



## PAPER F1

### FINANCIAL OPERATIONS

#### Acorn Chapters

- 1 Regulatory framework
- 2 Format of financial statements
- 3 Preparing financial statements for single company
- 4 Cash flow statements for single company
- 5 Group accounts – what is a group?
- 6 Group accounts – consolidated statement of financial position
- 7 Group accounts – consolidated income statement
- 8 Associates
- 9 Reporting financial performance IAS 1, IAS 8, IFRS 5, IFRS 8 and IAS 18
- 10 Non current tangible assets
- 11 Non current intangible assets
- 12 Inventories and construction contracts
- 13 Leasing
- 14 Various standards: (IAS 10, 37 and 24)
- 15 Share capital transactions and financial instruments (IAS 32 & IAS 39)
- 16 External audits
- 17 Concepts, sources & systems in taxation
- 18 Tax depreciation, losses & groups
- 19 Other areas of tax & the power of tax authorities
- 20 International & deferred taxation

The syllabus comprises:

<b>A</b>	<b>Principles of Business Taxation</b>	<b>25%</b>
<b>B</b>	<b>Regulation and Ethics of Financial Reporting</b>	<b>15%</b>
<b>C</b>	<b>Financial Accounting and Reporting</b>	<b>60%</b>

#### Learning Aims

The core objectives of Paper F1 are the preparation of the full financial statements for a single company and the principal consolidated financial statements for a simple group. Coverage of a wide range of international standards is implicit in these objectives, as specified in the paper's content.

Similarly, understanding the regulatory and ethical context of financial reporting, covered in the paper, is vital to ensuring that financial statements meet users' needs. Principles of taxation are included, not only to support accounting for taxes in financial statements, but also as a basis for examining the role of tax in financial analysis and decision-making within subsequent papers (Paper F2 Financial Management and Paper F3 Financial Strategy).

#### Assessment Strategy

There will be a written examination paper of three hours, plus 20 minutes of pre-examination question paper reading time. The examination paper will have the following sections:

Section A	20 marks	A variety of compulsory objective test questions, each worth between two and four marks. Mini scenarios may be given, to which a group of questions relate.
Section B	30 marks	Six compulsory short answer questions, each worth 5 marks. A short scenario may be given, to which some or all questions relate.
Section C	50 marks	One or two compulsory questions. Short scenarios may be given, to which questions relate.

## Learning Outcomes and Syllabus Content

### F1 – A. PRINCIPLES OF BUSINESS TAXATION (25%)

#### Learning Outcomes

On completion of their studies students should be able to:

#### 1. Explain the types of tax that can apply to incorporated businesses, their principles and potential administrative requirements.

- (a) Identify the principal types of taxation likely to be of relevance to an incorporated business in a particular country;
  - (b) Describe the features of the principal types of taxation likely to be of relevance to an incorporated business in a particular country;
  - (c) Explain key administrative requirements and the possible enquiry and investigation powers of taxing authorities associated with the principal types of taxation likely to be of relevance to an incorporated business;
  - (d) Explain the difference in principle between tax avoidance and tax evasion;
  - (e) Illustrate numerically the principles of different types of tax based on provided information.
- Concepts of direct versus indirect taxes, taxable person and competent jurisdiction.
  - Types of taxation, including direct tax on the company's trading profits and capital gains, indirect taxes collected by the company, employee taxation and withholding taxes on international payments, and their features (e.g. in terms of who ultimately bears the tax cost, withholding responsibilities, principles of calculating the tax base).
  - Sources of tax rules (e.g. domestic primary legislation and court rulings, practice of the relevant taxing authority, supranational bodies, such as the EU in the case of value added/sales tax, and international tax treaties).
  - 
  - Indirect taxes collected by the company:
    - in the context of indirect taxes, the distinction between unit taxes (e.g. excise duties based on physical measures) and ad valorem taxes (e.g. sales tax based on value);
    - the mechanism of value added/sales taxes, in which businesses are liable for tax on their outputs less credits for tax paid on their inputs, including the concepts of exemption and variation in tax rates depending on the type of output and disallowance of input credits for exempt outputs.
  - Employee taxation:
    - the employee as a separate taxable person subject to a personal income tax regime;

