Financial Reporting (F7) December 2014 to June 2015

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, learning and content providers 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).

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 AND EDUCATION RECOGNITION

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.

As a member of the International Federation of Accountants, ACCA seeks to enhance the education recognition of its qualification on both national and international education frameworks, and with educational authorities and partners globally. In doing so, ACCA aims to ensure that its qualifications are recognized and valued by governments, regulatory authorities and employers across all sectors. To this end, ACCA qualifications are currently recognized on the education frameworks in several countries. Please refer to your national education framework regulator for further information.

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 F5-F9 are all paper based three-hour papers containing a mix of objective and longer type questions. The *Corporate and Business Law* (F4) paper is a two- hour computer based objective test examination which is also available as a paper based version from the December 2014 examination session.

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.

For all three hour examination papers, ACCA has introduced 15 minutes reading and planning time.

This additional time is allowed at the beginning of each three-hour examination to allow candidates to read the questions and to begin planning their answers before they start writing in their answer books. This time should be used to ensure that all the information and exam requirements are properly read and understood.

During reading and planning time candidates may only annotate their question paper. They may not write anything in their answer booklets until told to do so by the invigilator.

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 both the P4 and P5 Options papers contain one 50 mark compulsory question, and

Section B will offer a choice of two from three questions each worth 25 marks each.

Section A of each of the P6 and P7 Options papers contains 60 compulsory marks from two questions; question 1 attracting 35 marks, and question 2 attracting 25 marks. Section B of both these Options papers will offer a choice of two from three questions, with each question attracting 20 marks.

All Professional level exams contain four professional marks.

The pass mark for all ACCA Qualification examination papers is 50%.

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 except where indicated otherwise, ACCA will publish *examinable documents* once a year to indicate exactly what regulations and legislation could potentially be assessed within identified examination sessions..

For paper based examinations regulation ***issued*** or legislation ***passed*** on or before 31st August annually, will be examinable from 1st September of the following year to 31st August of the year after that. Please refer to the examinable documents for the paper (where relevant) for further information.

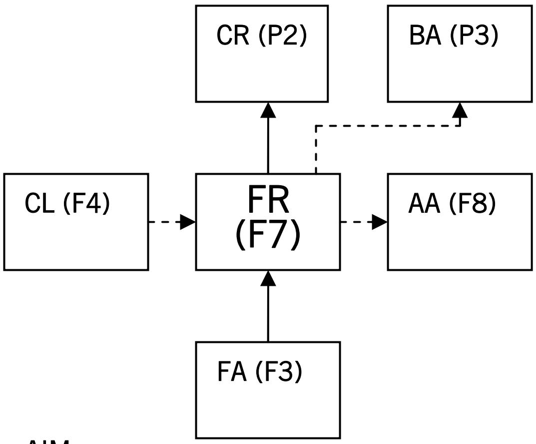
Regulation issued or legislation passed in accordance with the above dates may be examinable even if the ***effective*** date is in the future.

The term issued or passed relates to when regulation or legislation has been formally approved.

The term effective relates to when regulation or legislation must be applied to an entity transactions and business practices.

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.
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MAIN CAPABILITIES

