

# Financial Reporting (INT) (F7)

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

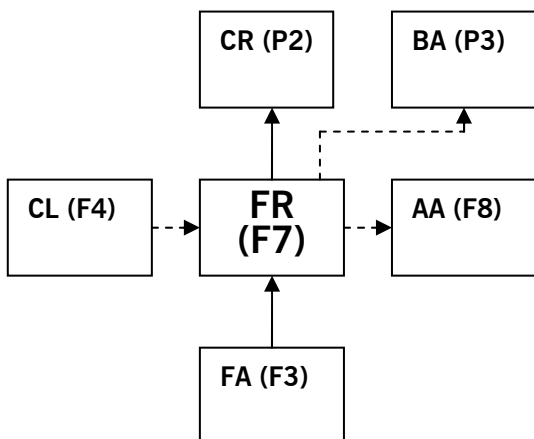
ACCA reserves the right to examine anything contained within the study guide at any examination session. This includes knowledge, techniques, principles, theories, and concepts as specified.

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

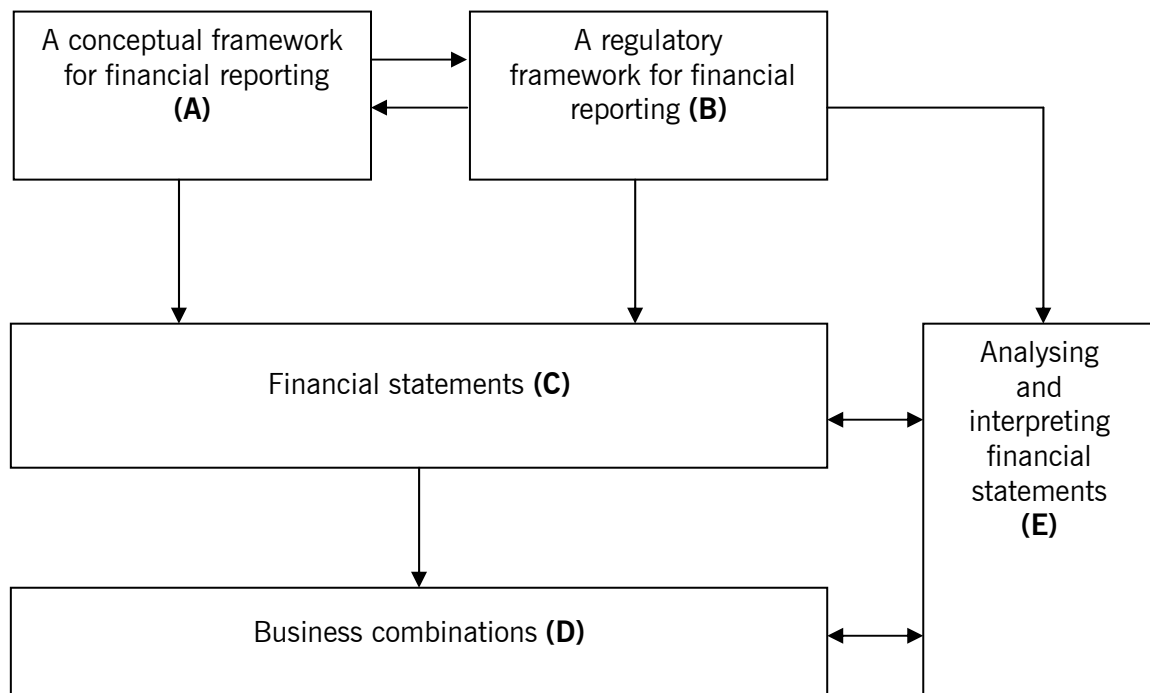
To develop knowledge and skills in understanding and applying accounting standards and the theoretical framework in the preparation of financial statements of entities, including groups and how to analyse and interpret those financial statements.

## MAIN CAPABILITIES

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

- A** Discuss and apply a conceptual framework for financial reporting
- B** Discuss a regulatory framework for financial reporting
- C** Prepare and present financial statements which conform with International accounting standards
- D** Account for business combinations in accordance with International accounting standards
- E** Analyse and interpret financial statements.

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## **RATIONALE**

The financial reporting syllabus assumes knowledge acquired in Paper F3, *Financial Accounting*, and develops and applies this further and in greater depth.

The syllabus begins with the conceptual framework of accounting with reference to the qualitative characteristics of useful information and the fundamental bases of accounting introduced in the Paper F3 syllabus within the Knowledge module. It then moves into a detailed examination of the regulatory framework of accounting and how this informs the standard setting process.

