always recorded on a document. These documents are the source of the information in the accounts. Such documents include the following:

- Quotation
- Sales order
- Purchase order
- Invoice
- Credit note
- Debit note
- Goods received note

Books of prime entry

The source documents are recorded in books of prime entry.

Journal

Journals are used to record source information that is not contained within the other books of prime entry. They record the following:

- Period end adjustments
- Correction of errors
- Large/unusual transactions

Sales day book

The sales day book is used to keep a list of all invoices sent out to credit customers each day. Here is an example.

SALES DAY BOOK

Date	*Invoice number*	*Customer*	*Rec'bles ledger ref.*	*Total invoiced*
				$
3.3.X9	207	ABC & Co	SL12	4,000
	208	XYZ Co	SL59	1,200
				5,200

Purchases day book

This is used to keep a record of invoices which a business receives for credit purchases. Here is an example.

PURCHASES DAY BOOK

Date	*Supplier*	*Payables ledger ref.*	*Total invoiced*
			$
3.4.X9	RST Co	PL31	215
10.4.X9	JMU Inc	PL19	1,804
15.4.X9	DDT & Co	PL24	758
			2,777

Cash book

Cash receipts and payments are recorded in the cash book.

Cash receipts are recorded as follows, with the total column analysed into its component parts.

CASH RECEIPTS

Date	*Narrative*	*Total*	*Discounts allowed*	*Rec'bles ledger*	*Cash sales*	*Sundry*
		$	$	$	$	$
3.3.X9	Cash sale	150			150	
	Receivable:					
	ABC & Co	1,000	50	1,000		
	(discount taken)					
		1,150	50	1,000	150	–

Cash payments are recorded in a similar way.

Petty cash book

Petty cash payments and receipts are recorded in a petty cash book.

Most businesses keep a small amount of cash on the premises for small payments, eg stamps, coffee.

PETTY CASH BOOK

RECEIPTS			PAYMENTS					
Date	*Narrative*	*Total*	*Date*	*Narrative*	*Total*	*Stationery*	*Coffee*	*etc*
		$			$	$	$	$
3.3.X9	Bank	50	3.3.X9	Paper	10	10		
				Coffee	5		5	
		50			15	10	5	