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

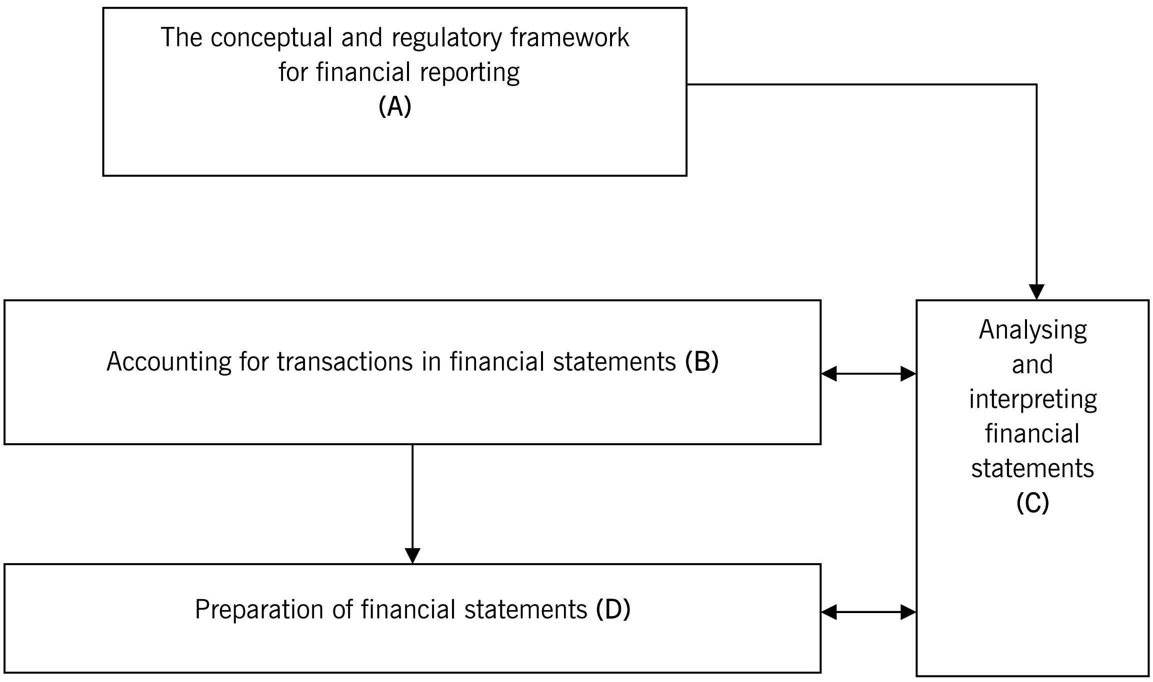
A Discuss and apply a conceptual and regulatory frameworks for financial reporting

B Account for transactions in accordance with International accounting standards

C Analyse and interpret financial statements.

D Prepare and present financial statements for single entities and business combinations in accordance with International accounting standards

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 The conceptual and regulatory framework for financial reporting

1. The need for a conceptual framework and the characteristics of useful information

2. Recognition and measurement

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

4. Regulatory framework

5. The concepts and principles of groups and consolidated financial statements

B Accounting for transactions in financial statements

1. Tangible non-current assets

2. Intangible assets

3. Impairment of assets

4. Inventory and biological assets

5. Financial instruments

6. Leasing

7. Provisions and events after the reporting period

8. Taxation

9. Reporting financial performance

10. Revenue

11. Government grants

C 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

D Preparation of financial statements

1. Preparation of single entity financial statements

2. Preparation of consolidated financial statements including an associate

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.

Section A of the exam comprises 20 multiple choice questions of 2 marks each.

Section B of the exam comprises two 15 mark questions and one 30 mark question.

The 30 mark question will examine the preparation of financial statements for either a single entity or a group. The section A question and the other questions in section B can cover any areas of the syllabus.

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 THE CONCEPTUAL AND REGULATORY FRAMEWORK FOR FINANCIAL REPORTING

1. The need for a conceptual framework and the characteristics of useful information

a) Describe what is meant by a conceptual framework of accounting.[2]

b) Discuss whether a conceptual framework is necessary and what an alternative system might be.[2]

c) Discuss what is meant by relevance and faithful representation and describe the qualities that enhance these characteristics.[2]

d) Discuss whether faithful representation constitutes more than compliance with accounting standards.[1]

e) Discuss what is meant by understandability and verifiability in relation to the provision of financial information.[2]

f) Discuss the importance of comparability and timeliness to users of financial statements.[2]

g) Discuss the principle of comparability in accounting for changes its accounting policies.[2]