The main areas of the syllabus cover the reporting of financial information for single companies and for groups in accordance with generally accepted accounting principles and relevant accounting standards.

Finally, the syllabus covers the analysis and interpretation of information from financial reports.

## **DETAILED SYLLABUS**

### **A A conceptual framework for financial reporting**

1. The need for a conceptual framework
2. Understandability, relevance, reliability and comparability
3. Recognition and measurement
4. The legal versus the commercial view of accounting
5. Alternative models and practices
6. The concept of 'faithful representation' ('true and fair view')

### **B A regulatory framework for financial reporting**

1. Reasons for the existence of a regulatory framework
2. The standard setting process
3. Specialised, not-for-profit, and public sector entities

### **C Financial statements**

1. Cash flow statements
2. Tangible non-current assets
3. Intangible assets
4. Inventory
5. Financial assets and financial liabilities
6. Leases
7. Provisions, contingent liabilities, and contingent assets
8. Impairment of assets
9. Taxation
10. Regulatory requirements relating to the preparation of financial statements
11. Reporting financial performance

### **D Business combinations**

1. The concept and principles of a group
2. The concept of consolidated financial statements
3. Preparation of consolidated financial statements including an associate

### **E Analysing and interpreting financial statements**

1. Limitations of financial statements
2. Calculation and interpretation of accounting ratios and trends to address users' and stakeholders' needs
3. Limitations of interpretation techniques
4. Specialised, not-for-profit, and public sector entities

## **APPROACH TO EXAMINING THE SYLLABUS**

The syllabus is assessed by a three-hour paper-based examination.

All questions are compulsory. It will contain both computational and discursive elements. Some questions will adopt a scenario/case study approach.

Question 1 will be a 25 mark question on the preparation of group financial statements and/or extracts thereof, and may include a small discussion element. Computations will be designed to test an understanding of principles.

Question 2, for 25 marks, will test the reporting of non-group financial statements. This may be from information in a trial balance or by restating draft financial statements.

Question 3, for 25 marks, is likely to be an appraisal of an entity's performance and may involve cash flow statements.

Questions 4 and 5 will cover the remainder of the syllabus and will be worth 15 and 10 marks respectively.

An individual question may often involve elements that relate to different subject areas of the syllabus. For example the preparation of an entity's financial statements could include matters relating to several accounting standards.

Questions may ask candidates to comment on the appropriateness or acceptability of management's opinion or chosen accounting treatment. An understanding of accounting principles and concepts and how these are applied to practical examples will be tested.

Questions on topic areas that are also included in Paper F3 will be examined at an appropriately greater depth in this paper.

Candidates will be expected to have an appreciation of the need for specified accounting standards and why they have been issued. For detailed or complex standards, candidates need to be aware of their principles and key elements.

# Study Guide

## A A CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

### 1. The need for a conceptual framework

- a) describe what is meant by a conceptual framework of accounting.<sup>[2]</sup>
- b) discuss whether a conceptual framework is necessary and what an alternative system might be.<sup>[2]</sup>

### 2. Understandability, relevance, reliability and comparability

- a) discuss what is meant by understandability in relation to the provision of financial information.<sup>[2]</sup>
- b) discuss what is meant by relevance and reliability and describe the qualities that enhance these characteristics.<sup>[2]</sup>
- c) discuss the importance of comparability to users of financial statements.<sup>[2]</sup>
- d) distinguish between changes in accounting policies and changes in accounting estimates and describe how accounting standards apply the principle of comparability where an entity changes its accounting policies.<sup>[2]</sup>
- e) recognise and account for changes in accounting policies and the correction of prior period errors.<sup>[2]</sup>

### 3. Recognition and measurement

- a) define what is meant by 'recognition' in financial statements and discuss the recognition criteria.<sup>[2]</sup>
- b) apply the recognition criteria to:<sup>[2]</sup>
  - i) assets and liabilities.
  - ii) income and expenses
- c) discuss what is meant by the balance sheet approach to recognition; indicate when income and expense recognition should occur.<sup>[2]</sup>

d) demonstrate the role of the principle of substance over form in relation to recognising sales revenue.<sup>[2]</sup>

- e) explain the following measures and compute amounts using:<sup>[2]</sup>
  - i) historical cost
  - ii) fair value/current cost
  - iii) net realisable value
  - iv) present value of future cash flows.

### 4. The legal versus the commercial view of accounting

- a) explain the importance of recording the commercial substance rather than the legal form of transactions – give examples of previous abuses in this area.<sup>[2]</sup>
- b) describe the features which may indicate that the substance of transactions differs from their legal form.<sup>[2]</sup>
- c) apply the principle of substance over form to the recognition and derecognition of assets and liabilities.<sup>[2]</sup>
- d) recognise the substance of transactions in general, and specifically account for the following types of transaction:<sup>[2]</sup>
  - i) goods sold on sale or return/consignment inventory
  - ii) sale and repurchase/leaseback agreements
  - iii) factoring of receivables.

