ACCA FA Section A, B & C Mind Map

1. The context & purpose of financial reporting

Accounting comprises the recording of transactions, and the summarising of information

- Statement of Financial Position (Balance Sheet);
- Statement of Profit & Loss;
- Statement of Cash Flows

Types of Business Entity:(1) Sole Proprietor;(2) Partnership;(3) Limited Liability Company

International Accounting Standards Board (IASB) is responsible for issuing International Financial Reporting Standards (IFRS).

Exposure Draft: Proposed IFRS for public comments, after considering all comments, revisions made where appropriate and final IFRS published.

2. The qualitative characteristics of financial information

Fundamental Accounting Concepts:

(1) Fair presentation; (2) Going concern; (3) Accruals; (4) Consistency; (5) Materiality; (6) Substance over form; (7) Business entity concept

Qualitative characteristics:

i. Relevance;
ii. Faithful presentation;
iii. Comparability
iv. Verifiability
v. Timeliness
vi. Understandability

3. The use of double-entry and accounting systems

Step 1: Understanding T-Account and double-entry

Debit	**Credit**

General Rules of Double Entry

Debit represents
1. An increase in an asset
2. A decrease in a liability
3. An item of expense

Credit represents
1. An increase in liability
2. A decrease in asset
3. An item of income

Step 2: Balance and close ledger account

Step 3: Prepare Trial Balance

Step 4: Closing off the accounts & producing financial statements:

- Statement of financial positions (Balance Sheet)
- Statement of profit & loss account

Note for learning: *Steps 1 & 2 are covered in Section D, Recording transactions and events; Step 3 is covered by Section E, Preparing a trial balance; Step 4 is covered by Section F, Preparing basic financial statements, and Section G, Preparing simple consolidated financial statements.*

ACCA FA Section D Mind Map

Got it Pass

Recording Transactions & Events

There are **10 types** of transactions or events in Financial Accounting Syllabus in which you have to understand all of them and how to apply the techniques.

1. Sales & Purchase

Key accounting standards & principles: **IAS 18 & IFRS 15**

Accounting for discounts

Sales tax

2. Cash

Cash transactions booking

Record for petty cash transaction

3. Inventory

Key accounting standards: **IAS 2**

Valuation of inventory: Lower of cost and net realizable value (NRV)

Cost of inventory should include all costs of purchase, cost of conversions, and other costs incurred in bringing the inventories to their present location and condition.

Closing inventory valuation method: FIFO (First-in-first-out), AVCO (Average Cost)

4. Tangible non-current assets

Key accounting standards: **IAS 16**

- Recognition
- Capital expenditure vs Revenue expenditure
- Asset disposal
- Asset revaluation
- Disclosure in financial statements

5. Depreciation

Depreciation is the changing of the cost of a non-current asset over its useful life

Methods of calculating depreciation:
- Straight line method
- Reducing balance method

Revaluation of non-current assets depreciation calculation

6. Intangible non-current assets & amortisation

It's about goodwill and Research & Development (R&D)

Goodwill:
Purchase vs Non-purchase

R&D: Key accounting standard: **IAS 38**

Research: Expensed in P&L

Development: If certain conditions met, it can be capitalized and amortized over years.

7. Accruals & Prepayments

Matching principle in booking accruals & prepayments

Prepayment is payment in advance (Debit Asset)

Accrual is the name to an amount owing for which invoice not received.

Understand how to make journal entries and booking in ledger

8. Receivables & Payables

Credit analysis

Aged receivables analysis

Irrecoverable debt vs Doubtful debt

Specific allowance vs General allowance

9. Provisions & Contingencies

Key accounting standards: **IAS 37**

Provisions: A liability where the timing or the amount is uncertain. (On Balance Sheet)

Contingent liability: Liability that may result, but depends on the outcome of uncertain events. (Off Balance Sheet)

Probable vs Possible vs Remote

10. Capital Structure & Finance Costs

Types of capital:
- Ordinary Shares
- Preference Shares
- Loan Notes

ACCA FA Section E Mind Map

Got it Pass

1. Suspense Accounts

If trial balance is not balance, there must be errors that need to be fixed.

Suspense account is open to fix the trial balance errors.

This is an artificial account that had the double entries all been corrected then there would be no trial balance difference.

When all errors have been found, the balance of suspense account will fall to zero.

2. Correction of errors

Major topics in this area:

(1) Types of errors occur;

(2) Journal entries to correct errors

(3) Error impact on statement of financial position and statement of profit & loss accounts.

Trial Balance

Balance of each accounts and to check whether all debit and credit are equal

4. Bank Reconciliation

Main reasons for differences between bank statement and cash book:

(1) Cash book error;

(2) Bank mistakes

(3) Timing differences

Terminology:

i. Balance on bank statement;
ii. Cheques;
iii. Drawer (of cheque);
iv. Unpresented cheque;
v. Deposits not yet credited;
vi. Dishonoured cheque;
vii. Credit transfer;
viii. Standing orders;
ix. Direct debit

Bank Reconciliation Statement

Balance per bank statement	xxx
Add/Less Bank errors	xxx
	XX
Add: Lodgements not credited	xxx
Less: Unpresented cheques	(xx)
Balance as per cash book	XX

3. Control Account / Reconciliation

Purpose of control account

Prepare control account reconciliation for AR & AP

- Receivables ledger control account
- Payables ledger control account

Control account reconciliation

The balance on the Receivables (Payables) ledger control account should equal the total of the list of balances in the Receivables (Payables) ledger.