- use of employer reporting and withholding to ensure compliance and assist tax collection.
- The need for record-keeping and record retention that may be additional to that required for financial accounting purposes.
- The need for deadlines for reporting (filing returns) and tax payments.
- Types of powers of tax authorities to ensure compliance with tax rules:
  - power to review and query filed returns;
  - power to request special reports or returns;
  - power to examine records (generally extending back some years);
  - powers of entry and search;
  - exchange of information with tax authorities in other jurisdictions.
- The distinction between tax avoidance and tax evasion, and how these vary among jurisdictions (including the difference between the use of statutory general anti-avoidance provisions and case law based regimes).

## 2. Explain fundamental concepts in international taxation of incorporated businesses.

- (a) identify situations in which foreign tax obligations (reporting and liability) could arise and methods for relieving foreign tax;
- (b) explain sources of tax rules and the importance of jurisdiction.
  - International taxation:
    - the concept of corporate residence and the variation in rules for its determination across jurisdictions (e.g. place of incorporation versus place of management);
    - types of payments on which withholding tax may be required (especially interest, dividends, royalties and capital gains accruing to non-residents);
    - means of establishing a taxable presence in another country (local company and branch);
    - the effect of double tax treaties (based on the OECD Model Convention) on the above (e.g. reduction of withholding tax rates, provisions for defining a permanent establishment).

## 3. Prepare corporate income tax calculations.

- (a) prepare corporate income tax calculations based on a given simple set of rules.
  - Direct taxes on company profits and gains:
    - the principle of non-deductibility of dividends and systems of taxation defined according to the treatment of dividends in the hands of the shareholder (e.g. classical, partial imputation and imputation);
    - the distinction between accounting and taxable profits in absolute terms (e.g. disallowable expenditure on revenue account, such as entertaining, and on capital account, such as formation and acquisition costs) and in terms of timing (e.g. deduction on a paid basis);
    - the concept of tax depreciation replacing book depreciation in the tax computation and its calculation based on the pooling of assets by their classes, including balancing adjustments on the disposal of assets;
    - the nature of rules recharacterising interest payments as dividends (e.g. where interest is based on profitability);
    - potential for variation in rules for calculating the tax base dependent on the nature or source of the income (scheduler systems);
    - the need for rules dealing with the relief of losses;
    - principles of relief for foreign taxes by exemption, deduction and credit.
    - the concept of tax consolidation (e.g. for relief of losses and deferral of capital gains on asset transfers within a group).



#### **4. Apply the accounting rules for current and deferred taxation.**

- (a) apply the accounting rules for current and deferred taxation, including calculation of deferred tax based on a given set of rules.
- Accounting treatment of taxation and disclosure requirements under IAS 12.

### **F1 – B. REGULATION AND ETHICS OF FINANCIAL REPORTING (15%)**

#### **1. Explain the need for and methods of regulating accounting and financial reporting.**

- (a) explain the need for regulation of published accounts and the concept that regulatory regimes vary from country to country;
- (b) explain potential elements that might be expected in a national regulatory framework for published accounts;
- (c) describe the role and structure of the International Accounting Standards Board (IASB) and the International Organisation of Securities Commissions (IOSCO);
- (d) explain the meaning of given features or parts of the IASB's Framework for the Presentation and Preparation of Financial Statements;
- (e) describe the process leading to the promulgation of an IFRS;
- (f) describe ways in which IFRSs can interact with local regulatory frameworks;
- (g) explain in general terms, the role of the external auditor, the elements of the audit report and types of qualification of that report
- The need for regulation of accounts.
  - Elements in a regulatory framework for published accounts (e.g. company law, local GAAP, review of accounts by public bodies).
  - GAAP based on prescriptive versus principles-based standards.
  - The role and structure of the IASB and IOSCO.
  - The IASB's Framework for the Presentation and Preparation of Financial Statements.
  - The process leading to the promulgation of a standard practice.
  - Ways in which IFRSs are used: adoption as local GAAP, model for local GAAP, persuasive influence in formulating local GAAP.
  - The powers and duties of the external auditors, the audit report and its qualification for accounting statements not in accordance with best practice.

