

Exam FA2

Maintaining Financial Records

Pocket Notes



Contents

Chapter 1	Accounting principles, concepts and charateristics		
Chapter 2	Principles and process of bookkeeping11		
Chapter 3	Recording transactions		
Chapter 4	Inventory47		
Chapter 5	Non-current assets		
Chapter 6	Accruals and prepayments69		
Chapter 7	Receivables		
Chapter 8	Payables and provisions85		
Chapter 9	Reconciliations91		
Chapter 10	Trial balance and correction of errors		
Chapter 11	Preparing the financial statements		
Chapter 12	Sole trader accounts		
Chapter 13	Partnership accounts		
Chapter 14	Incomplete records		
Index	I.1		

The basic principles of financial reporting Materiality **Business entity** A threshold quality - financial Financial information statements should separately disclose items that are relates to business significiant (material) enought only and therefore not Accounting to activities of owners to affect users' decisions principles Valuation Means Accruals entity is Income recognised when earned not when cash received Historic cost Going concern Expenditure recognised when incurred -Values in accounts The business not when paid for are based on their will continue in historic cost (amount operational existence Conflict originally entered into for the foreseeable Concepts conflict on income the accounts) future take realistic view (accruals) but where uncertain prudence wins Conflict Going concern not used Break up basis Method of accounting Consistency Prudence used when business will Similar items treated Use caution under conditions not continue in existence the same within one of uncertainty, so that assets Assets valued at realisable accounting period and or income are not overstated. value - not historic cost and liabilities or expenses are from one year to the less depreciation not understated next

Characteristics of useful financial information

Two fundamental qualitative characteristics			
Relevance	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.		
	Materiality is one aspect of relevance - information is material if its omission or misstatement could influence the decisions of users of the financial statements.		
Faithful representation	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.		
Four enhancing qualitative characteristics			
Comparability	Users must be able to compare the financial statements of an enterprise over time to identify trends in its financial position and performance.		
	Users must also be able to compare the financial statements of different enterprises to evaluate their relative financial positions, performance and financial adaptability.		
Verifiability	Information should be capable of either direct verification or indirect verification.		
Timeliness	This means that users of information have access to that information within timescales which are appropriate for their decision-making purposes.		
Understandability	Information in financial statements must be understandable to its users. This may depend upon how knowledgeable individuals are when evaluating financial information.		

Accounting principles, concepts and charateristics



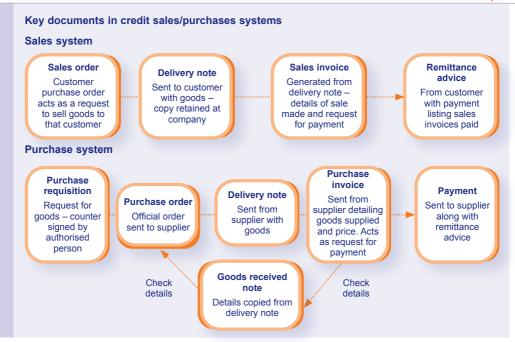
The users of financial information

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.



Accounting principles, concepts and charateristics

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.



You are viewing a sample

Interested in the full version?