



JUNE AND DECEMBER 2009 – STUDY GUIDE
CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ACCA

Paper 6 (INT)
Drafting Financial
Statements

Introduction

This booklet contains the Study Guide for Paper 6 (INT): Drafting Financial Statements.

The Study Guide is designed to help you plan your studies and to provide more detailed interpretation of the syllabus for ACCA's Certified Accounting Technician examinations. It contains both the Syllabus and the Study Sessions for the paper, which you can follow when preparing for the examination.

The Syllabus outlines the content of the paper and how that content is examined. The Study Sessions take the syllabus and expand it into teaching or study sessions of similar length. These sessions indicate what the examiner expects of candidates for each part of the syllabus, and therefore gives you guidance in the skills you are expected to demonstrate in the examinations. The time to complete each session will vary according to your individual capabilities and the time you have available to study. Tuition providers offering face-to-face tuition are recommended to design courses with a minimum of two hours tuition per study session. However, repeated coverage of the material is vital to ensure your understanding and recall of the subject. Be sure to practice past examination questions to consolidate your knowledge and read your *student accountant* magazine regularly.

If you have any queries concerning the study guide, please direct them to:

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www.accaglobal.com

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ABOUT ACCA

ACCA is the largest and fastest-growing international accountancy body with 296,000 students and 115,000 members in 170 countries. We aim to offer first choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management. ACCA works to achieve and promote the highest professional, ethical and governance standards and advance the public interest.

Drafting Financial Statements (INT)

AIMS

To understand and apply the techniques used to prepare year-end financial statements of partnerships and companies which comply with International Accounting Standards, and to interpret financial statements and the relationships between their elements using ratio analysis.

OBJECTIVES

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

- draft partnership and company financial statements to comply with International Financial Reporting Standards / International Accounting Standards
- correctly identify and implement adjustments, referring any issues and unresolved discrepancies to an appropriate person
- understand the importance of an organisation's procedures and policies, including confidentiality procedures
- prepare and interpret a company statement of cash flows
- identify the general purpose of company financial statements
- identify the elements of company financial statements and the relationship between them
- interpret the relationship between the elements of financial statements using ratio analysis drawing valid conclusions and presenting interpretations and conclusions to the appropriate people.

POSITION OF THE PAPER IN THE OVERALL SYLLABUS

A thorough knowledge of Paper 1, *Recording Financial Transactions* and Paper 3, *Maintaining Financial Records*, is required for Paper 6.

SYLLABUS CONTENT

1 General framework

- (a) General purpose of financial statements, users and their needs
- (b) Financial statements
 - (i) income statement
 - (ii) statement of comprehensive income
 - (iii) statement of financial position
 - (iv) statement of changes of equity
 - (v) interaction of the statement of financial position

- and statement of comprehensive income
- (c) Elements of financial statements and their interaction
 - (i) assets
 - (ii) liabilities
 - (iii) equity, contributions from owners and distributions to owners
 - (iv) income
 - (v) expenses
- (d) Conceptual framework
 - (i) framework for the preparation and presentation of financial statements
 - (ii) accounting concepts, principles and policies
- (e) Regulatory framework
 - (i) standard-setting process
 - (ii) relevant International Financial Reporting Standards / International Accounting Standards
 - (iii) format of accounts and disclosure requirements
- (f) Notes to the financial statements.
Only the following notes to the financial statements will be examinable:
 - non current assets
 - events after the reporting period
 - contingent liabilities and contingent assets
 - statement of changes in equity
 - research and development expenditure
- (g) Business organisation
 - (i) structure
 - (ii) procedures and policies

2 Preparing financial statements

- (a) Preparation of partnership and company financial statements from a trial balance, including adjustments where appropriate for:
 - (i) accruals and prepayments
 - (ii) income tax
 - (iii) dividends
 - (iv) depreciation
 - (v) irrecoverable debts and allowances for receivables
 - (vi) closing inventory
 - (vii) issue of share capital
 - (viii) revaluation of assets

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- (ix) provisions
- (x) admission and retirement of partners
- (xi) dissolution of a partnership
- (b) Taxation
 - (i) presentation of income tax
- (c) Non current assets
 - (i) distinction between capital and revenue expenditure
 - (ii) accounting for the acquisition and disposal of assets
 - (iii) depreciation – definition, reasons for and methods, including straight line, reducing balance and sum of digits
 - (iv) research and development
 - (v) elementary treatment of goodwill
- (d) Current assets
 - (i) inventory
 - (ii) receivables, including accounting for irrecoverable debts and allowances for receivables
 - (iii) cash
- (e) Current liabilities and accruals
- (f) Shareholders' equity
- (g) Events after the reporting period
- (h) Contingencies
- (i) Presentation of financial statements

3 Statements of cash flows

- (a) Preparation of a single company statement of cash flows
- (b) Notes to the statement of cash flows
- (c) Interpretation of a statement of cash flows

