Financial Accounting (INT) (F3)

This syllabus and study guide is designed to help with planning study and to provide detailed information on what could be assessed in any examination session.

THE STRUCTURE OF THE SYLLABUS AND STUDY GUIDE

Relational diagram of paper with other papers

This diagram shows direct and indirect links between this paper and other papers preceding or following it. Some papers are directly underpinned by other papers such as Advanced Performance Management by Performance Management. These links are shown as solid line arrows. Other papers only have indirect relationships with each other such as links existing between the accounting and auditing papers. The links between these are shown as dotted line arrows. This diagram indicates where you are expected to have underpinning knowledge and where it would be useful to review previous learning before undertaking study.

Overall aim of the syllabus

This explains briefly the overall objective of the paper and indicates in the broadest sense the capabilities to be developed within the paper.

Main capabilities

This paper's aim is broken down into several main capabilities which divide the syllabus and study guide into discrete sections.

Relational diagram of the main capabilities

This diagram illustrates the flows and links between the main capabilities (sections) of the syllabus and should be used as an aid to planning teaching and learning in a structured way.

Syllabus rationale

This is a narrative explaining how the syllabus is structured and how the main capabilities are linked. The rationale also explains in further detail what the examination intends to assess and why.

Detailed syllabus

This shows the breakdown of the main capabilities (sections) of the syllabus into subject areas. This is the blueprint for the detailed study guide.

Approach to examining the syllabus

This section briefly explains the structure of the examination and how it is assessed.

Study Guide

This is the main document that students, tuition providers and publishers should use as the basis of their studies, instruction and materials.
Examinations will be based on the detail of the study guide which comprehensively identifies what could be assessed in any examination session.
The study guide is a precise reflection and breakdown of the syllabus. It is divided into sections based on the main capabilities identified in the syllabus. These sections are divided into subject areas which relate to the sub-capabilities included in the detailed syllabus. Subject areas are broken down into sub-headings which describe the detailed outcomes that could be assessed in examinations. These outcomes are described using verbs indicating what exams may require students to demonstrate, and the broad intellectual level at which these may need to be demonstrated (*see intellectual levels below).

Reading lists

ACCA has two approved publishers: BPP Professional Education and Kaplan Publishing Foulks Lynch. Both these publishers base their study texts on the detailed contents of the study guides as published by ACCA. ACCA takes no editorial responsibility for the detailed content of these study texts although ACCA examiners will annually review their content for general appropriateness and relevance in supporting effective study towards ACCA examinations.
In addition ACCA examiners will recommend other text books where appropriate, which students may read in order to widen their reading beyond the approved study texts. Relevant articles will also be published in *student accountant.*

INTELLECTUAL LEVELS

The syllabus is designed to progressively broaden and deepen the knowledge, skills and professional values demonstrated by the student on their way through the qualification.

The specific capabilities within the detailed syllabuses and study guides are assessed at one of three intellectual or cognitive levels:

Level 1: Knowledge and comprehension
Level 2: Application and analysis
Level 3: Synthesis and evaluation

Very broadly, these intellectual levels relate to the three cognitive levels at which the Knowledge module, the Skills module and the Professional level are assessed.

Each subject area in the detailed study guide included in this document is given a 1, 2, or 3 superscript, denoting intellectual level, marked at the end of each relevant line. This gives an indication of the intellectual depth at which an area could be assessed within the examination. However, while level 1 broadly equates with the Knowledge module, level 2 equates to the Skills module and level 3 to the Professional level, some lower level skills can continue to be assessed as the student progresses through each module and level. This reflects that at each stage of study there will be a requirement to broaden, as well as deepen capabilities. It is also possible that occasionally some higher level capabilities may be assessed at lower levels.

LEARNING HOURS

The ACCA qualification does not prescribe or recommend any particular number of learning hours for examinations because study and learning patterns and styles vary greatly between people and organisations. This also recognises the wide diversity of personal, professional and educational circumstances in which ACCA students find themselves.

Each syllabus contains between 23 and 35 main subject area headings depending on the nature of the subject and how these areas have been broken down.