If the two are not equal, then there must be an error.

ACCA FA Section F & G
Mind Map

Got it Pass

1. Statement of Financial Position

Accounting equation:(1) Assets = Capital + Liabilities;
(2) Net Assets = Assets - Liabilities

Assets		
Non-current assets		
	Land and Buildings	xx
	Plant and Equipment	xx
		XX
Current assets		
	Inventories	xx
	Accounts Receivable	xx
	Prepayments	xx
	Cash	xx
		XX
Total Assets		XXX
Capital and Liabilities		
Capital		
	Share capital & premium	xx
	Retained earnings	xx
		XX
Non-current liabilities		
	Long term bank loan	xx
Current liabilities		
	Accounts Payable	xx
	Accruals	xx
		XX
Total Capital and Liabilities		XXX

* Working capital represents inventory, accounts receivable & accounts payable

Key accounting standards: IAS 1

2. Statement of Profit & Loss

Sales Revenue		xx
Cost of Sales		xx
Gross Profit		XX
Other Income		xx
Expenses:		
Rent	xx	
Electricity	xx	
Wages & Salaries	xx	
Depreciation	xx	
Total Expenses		XX
Net Profit before interest & tax		XXX
Interest expense		xx
Taxation		xx
Net Profit after tax		XXX

3. Statement of Cash Flows

Cash flows from operating activities	
Net profit before taxation	xx
Adjustments for:	
Depreciation	xx
Interest expense	xx
Change in working capital *	xx
	XX
Cash flows from investing activities	
Purchase of fixed assets	xx
Interest received	xx
	XX
Cash flows from financing activities	
Repayment of bank loan	xx
Net increase / (decrease) in cash	XXX

Disclosure Note for the following items in FA syllabus:
(1) Non-current assets; (2) Provisions; (3) Inventory; (4) Event after the reporting period.

Events after the reporting period (IAS 10):
Events after the reporting period refer to events that occur between the date of the Statement of Financial Position and the date on which the Financial Statement becomes final.
Adjusting events vs Non-adjusting events

Incomplete record for the following situations in FA syllabus:
(1) Use of accounting equation; (2) Use of ledger accounts to calculate missing figures; (3) Use of cash and/or bank summaries; (4) Use of profit percentages to calculate missing figures.

4. Consolidated Financial Statements

Subsidiary:
Pre-acquisition profits – Profits earned before date of acquisition
Goodwill – The excess amount paid by parent company for subsidiary's net asset value on the Statement of Financial Position
Non-controlling interests (NCI) – Parent owned less than 100% while the net assets shared by non-controlling party

Goodwill Calculation

Fair value of consideration	xxx
Fair value of non-controlling interest	xxx
Less: Fair value of net asset at acquisition	(xx)
Goodwill	XX

Associates:
An associate is an entity in which the investor has significant influence, but which is not a subsidiary. (shareholding > 20% but <50%)
Key accounting standard: IAS 28, requires the use of equity method of accounting for investments in associates, which means
Consolidated Statement of Profit & Loss –
*Investing company **only** add group's share of associate's profit after tax*
Consolidated Statement of Financial Position –
Show "investment in associates" which include the original cost of investment plus group's share of post-acquisition earnings of associate

ACCA FA Section H Mind Map

Got it Pass

Interpretation of Financial Statements

There are **4 Areas**:
i) Profitability; ii) Liquidity;
iii) Efficiency; iv) Position (or Gearing)

1. Profitability

Return on Capital Employed (ROCE)

$$= \frac{\text{Profit before interest \& taxation}}{\text{Share capital \& reserves + Long term debt}} \times 100\%$$

Return on shareholder capital

$$= \frac{\text{Profit after taxation}}{\text{Share capital \& reserves}} \times 100\%$$

Asset turnover ratio

$$= \frac{\text{Sales}}{\text{Share capital \& reserves + Long term debt}} \times 100\%$$

Profit/Sales ratio

$$= \frac{\text{Profit}}{\text{Sales}} \times 100\%$$

2. Liquidity

Current ratio

$$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Quick ratio (also known as acid test ratio)

$$= \frac{\text{Profit after taxation}}{\text{Share capital \& reserves}}$$

Higher the ratio, more liquid of the company

3. Efficiency

Days sales outstanding

$$= \frac{\text{Accounts Receivable}}{\text{Sales}} \times 365 \text{ Days}$$

Inventory turnover days

$$= \frac{\text{Inventory}}{\text{Cost of sales}} \times 365 \text{ Days}$$

Payable turnover days

$$= \frac{\text{Accounts Payables}}{\text{Cost of Purchases}} \times 365 \text{ Days}$$

Cash operating cycle:
Days sales outstanding + Inventory Turnover Days – Payable Turnover Days

4. Position

Gearing (Equity) ratio

$$= \frac{\text{Long term debt}}{\text{Share capital \& reserves}} \times 100\%$$

Gearing (Total Capital) ratio

$$= \frac{\text{Long term debt}}{\text{Share capital \& reserves + Long term debt}} \times 100\%$$

Higher the ratio, company's position is **weaker**

Interest cover ratio

$$= \frac{\text{Profit before interest \& tax}}{\text{Interest charges in the year}}$$

Higher the ratio, **stronger** of company's position