

## Financial Accounting

The Financial Accounting (FA) module provides an introduction to accounting theory, ethics, bookkeeping and the preparation of financial statements, which are all fundamental to the stewardship role performed by finance professionals in modern organisations.

The essential elements of ethics, values and attitudes as they apply to the accounting profession are introduced, focusing on knowledge of the content of the CIPFA Statement of Professional Practice (SoPP). Application of this knowledge in different contexts is covered in a number of other modules of the qualification.

The FA module sets out the purpose of financial accounting, the needs of the users of accounting information, and the general regulatory framework. The student is then taken through the main processes involved in financial accounting, from using ledgers to record transactions, through the use of control procedures, to the end result of preparing complete financial statements in standard formats.

The module focuses on sole traders, limited companies and clubs and societies to develop knowledge and skills across these topics. There is brief coverage of a limited number of International Financial Reporting Standards (IFRSs) - see table of examinable standards for coverage across relevant modules of the qualification. More detailed coverage of IFRSs is included in Company Financial Reporting (CFR) for limited companies and in Public Service Financial Reporting (PSFR) for public service organisations.

FA includes fundamental content on ethical principles, and it is therefore appropriate that it is studied at an early stage. As it provides fundamental knowledge of financial accounting, it should ideally be studied before CFR and PSFR.

## Syllabus topics

A Purpose and context of financial accounting	5%
B Professional ethics, values and attitudes	10%
C Accounting concepts and double entry principles	20%
D Recording transactions and exercising control	35%
E Financial statements preparation	30%

## Other information, including assessment

Prior knowledge:	None
Standards:	IFRSs
Validity:	2019 examinations
Assessment:	Two hour exam of 60 objective test questions with a pass mark of 60%.

Overall Aim	Learning outcome	Content
A <b>Describe the environment in which financial accounting operates</b> (5%)	A1 Describe the purpose of financial accounting	<ul style="list-style-type: none"> <li>(i) Definition, functions and benefits of financial accounting</li> <li>(ii) Structure and role of the accounting profession in society</li> <li>(iii) Differences between financial accounting and management accounting</li> <li>(iv) Roles of the accountant, auditor and financial manager</li> <li>(v) Objectives of financial statements</li> <li>(vi) Main users of financial statements and their needs</li> </ul>
	A2 Describe the main elements of the regulatory framework for financial accounting	<ul style="list-style-type: none"> <li>(i) Role and objectives of International Accounting Standards Board(IASB) and of IFRSs</li> <li>(ii) International harmonisation of financial reporting standards – costs and benefits</li> </ul>
B <b>Describe the requirements in terms of ethics, values and attitudes applying to the accounting profession</b> (10%)	B1 Describe the main elements of the International Federation of Accountants (IFAC) Code of Ethics and the CIPFA SoPP	<ul style="list-style-type: none"> <li>(i) Principles, threats and safeguards and how these apply to the work of an accountant</li> <li>(ii) Examples of public and private sector accounting failures and their effects</li> </ul>
	B2 Describe actions to be taken in response to unethical or illegal behaviour relating to financial and accounting activities	<ul style="list-style-type: none"> <li>(i) Roles and responsibilities of those charged with governance</li> <li>(ii) Best practice in whistleblowing policies and procedures</li> <li>(iii) Best practice response to fraudulent behaviour or other misconduct</li> <li>(iv) CIPFA member and student obligations to</li> </ul>

		comply with the SoPP and bye-laws
<b>C Describe and discuss accounting concepts, qualitative characteristics and the principles of double-entry bookkeeping within an accounting system (20%)</b>	C1 Describe the main accounting concepts and discuss their application to basic transactions and events	<ul style="list-style-type: none"> <li>(i) Definitions of going concern, accruals, matching, prudence, consistency, materiality, substance over form, business entity, duality, separate determination</li> <li>(ii) Examples of the application of each of these in practice</li> </ul>
	C2 Describe the main qualitative characteristics of useful financial information and discuss their application to the preparation of financial statements	<ul style="list-style-type: none"> <li>(i) The Conceptual Framework (see table of examinable standards for examinable sections)</li> <li>(ii) Definitions of relevance, faithful representation, reliability, comparability, verifiability, timeliness, understandability</li> <li>(iii) Examples of the application of each of these in the recording of transactions and the preparation of financial statements</li> <li>(iv) Constraints on the characteristics and dealing with conflicts between characteristics</li> </ul>
	C3 Explain the accounting equation and types of income and expenditure	<ul style="list-style-type: none"> <li>(i) Definition and examples of capital, assets, liabilities, income and expenditure</li> <li>(ii) Definition and examples of capital and revenue income and expenditure</li> <li>(iii) Cash and accrual accounting</li> </ul>
	C4 Describe the main elements of a financial accounting system and explain the use of key documents	<ul style="list-style-type: none"> <li>(i) Types of ledger accounts and books of prime entry</li> <li>(ii) Entering transactions and balancing/closing ledger accounts</li> <li>(iii) Use of the journal and preparation of journal entries</li> </ul>

		(iv) Use of business documents to record transactions - invoices, receipts, purchase orders, goods received notes, credit/debit notes, remittance advice, etc
<b>D Record basic transactions and events in ledger accounts, and explain and apply techniques to exercise control within the financial accounting system (35%)</b>	D1 Record basic transactions and events for sole traders and limited companies, using ledger accounts and journal entries	<ul style="list-style-type: none"> <li>(i) Cash and bank transactions, including use of the cash book and petty cash book</li> <li>(ii) Sales and purchases; discounts allowed and received; bad debts and allowance for receivables</li> <li>(iii) Accruals and prepayments</li> <li>(iv) Inventory – opening and closing inventory; valuation methods; write-offs</li> <li>(v) Property, plant and equipment – acquisition of assets; depreciation methods; impairments; disposals; revaluations; changes in useful life</li> <li>(vi) Intangible assets – types of intangible asset; research and development; amortisation – (note: goodwill in the context of consolidated accounts is not covered in FA)</li> <li>(vii) Events after the reporting date</li> <li>(viii) Provisions (note: contingent assets and contingent liabilities are not covered in FA)</li> </ul>
	D2 Explain the use of control techniques and prepare ledger accounts and reconciliation statements	<ul style="list-style-type: none"> <li>(i) Trial balance</li> <li>(ii) Control accounts</li> <li>(iii) Correction of errors, including the role of suspense accounts</li> <li>(iv) Bank reconciliations</li> </ul>

<b>E Prepare simple financial statements for sole traders, limited companies, and clubs and societies (30%)</b>	E1 Prepare simple financial statements for sole traders from a trial balance or from incomplete records	(i) Income statement and statement of financial position from a trial balance and additional information (ii) Income statement and statement of financial position from incomplete records
	E2 Prepare simple financial statements for internal use for single entity limited companies from a trial balance	(i) Limited company framework (ii) Share capital, reserves, dividends and taxation (iii) Income statement, statement of financial position and statement of changes in equity from trial balance and additional information (iv) Statement of cash flow – indirect method only
	E3 Prepare simple financial statements for clubs and societies from a trial balance or from incomplete records	(i) Income and expenditure account and statement of financial position from trial balance and additional information (ii) Income statement and statement of financial position from incomplete records