GUIDE TO EXAM STRUCTURE

The structure of examinations varies within and between modules and levels.

The Fundamentals level examinations contain 100% compulsory questions to encourage candidates to study across the breadth of each syllabus.

The Knowledge module is assessed by equivalent two-hour paper based and computer based examinations.

The Skills module examinations are all paper based three-hour papers. The structure of papers varies from ten questions in the *Corporate and Business Law* (F4) paper to four 25 mark questions in *Performance Management* (F5) and *Financial Management* (F9). Individual questions within all Skills module papers will attract between 10 and 30 marks.

The Professional level papers are all three-hour paper based examinations, all containing two sections. Section A is compulsory, but there will be some choice offered in Section B.

The Essentials module papers all have a Section A containing a major case study question with all requirements totalling 50 marks relating to this case. Section B gives students a choice of two from three 25 mark questions.

Section A of each of the Options papers contains 50-70 compulsory marks from two questions, each attracting between 25 and 40 marks. Section B will offer a choice of two from three questions totalling 30-50 marks, with each question attracting between 15 and 25 marks

GUIDE TO EXAMINATION ASSESSMENT

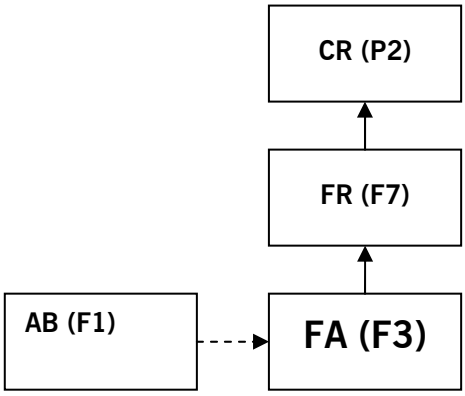
ACCA reserves the right to examine anything contained within the study guide at any examination session. This includes knowledge, techniques, principles, theories, and concepts as specified.

For the financial accounting, audit and assurance, law and tax papers, ACCA will publish *examinable documents* every six months to indicate exactly what regulations and legislation could potentially be assessed at the following examination session.

Knowledge of new examinable regulations will not be assessed until at least six calendar months after the last day of the month in which documents are issued or legislation is passed. The relevant cut-off date for the June examinations is 30 November of the previous year, and for the December examinations, it is 31 May of the same year.

The study guide offers more detailed guidance on the depth and level at which the examinable documents will be examined. The study guide should therefore be read in conjunction with the examinable documents list.