### 5. Alternative models and practices

- a) describe the advantages and disadvantages of the use of historical cost accounting.<sup>[2]</sup>
- b) discuss whether the use of current value accounting overcomes the problems of historical cost accounting.<sup>[2]</sup>
- c) describe the concept of financial and physical capital maintenance and how this affects the determination of profits.<sup>[1]</sup>

### 6. The concept of 'faithful representation' ('true and fair view')

- a) describe what is meant by financial statements achieving a faithful representation.<sup>[2]</sup>

- b) discuss whether faithful representation constitutes more than compliance with accounting standards.<sup>[1]</sup>
- c) indicate the circumstances and required disclosures where a 'true and fair' override may apply.<sup>[1]</sup>

## **B A REGULATORY FRAMEWORK FOR FINANCIAL REPORTING**

### **1. Reasons for the existence of a regulatory framework**

- a) explain why a regulatory framework is needed.<sup>[2]</sup>
- b) explain why accounting standards on their own are not a complete regulatory framework.<sup>[2]</sup>
- c) distinguish between a principles based and a rules based framework and discuss whether they can be complementary.<sup>[1]</sup>

### **2. The standard setting process**

- a) describe the structure and objectives of the IASC Foundation, the International Accounting Standards Board (IASB), the Standards Advisory Council (SAC) and the International Financial Reporting Interpretations Committee (IFRIC).<sup>[2]</sup>
- b) describe the IASB's Standard setting process including revisions to and interpretations of Standards.<sup>[2]</sup>
- c) explain the relationship of national standard setters (e.g. FASB and ASB) to the IASB in respect of the standard setting process.<sup>[2]</sup>

### **3. Specialised, not-for-profit and public sector entities**

- a) distinguish between the primary aims of not-for profit and public sector entities and those of profit oriented entities.<sup>[1]</sup>
- b) discuss the extent to which International Financial Reporting Standards (IFRSs) are relevant to specialised, not-for-profit and public sector entities.<sup>[1]</sup>

## **C FINANCIAL STATEMENTS**

### **1. Cash flow statements**

- a) prepare a cash flow statement for a single entity (not a group) in accordance with relevant accounting standards using the direct and the indirect method.<sup>[2]</sup>
- b) compare the usefulness of cash flow information with that of an income statement.<sup>[2]</sup>
- c) interpret a cash flow statement (together with other financial information) to assess the performance and financial position of an entity.<sup>[2]</sup>

### **2. Tangible non-current assets**

- a) define and compute the initial measurement of a non-current (including a self-constructed) asset.<sup>[2]</sup>
- b) identify subsequent expenditure that may be capitalised (including borrowing costs), distinguishing between capital and revenue items.<sup>[2]</sup>
- c) discuss the requirements of relevant accounting standards in relation to the revaluation of non-current assets.<sup>[2]</sup>
- d) account for revaluation and disposal gains and losses for non-current assets.<sup>[2]</sup>
- e) compute depreciation based on the cost and revaluation models and on assets that have two or more significant parts (complex assets).<sup>[2]</sup>
- f) apply the provisions of relevant accounting standards in relation to accounting for government grants.<sup>[2]</sup>
- g) discuss why the treatment of investment properties should differ from other properties.<sup>[2]</sup>
- h) apply the requirements of relevant accounting standards for investment property.<sup>[2]</sup>

### 3. Intangible assets

- a) discuss the nature and accounting treatment of internally generated and purchased intangibles.<sup>[2]</sup>
- b) distinguish between goodwill and other intangible assets.<sup>[2]</sup>
- c) describe the criteria for the initial recognition and measurement of intangible assets.<sup>[2]</sup>
- d) describe the subsequent accounting treatment, including the principle of impairment tests in relation to goodwill.<sup>[2]</sup>
- e) indicate why the value of purchase consideration for an investment may be less than the value of the acquired identifiable net assets and how the difference should be accounted for.<sup>[2]</sup>
- f) describe and apply the requirements of relevant accounting standards to research and development expenditure.<sup>[2]</sup>

### 4. Inventory

- a) describe and apply the principles of inventory valuation.<sup>[2]</sup>
- b) define a construction contract and discuss the role of accounting concepts in the recognition of profit.<sup>[2]</sup>
- c) describe the acceptable methods of determining the stage (percentage) of completion of a contract.<sup>[2]</sup>
- d) prepare financial statement extracts for construction contracts.<sup>[2]</sup>

