



Exam FA2

Maintaining Financial Records

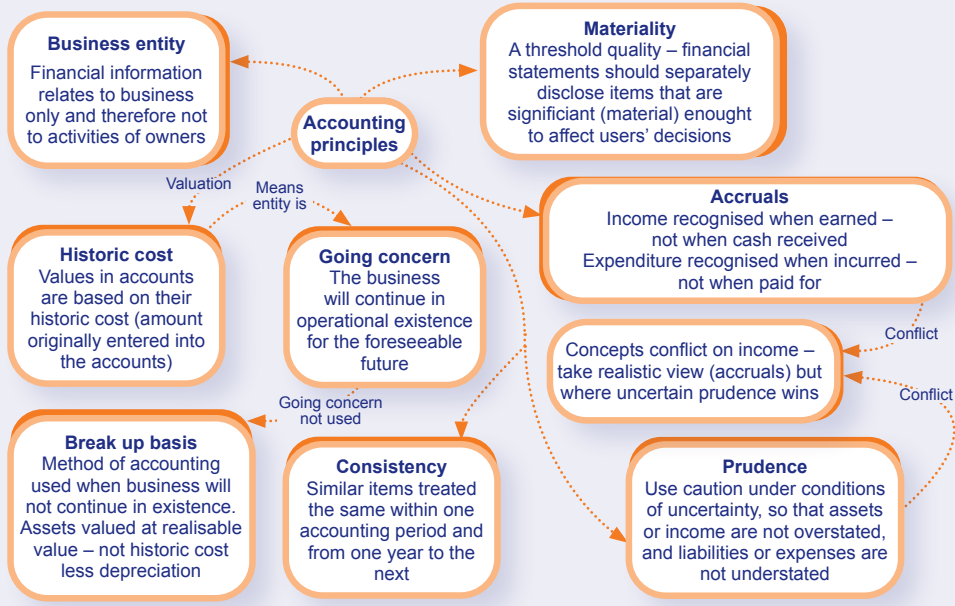
Pocket Notes



Contents

Chapter 1	Accounting principles, concepts and characteristics.....	1
Chapter 2	Principles and process of bookkeeping.....	11
Chapter 3	Recording transactions.....	27
Chapter 4	Inventory.....	47
Chapter 5	Non-current assets.....	55
Chapter 6	Accruals and prepayments.....	69
Chapter 7	Receivables.....	75
Chapter 8	Payables and provisions.....	85
Chapter 9	Reconciliations.....	91
Chapter 10	Trial balance and correction of errors.....	99
Chapter 11	Preparing the financial statements.....	111
Chapter 12	Sole trader accounts.....	115
Chapter 13	Partnership accounts.....	125
Chapter 14	Incomplete records.....	135
Index	1.1

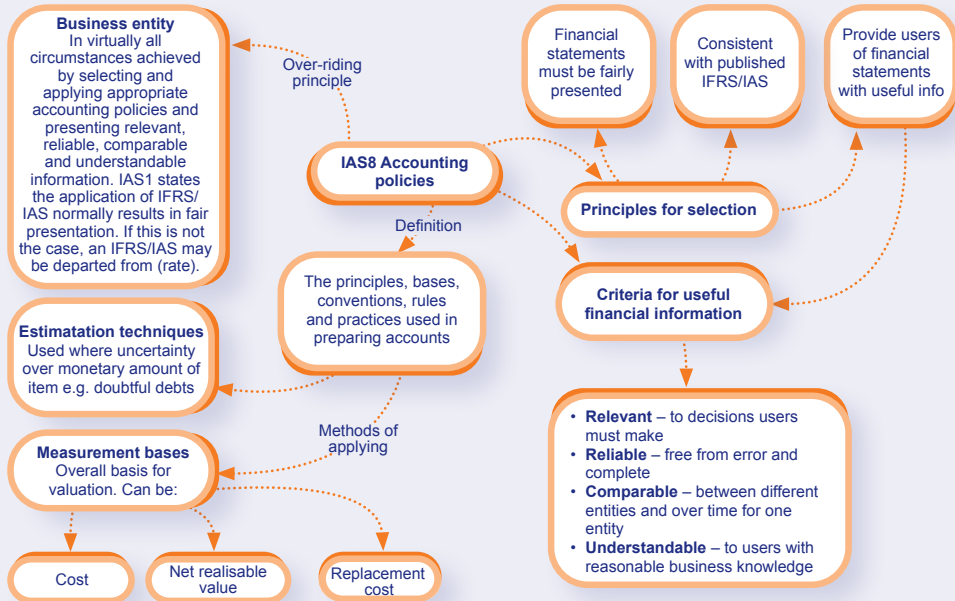
The basic principles of financial reporting