2. Recognition and measurement

a) Define what is meant by 'recognition' in financial statements and discuss the recognition criteria.[2]

b) Apply the recognition criteria to: [2]
 i) assets and liabilities.
 ii) income and expenses

c) Explain the following measures and compute amounts using: [2]
 i) historical cost
 ii) fair value/current cost
 iii) net realisable value
 iv) present value of future cash flows.

d) Discuss the advantages and disadvantages of the use of historical cost accounting.

e) Discuss whether the use of current value accounting overcomes the problems of historical cost accounting.[2]

f) Describe the concept of financial and physical capital maintenance and how this affects the determination of profits.[1]

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.[1]

b) Discuss the extent to which International Financial Reporting Standards (IFRSs) are relevant to specialised, not-for-profit and public sector entities.[1]

4. Regulatory framework

a) Explain why a regulatory framework is needed also including the advantages and disadvantages of IFRS over a national regulatory framework.[2]

b) Explain why accounting standards on their own are not a complete regulatory framework.[2]

c) Distinguish between a principles based and a rules based framework and discuss whether they can be complementary.[1]

d) Describe the IASB's Standard setting process including revisions to and interpretations of Standards.[2]

e) Explain the relationship of national standard setters to the IASB in respect of the standard setting process.[2]

5. The concepts and principles of groups and consolidated financial statements

a) Describe the concept of a group as a single economic unit.[2]

b) Explain and apply the definition of a subsidiary within relevant accounting standards.[2]

c) Identify and outline using accounting standards the circumstances in which a group is required to prepare consolidated financial statements as required by applicable accounting standards and other regulation. [2]

d) Describe the circumstances when a group may claim exemption from the preparation of consolidated financial statements.[2]

e) Explain why directors may not wish to consolidate a subsidiary and when this is permitted by accounting standards and other applicable regulation.[2]

f) Explain the need for using coterminous year ends and uniform accounting polices when preparing consolidated financial statements.[2]

g) Explain why it is necessary to eliminate intra group transactions. [2]

h) Explain the objective of consolidated financial statements. [2]

i) 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. [2]

j) Define an associate and explain the principles and reasoning for the use of equity accounting. [2]

B ACCOUNTING FOR TRANSACTIONS IN FINANCIAL STATEMENTS

1. Tangible non-current assets

a) Define and compute the initial measurement of a non-current (including a self-constructed and borrowing costs) asset.[2]

b) Identify subsequent expenditure that may be capitalised, distinguishing between capital and revenue items.[2]

c) Discuss the requirements of relevant accounting standards in relation to the revaluation of non-current assets.[2]

d) Account for revaluation and disposal gains and losses for non-current assets.[2]

e) Compute depreciation based on the cost and revaluation models and on assets that have two or more significant parts (complex assets).[2]

f) Discuss why the treatment of investment properties should differ from other properties.[2]

g) Apply the requirements of relevant accounting standards for investment property.[2]

2. Intangible non-current assets

a) Discuss the nature and accounting treatment of internally generated and purchased intangibles.[2]

b) Distinguish between goodwill and other intangible assets.[2]

c) Describe the criteria for the initial recognition and measurement of intangible assets.[2]

d) Describe the subsequent accounting treatment, including the principle of impairment tests in relation to goodwill.[2]

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.[2]

f) Describe and apply the requirements of relevant accounting standards to research and development expenditure.[2]

3. Impairment of assets

a) Define an impairment loss.[2]

b) Identify the circumstances that may indicate impairments to assets.[2]

c) Describe what is meant by a cash generating unit.[2]

d) State the basis on which impairment losses should be allocated, and allocate an impairment loss to the assets of a cash generating unit.[2]

4. Inventory and biological assets

a) Describe and apply the principles of inventory valuation.[2]

b) Apply the requirements of relevant accounting standards for biological assets.[2]

5 Financial instruments

a) Explain the need for an accounting standard on financial instruments.[1]

b) Define financial instruments in terms of financial assets and financial liabilities.[1]