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

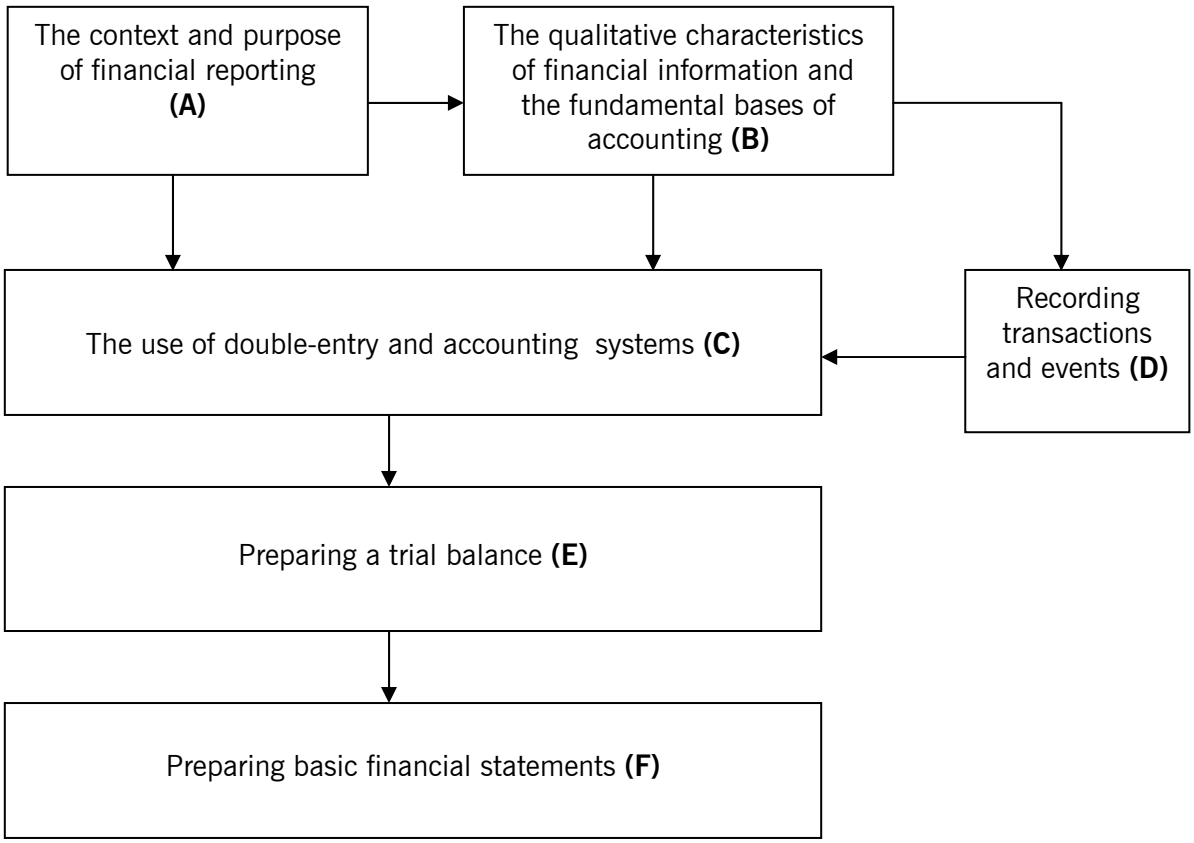
C. Demonstrate the use of double-entry and accounting systems

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. Balance sheets
2. Income statements
3. Events after the balance sheet date
4. Accounting for partnerships
5. Cash flow statements (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

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.[1]

g) Record the revaluation of a non-current asset in ledger accounts and in the balance sheet.[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.[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 balance sheet.[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 a bad debt.[1]

f) Record a bad debt recovered.[1]

g) Identify the impact of bad debts on the income statement and on the balance sheet.[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 balance sheet.[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 balance sheet.[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
   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 balance sheet.[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 balance sheet.[1]

g) Record and show the effects of a rights issue in the balance sheet.[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]

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 and balance sheet.[1]

3. Control accounts and reconciliations

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

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. Balance sheets

a) Recognise how the balance sheet equation and business entity convention underlie the balance sheet.[1]

b) Understand the nature of reserves.[1]

c) Identify and report reserves in a company balance sheet.[1]

d) Prepare extracts of a balance sheet from given information.[1]

e) Understand why the heading retained earnings appears in a company balance sheet.[1]

2. Income statements

a) Prepare extracts of an income statement from given information.[1]

b) Understand how accounting concepts apply to revenue and expenses.[1]

c) Calculate revenue, cost of sales, gross profit and net profit 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.[1]

f) Understand the interrelationship between the balance sheet and income statement. [1]

g) Identify items requiring separate disclosure on the face of the income statement.[1]

3. Events after the balance sheet date

a) Define an event after the balance sheet date 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 balance sheet 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. Cash flow statements (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 cash flow statement.[1]

d) Classify the effect of transactions on cash flows.[1]

e) Calculate the figures needed for the cash flow statement 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 cash flow statements from given information.[1]

h) Identify the treatment of given transactions in a company's cash flow statement.[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

ACCA's approved publishers:

BPP Professional Education
Contact number: +44(0)20 8740 2222
Website: www.bpp.com/acca

Kaplan Publishing Foulks Lynch
Contact number: +44(0)118 989 0629
Website: www.kaplanfoulkslynch.com

Additional reading:

Accountancy Tuition Centre (ATC) International
Contact number: +44(0)141 880 6469
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