4 Interpretation of financial statements

- (a) Ratio analysis
 - (i) profitability ratios
 - (ii) liquidity ratios
 - (iii) working capital efficiency ratios
 - (iv) investor performance ratios
 - (v) financial risk ratios
- (b) Identification of unusual issues or trends
- (c) Presentation of reports targeted at the user and drawing

appropriate conclusions

5 Consolidated accounts

- (a) Groups of companies – preparation of basic consolidated financial statements for a simple group
 - (i) consolidated statement of financial position
 - (ii) consolidated statement of comprehensive income and income statement
- (b) Overview of distinction between a subsidiary and an associate

EXCLUDED TOPICS

The following topics are specifically excluded from Paper 6:

- detailed or computational questions on deferred tax or discounting of provisions
- group statements of cash flows
- joint ventures
- long-term contracts
- foreign currency, segmental reporting, impairment of assets, retirement benefits, derivatives and capital instruments.

KEY AREAS OF THE SYLLABUS

The two main skills required for Paper 6, *Drafting Financial Statements* are:

- the ability to prepare basic financial statements and the underlying accounting records on which they are based
- an understanding of the principles on which accounting is based.

The key topic areas are as follows:

- preparation of financial statements for partnerships and companies
- basic group accounts – consolidated statement of financial position and comprehensive income statement for a simple group
- elements of financial statements and the interaction between the elements
- accounting conventions and concepts
- interpretation of financial statements
- statement of cash flows.

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APPROACH TO EXAMINING THE SYLLABUS

The examination is a three hour written paper. The exam consists of two compulsory sections structured as follows:

	Marks
Section A	
10 multiple choice questions of two marks each	20
Section B	
Question 1	30 to 40
Question 2	20 to 25
Question 3	<u>20 to 25</u>
Total	100

ADDITIONAL INFORMATION

Accounting standards will not be examined until six months after they have been published. The cut off date for the June examination is 30 November preceding the June examination. The cut off date for the December examination is 31 May preceding the December examination.

RELEVANT TEXTS

There are a number of sources from which you can obtain a series of materials written for ACCA CAT examinations.

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

Candidates may also find the following texts useful, although they should be aware that these are based on UK accounting standards:

Wood, Frank and Sangster, Alan. *Business Accounting 2* (10th edition, FT Pitman Publishing, ISBN: 0-273-693107) (This covers more than is required for this syllabus, but has a useful approach to consolidation.)

Wider reading is also desirable, especially regular study of relevant articles in ACCA's *student accountant* magazine.

STUDY SESSIONS

1 Framework of financial reporting

- Explain the need for, and objectives of, financial statements
- Identify the users of financial statements and their particular interests in the statements
- Discuss how the accounting systems of an organisation are affected by its organisational structure, its administrative systems and procedures and the nature of its business transactions
- Describe and explain the following elements of the financial statements and their interaction:
 - assets
 - liabilities
 - equity
 - income
 - expenses
 - contributions from owners
 - distributions to owners
- Recognition of elements for inclusion in financial statements

2 Conceptual framework

- Discuss the nature and purpose of a conceptual framework
- Explain the potential benefits and drawbacks of an agreed conceptual framework

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- (c) Explain the role and general issues covered by the Framework for the Preparation and Presentation of Financial Statements
- (d) Identify and explain the qualitative characteristics of financial information
- (e) Define, discuss and apply accounting concepts, principles and policies
- (f) Discuss the shortcomings of historical cost accounting and how they might be overcome

3 The regulatory framework

- (a) Understand the structure and role of the:
 - (i) International Accounting Standards Committee Foundation (Trustees)
 - (ii) International Accounting Standards Boards (IASB)
 - (iii) Standards Advisory Council (SAC)
 - (iv) International Financial Reporting Interpretations Committee (IFRIC)
- (b) Explain the standard setting process
- (c) Explain the advantages and disadvantages of accounting standards

4 & 5 Non-current assets

- (a) Distinguish between capital and revenue expenditure
- (b) Explain, calculate and demonstrate the inclusion of the profit or loss on disposal of non-current assets in the income statement
- (c) Account for the revaluation of non-current assets
- (d) Account for gains and losses on the disposal of revalued assets
- (e) Account for depreciation – definition, reasons and methods, including straight line, reducing balance and sum of digits
- (f) Account for changes in the useful economic life or residual value of assets
- (g) Explain and demonstrate how non-current asset balances and movements are disclosed in the financial statements

6, 7 & 8 Partnership accounts

- (a) Identify the key features of a partnership
- (b) Outline the advantages and disadvantages of operating

as a partnership, compared with operating as a sole trader or company. Explain the accounting differences between partnerships and sole traders:

- (i) capital accounts
 - (ii) current accounts
 - (iii) division of profits
- (c) Outline the conventional methods of dividing profit and maintaining equity between partners
 - (d) Draft an appropriation account for a partnership
 - (e) Distinguish between partners' capital and current accounts
 - (f) Record the partners' share of profits and losses and their drawings in the ledger accounts
 - (g) Record introductions and withdrawals of capital in the ledger accounts
 - (h) Draft the income statement, appropriation account and the balance sheet for a partnership incorporating period end adjustments including:
 - (i) accruals and prepayments
 - (ii) depreciation
 - (iii) irrecoverable debts and allowances for receivables
 - (iv) closing inventory
 - (i) Explain why a revaluation is required after an admission, a change in the profit sharing ratio or a retirement
 - (j) Revalue a partnership and calculate goodwill
 - (k) Make appropriate entries in the ledger accounts
 - (l) Draft the partnership financial statements after a change in the partnership
 - (m) Draft the partnership financial statements after a uniting of two sole traders
 - (n) Account for the dissolution of a partnership
 - (o) Prepare final accounts from incomplete records

9,10 & 11 Company financial statements

- (a) Prepare the financial statements for a company, including adjustments for items including:
 - (i) income tax
 - (ii) dividends
 - (iii) depreciation
 - (iv) irrecoverable debts and allowances for receivables
 - (v) closing inventory

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- (vi) share capital
- (vii) accruals and prepayments
- (viii) revaluation of assets
- (ix) provisions
- (b) Prepare a statement of changes in equity
- (c) Prepare the following notes to the financial statements:
 - (i) non-current assets
 - (ii) events after the reporting period
 - (iii) contingent liabilities and contingent assets
 - (iv) research and development expenditure
- (d) Derive missing figures from incomplete records

12 Accounts and disclosure requirements

- (a) Prepare the financial statements of companies in accordance with prescribed formats and relevant accounting standards
- (b) Discuss relevant accounting standards and be able to apply them

13 Taxation

- (a) Define current tax
- (b) Account for current tax on the profits of companies (a detailed knowledge of deferred tax is not required)
- (c) Present current tax in the published statements.

14 Goodwill and intangible assets

- (a) Define and calculate goodwill
- (b) Distinguish between purchased and internally generated goodwill
- (c) Explain and apply the accounting treatment for both types of goodwill
- (d) Explain and apply the requirements of International Accounting Standards for intangible assets

15 & 16 Share and loan notes

- (a) Distinguish between issued and authorised share capital and between called in and paid in share capital
- (b) Distinguish between ordinary and preference shares
- (c) Account for a share issue
- (d) Explain the share premium account

- (e) Define and account for a bonus issue
- (f) Define and account for a rights issue
- (g) Outline the advantages and disadvantages of a rights issue and a bonus issue
- (h) Distinguish between the market value and nominal value of a share
- (i) Explain why companies will be concerned with the value of their shares
- (j) Define and account for loan notes
- (k) Explain the advantages and disadvantages of raising finance by issuing loan notes rather than issuing shares

17 & 18 Events after the reporting period, contingent liabilities and contingent assets

- (a) Define an event after the reporting period
- (b) Distinguish between adjusting and non-adjusting events
- (c) Account for each category of event in the financial statements
- (d) Define a provision, contingent liability and contingent asset
- (e) Understand and apply the general recognition principle
- (f) Account for provisions, contingent liabilities and contingent assets

19, 20 & 21 Statement of cash flows

- (a) Explain the need for a statement of cash flows
- (b) Prepare a statement of cash flows including relevant notes for a single company in accordance with accounting standards
- (c) Appraise the usefulness of, and interpret the information in a statement of cash flows

22, 23, 24 & 25 Consolidated accounts

- (a) Describe and be able to identify the general characteristics of a parent company, investment, subsidiary and associated undertaking
- (b) Describe the concept of a group and the objective of consolidated financial statements
- (c) Describe the circumstances and reasoning for subsidiaries to be excluded from consolidated financial statements

- (d) Prepare consolidated income statements, statements of comprehensive income, and statements of financial position for a simple group including adjustments for pre and post acquisition profits, minority interests and consolidated goodwill
- (e) Explain why intra-group transactions should be eliminated on consolidation
- (f) Account for the effects (in the income statement and statement of financial position) of intra-group trading and other transactions including:
 - (i) Unrealised profits in inventory and non-current assets
 - (ii) Intra-group loans and interest and other intra-group charges

26, 27, 28, 29 Interpretation of financial statements

- (a) Calculate the main ratios used to appraise and interpret financial statements:
 - (i) profitability ratios
 - (ii) liquidity ratios
 - (iii) working capital efficiency ratios
 - (iv) investor performance ratios
 - (v) financial risk ratios
- (b) Analyse the interpret the ratios to give an assessment of a company's performance in comparison with:
 - (i) a company's previous period's financial statements
 - (ii) another similar company for the same period
 - (iii) industry average ratios
- (c) Identify and discuss the limitations of ratio analysis
- (d) Prepare a financial analysis report of a company in a suitable format

30, 31 & 32 Revision