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: [1]
   i) amortised cost
   ii) fair value (including option to elect to present gains and losses on equity instruments in other comprehensive income) [2]

d) Distinguish between debt and equity capital.[2]

e) Apply the requirements of relevant accounting standards to the issue and finance costs of: [2]
   i) equity
   ii) redeemable preference shares and debt instruments with no conversion rights (principle of amortised cost)
   iii) convertible debt

6. Leasing

a) Explain why recording the legal form of a finance lease can be misleading to users (referring to the commercial substance of such leases).[2]

b) Describe and apply the method of determining a lease type (i.e. an operating or finance lease).[2]

c) Discuss the effect on the financial statements of a finance lease being incorrectly treated as an operating lease.[2]

d) Account for assets financed by finance leases in the records of the lessee.[2]

e) Account for operating leases in the records of the lessee.[2]

7. Provisions and events after the reporting period

a) Explain why an accounting standard on provisions is necessary.[2]

b) Distinguish between legal and constructive obligations.[2]

c) State when provisions may and may not be made and demonstrate how they should be accounted for.[2]

d) Explain how provisions should be measured.[1]

e) Define contingent assets and liabilities and describe their accounting treatment.[2]

f) Identify and account for: [2]
   i) warranties/guarantees
   ii) onerous contracts
   iii) environmental and similar provisions
   iv) provisions for future repairs or refurbishments.

g) Events after the reporting period
   i) distinguish between and account for adjusting and non-adjusting events after the reporting period [2]
   ii) Identify items requiring separate disclosure, including their accounting treatment and required disclosures[2]

8. Taxation

a) Account for current taxation in accordance with relevant accounting standards.[2]

b) Explain the effect of taxable temporary differences on accounting and taxable profits.[2]

c) Compute and record deferred tax amounts in the financial statements.[2]

9. Reporting financial performance

a) Discuss the importance of identifying and reporting the results of discontinued operations.[2]

b) Define and account for non-current assets held for sale and discontinued operations.[2]

c) Indicate the circumstances where separate disclosure of material items of income and expense is required.[2]

d) Account for changes in accounting estimates, changes in accounting policy and correction of prior period errors

e) 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) [2]
   ii) explain the relevance of the diluted eps and calculate the diluted eps involving convertible debt and share options (warrants) [2]

10. Revenue

a) Apply the principle of substance over form to the recognition of revenue.[2]

b) Explain the importance of recording the commercial substance rather than the legal form of transactions – give examples where recording the legal form of transactions may be misleading.[2]

c) Describe the features which may indicate that the substance of transactions differs from their legal form.[2]

d) Apply the principle of substance over form to the recognition and derecognition of assets and liabilities.[2]

e) Recognise the substance of transactions in general, and specifically account for the following types of transaction: [2]
   i) goods sold on sale or return/consignment inventory
   ii) sale and repurchase/leaseback agreements
   iii) factoring of receivables.

f) Define a construction contract and discuss the role of accounting concepts in the recognition of profit.[2]

g) Describe the acceptable methods of determining the stage (percentage) of completion of a contract.[2]

h) Prepare financial statement extracts for construction contracts.[2]

11. Government grants

a) Apply the provisions of relevant accounting standards in relation to accounting for government grants.[2]

C ANALYSING AND INTERPRETING FINANCIAL STATEMENTS

1. Limitations of financial statements

a) Indicate the problems of using historic information to predict future performance and trends.[2]

b) Discuss how financial statements may be manipulated to produce a desired effect (creative accounting, window dressing).[2]

c) Explain why figures in a statement of financial position may not be representative of average values throughout the period for example, due to: [2]
   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.[2]

b) Explain what aspects of performance specific ratios are intended to assess.[2]

c) Analyse and interpret ratios to give an assessment of an entity's performance and financial position in comparison with: [2]
   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.[2]

e) Discuss how the interpretation of current value based financial statements would differ from those using historical cost based accounts.[1]