Characteristics of useful financial information

Two fundamental qualitative characteristics	
Relevance	<p>Information is relevant if it capable of making a difference in the decisions made by users. This is likely to be the case when information can be used to confirm current understanding and/or to or predict future outcomes.</p> <p>Materiality is one aspect of relevance - information is material if its omission or misstatement could influence the decisions of users of the financial statements.</p>
Faithful representation	<p>Information should be faithfully represented. This means that accounting information should be presented in accordance with best practice and that the commercial substance of transactions should be presented in the financial statements, rather than their strict legal form. This would imply that such information is complete, neutral or free from bias and free from material error.</p>
Four enhancing qualitative characteristics	
Comparability	<p>Users must be able to compare the financial statements of an enterprise over time to identify trends in its financial position and performance.</p> <p>Users must also be able to compare the financial statements of different enterprises to evaluate their relative financial positions, performance and financial adaptability.</p>
Verifiability	<p>Information should be capable of either direct verification or indirect verification.</p>
Timeliness	<p>This means that users of information have access to that information within timescales which are appropriate for their decision-making purposes.</p>
Understandability	<p>Information in financial statements must be understandable to its users. This may depend upon how knowledgeable individuals are when evaluating financial information.</p>

Accounting policies



The users of financial information

User	Information needed
Owner	Determine drawings. Improve business performance
Investors	Whether to invest/withdraw capital from the business
Lenders	Check whether loans can be repaid
Suppliers	Ensure entity will pay for goods supplied
Employees	Check company will continue to pay wages
Customers	Ensure business will continue to exist (essential when the business is being relied on e.g. support contracts)
Government	Check tax paid is correct
Public	Monitor business activities (e.g. pressure groups)



Exam focus

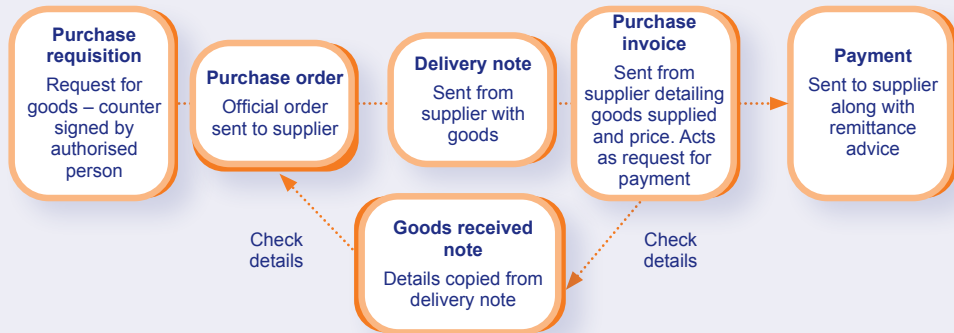
If a question asks you to identify why users need financial information, suggest reasons specific to certain users rather than generic to all.

Key documents in credit sales/purchases systems

Sales system



Purchase system



Other business documents

Statement of account

Sent monthly to customer showing invoices not yet paid

Credit note

Sent from supplier to customer, cancels part or whole of invoice for goods returned

Debit note

A document raised by a customer and issued to a supplier to request a credit note.

Petty cash voucher

Shows authorised expenditure from petty cash supported by documentation showing expense is genuine

Employee payslip

Notification to employee of wages earned less statutory and other authorised deductions

Contents of the payslip:

- employee's / employer's name
- date
- total gross pay split into elements e.g overtime, etc
- any employee pension contribution
- deductions from, or adjustments to, pay
- total gross pay to date
- total tax paid to date in tax year and tax due this pay day

- National Insurance/social security contributions due this pay day
- net pay.



Exam focus

Remember many of the multiple-choice questions on this section are factual so ensure you remember the names of the different types of business documents and what each is used for.



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