### 5 Financial assets and financial liabilities

- a) explain the need for an accounting standard on financial instruments.<sup>[1]</sup>
- b) define financial instruments in terms of financial assets and financial liabilities.<sup>[1]</sup>
- c) indicate for the following categories of financial instruments how they should be measured and how any gains and losses from subsequent

measurement should be treated in the financial statements:<sup>[1]</sup>

- i) fair value through profit and loss
  - ii) held to maturity (use of amortised cost, interest to income)
  - iii) available for sale (carried at fair value with changes to equity, but dividends to income)
  - iv) loans and receivables
- d) distinguish between debt and equity capital.<sup>[2]</sup>
  - e) apply the requirements of relevant accounting standards to the issue and finance costs of:<sup>[2]</sup>
    - i) equity
    - ii) redeemable preference shares and debt instruments with no conversion rights (principle of amortised cost).

### 6. Leases

- a) explain why recording the legal form of a finance lease can be misleading to users (referring to the commercial substance of such leases).<sup>[2]</sup>
- b) describe and apply the method of determining a lease type (i.e. an operating or finance lease).<sup>[2]</sup>
- c) discuss the effect on the financial statements of a finance lease being incorrectly treated as an operating lease.<sup>[2]</sup>
- d) account for assets financed by finance leases in the records of the lessee.<sup>[2]</sup>
- e) account for operating leases in the records of the lessee.<sup>[2]</sup>

### 7. Provisions, contingent liabilities and contingent assets

- a) explain why an accounting standard on provisions is necessary.<sup>[2]</sup>
- b) distinguish between legal and constructive obligations.<sup>[2]</sup>
- c) state when provisions may and may not be made and demonstrate how they should be accounted for.<sup>[2]</sup>
- d) explain how provisions should be measured.<sup>[1]</sup>

- e) define contingent assets and liabilities and describe their accounting treatment.<sup>[2]</sup>
- f) identify and account for:<sup>[2]</sup>
  - i) warranties/guarantees
  - ii) onerous contracts
  - iii) environmental and similar provisions
  - iv) provisions for future repairs or refurbishments.

## 8. Impairment of assets

- a) define an impairment loss.<sup>[2]</sup>
- b) identify the circumstances that may indicate impairments to assets.<sup>[2]</sup>
- c) describe what is meant by a cash generating unit.<sup>[2]</sup>
- d) state the basis on which impairment losses should be allocated, and allocate an impairment loss to the assets of a cash generating unit.<sup>[2]</sup>

## 9. Taxation

- a) account for current taxation in accordance with relevant accounting standards.<sup>[2]</sup>
- b) record entries relating to income tax in the accounting records.<sup>[2]</sup>
- c) explain the effect of taxable temporary differences on accounting and taxable profits.<sup>[2]</sup>
- d) compute and record deferred tax amounts in the financial statements.<sup>[2]</sup>

## 10. Regulatory requirements relating to the preparation of financial statements

- a) describe the structure (format) and content of financial statements presented under IFRS.<sup>[2]</sup>
- b) prepare an entity's financial statements in accordance with the prescribed structure and content.<sup>[2]</sup>

## 11. Reporting financial performance

- a) discuss the importance of identifying and reporting the results of discontinued operations.<sup>[2]</sup>
- b) define and account for non-current assets held for sale and discontinued operations.<sup>[2]</sup>
- c) indicate the circumstances where separate disclosure of material items of income and expense is required.<sup>[2]</sup>
- d) prepare and explain the contents and purpose of the statement of changes in equity (or the alternative of a statement of income and expense and movement in capital and reserves).<sup>[2]</sup>
- e) describe and prepare a statement of changes in equity.<sup>[2]</sup>
- f) earnings per share (eps)
  - i) calculate the eps in accordance with relevant accounting standards (dealing with bonus issues, full market value issues and rights issues)<sup>[2]</sup>
  - ii) explain the relevance of the diluted eps and calculate the diluted eps involving convertible debt and share options (warrants)<sup>[2]</sup>
  - iii) explain why the trend of eps may be a more accurate indicator of performance than a company's profit trend and the importance of eps as a stock market indicator<sup>[2]</sup>
  - iv) discuss the limitations of using eps as a performance measure.<sup>[3]</sup>

## D BUSINESS COMBINATIONS

### 1. The concept and principles of a group

- a) describe the concept of a group as a single economic unit.<sup>[2]</sup>
- b) explain and apply the definition of a subsidiary within relevant accounting standards.<sup>[2]</sup>
- c) describe why directors may not wish to consolidate a subsidiary and the circumstances where this is permitted.<sup>[2]</sup>