3. Limitations of interpretation techniques

a) Discuss the limitations in the use of ratio analysis for assessing corporate performance.[2]

b) Discuss the effect that changes in accounting policies or the use of different accounting polices between entities can have on the ability to interpret performance.[2]

c) Indicate other information, including non-financial information, that may be of relevance to the assessment of an entity's performance.[1]

d) Compare the usefulness of cash flow information with that of a statement of profit or loss or a statement of profit or loss and other comprehensive income.[2]

e) Interpret a statement of cash flows (together with other financial information) to assess the performance and financial position of an entity.[2]

f) i) 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 [2]
ii) discuss the limitations of using eps as a performance measure.[3]

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.[1]

D PREPARATION OF FINANCIAL STATEMENTS

1. Preparation of single entity financial statements

a) Prepare an entity's statement of financial position and statement of profit or loss and other comprehensive income in accordance with the structure prescribed within IFRS and content drawing on accounting treatments as identified within A, B and C.[2]

b) Prepare and explain the contents and purpose of the statement of changes in equity.[2]

c) Prepare a statement of cash flows for a single entity (not a group) in accordance with relevant accounting standards using the direct and the indirect method .[2]

2. Preparation of consolidated financial statements including an associate

a) Prepare a consolidated statement of financial position for a simple group (parent and one subsidiary and associate) dealing with pre and post acquisition profits, non-controlling interests and consolidated goodwill.[2]

b) Prepare a consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income for a simple group dealing with an acquisition in the period and non-controlling interest.[2]

c) Explain and account for other reserves (e.g. share premium and revaluation reserves).[1]

d) Account for the effects in the financial statements of intra-group trading.[2]

e) Account for the effects of fair value adjustments (including their effect on consolidated goodwill) to: [2]
i) depreciating and non-depreciating non-current assets
ii) inventory
iii) monetary liabilities
iv) assets and liabilities not included in the subsidiary's own statement of financial position, including contingent assets and liabilities

f) Account for goodwill impairment.[2]

g) Describe and apply the required accounting treatment of consolidated goodwill.[2]

SUMMARY OF CHANGES TO F7
RATIONALE FOR CHANGES

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders such as employers, students, regulatory and advisory bodies and learning providers.

Note of significant changes to study guide Paper F7
The main areas to be added or deleted from the syllabus from that date are shown in Table 1 and 2 below:

Table 1 – Additions to F7

B4(b)	Apply the requirements of relevant accounting standards for biological assets	The principles of IAS 41 *Agriculture* have been introduced to the F7 syllabus

Table 2 – Deletions to F7

There have been some minor deletions to the study guide for the exam year commencing 1 September 2014. These have been made to remove outcomes that overlap with others within F7 or with outcomes fully examined in paper F3.

Ref in prior year study guide		
A1c)	Indicate the circumstances and required disclosures where a 'true and fair' override may apply	
B2a)	Describe the structure and objectives of the IFRS Foundation, the International Accounting Standards Board (IASB), the IFRS Advisory Council (IFRS AC) and the IFRS Interpretations Committee (IFRS IC).[2]	
B9b)	Record entries relating to income tax in the accounting records	
E1 c)	Recognise how related party relationships have the potential to mislead users	This has been removed to clarify that no knowledge of disclosure of related parties is required.

Table 2 – Changes to the structure of the syllabus of F7

There have been changes to how certain outcomes are grouped into sections within the syllabus.
The outline of these changes are outlined below:

- The conceptual and regulatory framework outcomes have been combined into one section. This section, A, also now includes the concepts relating to group accounting
- The outcomes relating to substance over form, revenue and construction contracts have been grouped together in subject area B10
- The outcome relating to government grants (previously grouped with the non-current assets outcomes) has been separately classified as subject area B11 to clarify that both revenue based and capital grants can be examined.
- Preparation of financial statements of both single entities and groups are now combined within section D.