

**ACCA**

**Applied Skills**

**Financial Reporting (FR)**

**Study Text**

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# How to use the Materials

These Kaplan Publishing learning materials have been carefully designed to make your learning experience as easy as possible and to give you the best chances of success in your examinations.

The product range contains a number of features to help you in the study process. They include:

- 1 Detailed study guide and syllabus objectives
- 2 Description of the examination
- 3 Study skills and revision guidance
- 4 Study text
- 5 Question practice

The sections on the study guide, the syllabus objectives, the examination and study skills should all be read before you commence your studies. They are designed to familiarise you with the nature and content of the examination and give you tips on how best to approach your learning.

The **Study Text** comprises the main learning materials and gives guidance as to the importance of topics and where other related resources can be found. Each chapter includes:

- The **learning objectives** contained in each chapter, which have been carefully mapped to the examining body's own syllabus learning objectives or outcomes. You should use these to check you have a clear understanding of all the topics on which you might be assessed in the examination.
- The **chapter diagram** provides a visual reference for the content in the chapter, giving an overview of the topics and how they link together.
- The **content** for each topic area commences with a brief explanation or definition to put the topic into context before covering the topic in detail. You should follow your studying of the content with a review of the illustration/s. There are worked examples which will help you to better understand how to apply the content to the topic.
- **Test your understanding** sections provide an opportunity to assess your understanding of the key topics by applying what you have learned to short questions. Answers can be found at the back of each chapter.
- **Summary diagrams** complete each chapter to show the important links between topics and the overall content of the paper. These diagrams should be used to check that you have covered and understood the core topics before moving on.

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Our Quality Coordinator will work with our technical team to verify the error and take action to ensure it is corrected in future editions.

### Icon Explanations



**Definition** – Key definitions that you will need to learn from the core content.



**Key point** – Identifies topics that are key to success and are often examined.



**Test your understanding** – Exercises for you to complete to ensure that you have understood the topics just learned.



**Illustration** – Worked examples help you understand the core content better.



**Supplementary reading** – These sections will help to provide a deeper understanding of core areas. The supplementary reading is **NOT** optional reading. It is vital to provide you with the breadth of knowledge you will need to address the wide range of topics within your syllabus that could feature in an exam question. **Reference to this text is vital when self-studying.**



**Tutorial note** – Included to explain some of the technical points in more detail.



**Footsteps** – Helpful tutor tips.



**Links to other syllabus areas** – This symbol refers to areas of interaction with other parts of the ACCA syllabus, subjects that you have either studied or may go on to study.

# Introduction to published accounts

## Chapter learning objectives

Upon completion of this chapter you will be able to:

- prepare an entity's statement of financial position and statement of profit or loss and other comprehensive income in accordance with the structure and content prescribed within IFRS Accounting Standards
- prepare and explain the contents and purpose of the statement of changes in equity.

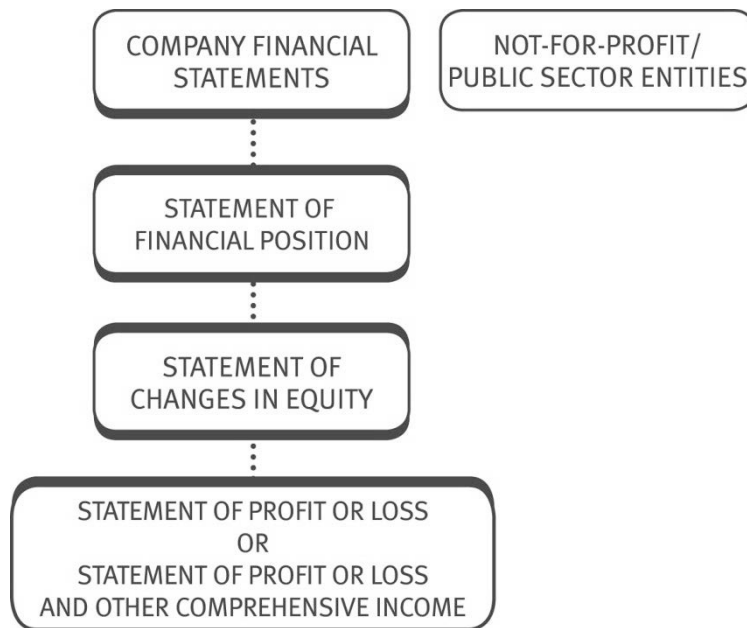


This chapter provides a recap from Financial Accounting, reminding you of the format and content of financial statements, and the technique required to prepare them from a trial balance.