#### **2. Apply the provisions of the CIMA Code of Ethics for Professional Accountants.**

- (a) explain the importance of the exercise of ethical principles in reporting and assessing information;
- (b) describe the sources of ethical codes for those involved in the reporting or taxation affairs of an organisation, including the external auditors;
- (c) apply the provisions of the CIMA Code of Ethics for Professional Accountants of particular relevance to the information reporting, assurance and tax-related activities of the accountant.
- Ethical requirements of the professional accountant in reporting and assessing information (the fundamental principles).
  - Sources of ethical codes (IFAC, professional bodies, employing organisations, social/religious/personal sources).
  - Provisions of the CIMA Code of Ethics for Professional Accountants of particular relevance to information reporting, assurance and tax-related activities (especially section 220 and Part C).

### **F1 – C. FINANCIAL ACCOUNTING AND REPORTING (60%)**

**1. Prepare the full financial statements of a single company and the consolidated statements of financial position and comprehensive income for a group (in relatively straightforward circumstances).**

- (a) prepare a complete set of financial statements, in a form suitable for publication for a single company;
- (b) apply the conditions required for an undertaking to be a subsidiary or an associate of another company;
- (c) prepare the consolidated statement of financial position (balance sheet) and statement of comprehensive income for a group of companies in a form suitable for publication for a group of companies comprising directly held interests in one or more fully-controlled subsidiaries and associates (such interests having been acquired at the beginning of an accounting period);
- (d) apply the concepts of fair value at the point of acquisition, identifiability of assets and liabilities, and recognition of goodwill.
  - Preparation of the financial statements of a single company, as specified in IAS 1 (revised), including the statement of changes in equity.
  - Preparation of the statement of cash flows (IAS 7).
  - Preparation of the consolidated statement of financial position (balance sheet) and statement of comprehensive income where: interests are directly held by the acquirer (parent) company; any subsidiary is fully controlled; and all interests were acquired at the beginning of an accounting period. (IFRS 3 and IAS 27, to the extent that their provisions are relevant to the specified learning outcomes).

**2. Apply international standards dealing with a range of matters and items.**

- (a) apply the accounting rules contained in IFRSs and IASs dealing with reporting performance, non-current assets, including their impairment, inventories, disclosure of related parties to a business, construction contracts (and related financing costs), post-balance sheet events, provisions, contingencies, and leases (lessee only);
- (b) explain the accounting rules contained in IFRSs and IASs governing share capital transactions.
  - Reporting performance: recognition of revenue, measurement of profit or loss, prior period items, discontinuing operations and segment reporting (IAS 1 (revised), 8 and 18, IFRS 5 and 8).
  - Property, Plant and Equipment (IAS 16): the calculation of depreciation and the effect of revaluations, changes to economic useful life, repairs, improvements and disposals.
  - Research and development costs (IAS 38): criteria for capitalisation.
  - Intangible Assets (IAS 38) and goodwill: recognition, valuation, amortisation.
  - Impairment of Assets (IAS 36) and Non-Current Assets Held for Sale (IFRS 5) and their effects on the above.
  - Inventories (IAS 2).
  - The disclosure of related parties to a business (IAS 24).
  - Construction contracts and related financing costs (IAS 11 and 23): determination of cost, net realisable value, the inclusion of overheads and the measurement of profit on uncompleted contracts.
  - Post-balance sheet events (IAS 10).
  - Provisions and contingencies (IAS 37).
  - Leases (IAS 17) – distinguishing operating from finance leases and the concept of substance over form (from the Framework); accounting for leases in the books of the lessee.
  - Issue and redemption of shares, including treatment of share issue and redemption costs (IAS 32 and 39), the share premium account, the accounting for maintenance of capital arising from the purchase by a company of its own shares.