PAPER C02
Fundamentals of Financial Accounting

Acorn chapters

Syllabus overview

The main objective of this paper is the preparation of financial statements for single entities. These statements are constructed within a conceptual and regulatory framework requiring an understanding of the various valuation alternatives, the role of legislation and of accounting standards. Being able to apply accounting techniques and systems enables the preparation of accounts for different types of operations and for specific transactions. There is an introduction to measuring financial performance with the calculation of basic ratios. The need to understand and apply necessary controls for accounting systems, looking at internal control and the nature of errors and fraud, is also covered.

Note: students are required to be aware of the format and content of published accounts but are not required to prepare them. No knowledge of any specific accounting treatment contained in the International Financial Reporting Standards (IFRSs) ï including the International Accounting Standards (IASs), ï is necessary, except in terms of how they influence the presentation of financial statements. IAS 1 and IAS 7 formats will form the basis of those statements. The terminology used for all entities will be that seen in the International Financial Reporting Standards. This will enable students to use a consistent set of accounting terms throughout their studies.

Also note that IAS1 allows the presentation of income in the form of a single statement of comprehensive income or as two separate statements, an income statement and a statement of comprehensive income. Because of the nature of the material dealt with at this level, the majority of questions on this topic will ask for income statement format. However students must be aware of the layout of the single statement of comprehensive income and be able to use it if required.

The syllabus comprises:

A	**Conceptual and regulatory framework**	**20%**
B	**Accounting systems**	**20%**
C	**Preparation of accounts for single entities**	**45%**
D	**Control of accounting systems**	**15%**

A. Conceptual and regulatory framework (20%)

1. explain the concepts of financial accounting.

(a) explain the need for accounting records;
(b) identify user groups and the characteristics of financial statements;
(c) distinguish between financial and management accounts;
(d) identify the underlying assumptions, policies and changes in accounting estimates;
(e) explain capital and revenue, cash and profit, income and expenditure, assets and liabilities;
(f) distinguish between tangible and intangible assets;
(g) explain the historical cost convention;
(h) identify alternative methods of valuing assets, and their impact on profit measures and statement of financial position values.

- Accounting records.
- Users of accounts and the objectives and the qualitative characteristics of financial statements.
- Functions of financial and management accounts; purpose of accounting statements; stewardship; the accounting equation.
- Underlying assumptions, policies, changes in accounting estimates; capital and revenue; cash and profit; income, expenditure, assets and liabilities.
- Tangible and intangible assets.
- Historical cost convention.
- Asset valuation including current cost, fair value and value in use bases and their implications for profit measurement and the statement of financial position.

2. explain the regulatory and legal framework for financial accounting.

(a) explain the influence of legislation on published accounting information for organisations;
(b) explain the role of accounting standards in preparing financial statements;
(c) explain approaches to creating accounting standards.

- Regulatory influence of company law (e.g. Companies Acts, EC directives); items in formats for published accounts.
- Role of accounting standards in financial statements.
- Principles and rules based approaches to creating accounting standards.

B. Accounting systems (20%)

1. prepare ledger accounts and supporting documents.

(a) explain the principles of double-entry bookkeeping;
(b) prepare cash and bank accounts, and bank reconciliation statements;
(c) prepare petty cash statements under an imprest system;
(d) prepare accounts for sales and purchases, including personal accounts and control accounts;
(e) prepare nominal ledger accounts, journal entries and a trial balance;
(f) prepare accounts for indirect taxes;
(g) prepare accounts for payroll;
(h) prepare a non-current asset register.

- Ledger accounts; double-entry bookkeeping.
- Accounts for cash and bank, bank reconciliations, imprest system for petty cash.
- Accounts for sales and purchases, including personal accounts and control accounts.
- Nominal ledger accounts and journal entries.
- Trial balance.
- Accounts for indirect taxes e.g. value added tax, sales tax.
- Accounts for payroll.
- Non-current asset register.

2. explain the use of codes in accounting systems.

(a) explain the need for accounting codes;
(b) illustrate the use of simple coding systems.

- Accounting codes and their uses.

C. Preparation of accounts for single entities (45%)

1. prepare accounts for transactions.

(a) prepare accounts using accruals and prepayments;
(b) prepare accounts for bad debts and allowances for receivables;
(c) prepare accounts using different methods of calculating depreciation and for impairment values;
(d) prepare accounts for inventories;
(e) prepare manufacturing accounts;
(f) prepare income and expenditure accounts;
(g) prepare accounts from incomplete records;
(h) prepare accounts for the issue and redemption of shares and debentures.

- Adjustments to the trial balance, accruals and prepayments.

- Bad debts and allowances for receivables.
- Accounting treatment for depreciation (straight line, reducing balance and revaluation methods) and impairment.
- Accounts for inventories (excluding construction contracts); methods of inventory measurement (FIFO, LIFO and average cost).
- Manufacturing accounts.
- Income and expenditure accounts.
- Accounting statements from incomplete data.
- Accounts for the issue and redemption of shares and debentures.

2. prepare financial statements for a single entity.

(a) prepare financial statements from trial balance;
(b) prepare a statement of cash flows.

- Income statement, statement of comprehensive income and statement of financial position; statement of changes in equity.
- Statement of cash flows.

3. demonstrate the use of basic ratios in financial performance.

(a) calculate basic ratios.

- Ratios: return on capital employed; gross and net profit margins; asset turnover; trade receivables collection period and trade payables payment period; current and quick ratios; inventory turnover; gearing.

D. Control of accounting systems (15%)

1. explain the need for external controls on a business.

(a) identify the requirements for external audit and the basic processes undertaken;
(b) explain the meaning of fair presentation;
(c) distinguish between external and internal audit.

- External audit.
- Fair presentation.
- Distinction between external and internal audit.

2. explain internal control techniques.

(a) explain the purpose and basic procedures of internal audit;
(b) explain the need for financial controls;
(c) explain the purpose of audit checks and audit trails.

- Internal audit.
- Financial controls, audit checks and audit trails.

3. demonstrate how accounting errors are corrected.

(a) explain the nature of accounting errors;
(b) prepare accounting entries for the correction of errors.

- Errors including those of principle, omission, and commission.
- Journal entries and suspense accounts.

4. explain the nature of fraud.

(a) explain the nature of fraud;
(b) explain the basic methods of fraud prevention and detection.

- Types of fraud.
- Methods for prevention of fraud including levels of authorisation, documentation and staff organisation.
- Methods of detection of fraud including spot checks, comparison with external evidence, reconciliations and control accounts.