**PER**

One of the PER performance objectives (PO7) is to prepare external financial reports. You take part in preparing and reviewing financial statements – and all accompanying information – and you do it in accordance with legal and regulatory requirements. Working through this chapter should help you understand how to demonstrate that objective.



Preparation of single entity financial statements could be examined as one of the constructed response questions in section C of the FR examination. This chapter will look at the techniques and principles behind the construction of this. It is important to note that Chapters 2 to 15 contain information on specific accounting standards, any of which could be included within the construction of single entity financial statements. Once you have worked through these chapters, Chapter 23 provides practice for single entity financial statements with those standards incorporated into them.

## 1 Preparation of financial statements for companies

### IAS 1 Presentation of Financial Statements

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IAS 1 *Presentation of Financial Statements* states that a complete set of financial statements comprises:

- a statement of financial position
- either
  - a statement of profit or loss and other comprehensive income, or
  - a statement of profit or loss plus a statement showing other comprehensive income
- a statement of changes in equity
- a statement of cash flows
- accounting policies and explanatory notes.

IAS 1 (revised) does not require the above titles to be used by companies. It is likely in practice that many companies will continue to use the previous terms of balance sheet rather than statement of financial position, income statement instead of statement of profit or loss, and cash flow statement rather than statement of cash flows.

## Exceptional items

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**Exceptional items** is the name often given to material items of income and expense of such size, nature or incidence that disclosure is necessary in order to explain the performance of the entity.

The accounting treatment is to:

- include the item in the standard statement of profit or loss line
- disclose the nature and amount in the notes.

In some cases it may be more appropriate to show the item separately on the face of the statement of profit or loss.

Examples include:

- write down of inventories to net realisable value (NRV)
- impairment of property, plant and equipment
- restructuring costs
- gains/losses on disposal of non-current assets
- discontinued operations
- litigation settlements
- reversals of provisions

## Statement of financial position

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A recommended format is as follows:

### XYZ: Statement of financial position as at 31 December 20X8

<b>Assets</b>	\$	\$
<b>Non-current assets:</b>		
Property, plant and equipment		X
Investments		X
Intangibles		X
		<hr/>
		X
<b>Current assets:</b>		
Inventories	X	
Trade receivables	X	
Cash and cash equivalents	X	
Asset held for sale	X	
	<hr/>	X
		<hr/>
Total assets		X
		<hr/>

**Equity and liabilities**

**Capital and reserves:**

Share capital	X	
Retained earnings	X	
Other components of equity	X	
	—	X
		—
Total equity		X

**Non-current liabilities:**

Long-term borrowings	X	
Deferred tax	X	
	—	X

**Current liabilities:**

Trade and other payables	X	
Short-term borrowings	X	
Current tax payable	X	
Short-term provisions	X	
	—	X
		—

Total equity and liabilities		X
		—

Note that IAS 1 requires an asset or liability to be classified as current if:

- it will be settled within 12 months of the reporting date, or
- it is part of the entity's normal operating cycle.

Within the equity section of the statement of financial position, other components of equity include:

- revaluation surplus
- share premium
- investment reserve (see financial instruments, Chapter 12).

**Statement of changes in equity (SOCIE)**

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The statement of changes in equity provides a summary of all changes in equity arising from transactions with owners in their capacity as owners.

This includes the effect of share issues and dividends.

Other non-owner changes in equity, such as comprehensive income, are disclosed in aggregate only.





You are viewing a sample

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