- d) explain the need for using coterminous year ends and uniform accounting policies when preparing consolidated financial statements.<sup>[2]</sup>
- e) explain why it is necessary to eliminate intra-group transactions.<sup>[2]</sup>

## 2. The concept of consolidated financial statements

- a) explain the objective of consolidated financial statements.<sup>[2]</sup>
- b) indicate the effect that the related party relationship between a parent and subsidiary may have on the subsidiary's entity statements and the consolidated financial statements.<sup>[2]</sup>
- c) explain why it is necessary to use fair values for the consideration for an investment in a subsidiary together with the fair values of a subsidiary's identifiable assets and liabilities when preparing consolidated financial statements.<sup>[2]</sup>
- d) describe and apply the required accounting treatment of consolidated goodwill.<sup>[2]</sup>

## 3. Preparation of consolidated financial statements including an associate

- a) prepare a consolidated balance sheet for a simple group (parent and one subsidiary) dealing with pre and post acquisition profits, minority interests and consolidated goodwill.<sup>[2]</sup>
- b) prepare a consolidated income statement for a simple group dealing with an acquisition in the period and minority interest.<sup>[2]</sup>
- c) explain and account for other reserves (e.g. share premium and revaluation reserves).<sup>[1]</sup>
- d) account for the effects (in the income statement and balance sheet) of intra-group trading.<sup>[2]</sup>
- e) account for the effects of fair value adjustments (including their effect on consolidated goodwill) to:<sup>[2]</sup>
  - i) depreciating and non-depreciating non-current assets
  - ii) inventory

- iii) monetary liabilities
- iv) assets and liabilities not included in the subsidiary's own balance sheet, including contingent assets and liabilities

- f) account for goodwill impairment.<sup>[2]</sup>
- g) define an associate and explain the principles and reasoning for the use of equity accounting.<sup>[2]</sup>
- h) prepare consolidated financial statements to include a single subsidiary and an associate.<sup>[2]</sup>

## E ANALYSING AND INTERPRETING FINANCIAL STATEMENTS

### 1. Limitations of financial statements

- a) indicate the problems of using historic information to predict future performance and trends.<sup>[2]</sup>
- b) discuss how financial statements may be manipulated to produce a desired effect (creative accounting, window dressing).<sup>[2]</sup>
- c) recognise how related party relationships have the potential to mislead users.<sup>[2]</sup>
- d) explain why balance sheet figures may not be representative of average values throughout the period for example, due to:<sup>[2]</sup>
  - i) seasonal trading
  - ii) major asset acquisitions near the end of the accounting period.

### 2 Calculation and interpretation of accounting ratios and trends to address users' and stakeholders' needs

- a) define and compute relevant financial ratios.<sup>[2]</sup>
- b) explain what aspects of performance specific ratios are intended to assess.<sup>[2]</sup>
- c) analyse and interpret ratios to give an assessment of an entity's performance and financial position in comparison with:<sup>[2]</sup>
  - i) an entity's previous period's financial statements
  - ii) another similar entity for the same reporting period

iii) industry average ratios.

- d) interpret an entity's financial statements to give advice from the perspectives of different stakeholders.<sup>[2]</sup>
- e) discuss how the interpretation of current value based financial statements would differ from those using historical cost based accounts.<sup>[1]</sup>

### **3. Limitations of interpretation techniques**

- a) discuss the limitations in the use of ratio analysis for assessing corporate performance.<sup>[2]</sup>
- b) discuss the effect that changes in accounting policies or the use of different accounting policies between entities can have on the ability to interpret performance.<sup>[2]</sup>
- c) indicate other information, including non-financial information, that may be of relevance to the assessment of an entity's performance.<sup>[1]</sup>

### **4. Specialised, not-for-profit and public sector entities**

- a) discuss the different approaches that may be required when assessing the performance of specialised, not-for-profit and public sector organisations.<sup>[1]</sup>

## **READING LIST**

ACCA's approved publishers:

### **BPP Professional Education**

**Contact number: +44(0)20 8740 2222**

**Website: [www.bpp.com/acca](http://www.bpp.com/acca)**

### **Kaplan Publishing Foulks Lynch**

**Contact number: +44(0)118 989 0629**

**Website: [www.kaplanfoulkslynch.com](http://www.kaplanfoulkslynch.com)**

Additional reading:

Accountancy Tuition Centre (ATC) International

Contact number: +44(0)141 880 6469

Website: [www.ptc-global.com](http://www.ptc-global.com)