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1 Introduction

ACA qualification

The ICAEW chartered accountancy qualification, the ACA, is a world-leading professional qualification in accountancy, finance and business.

The ACA has integrated components that give you an in-depth understanding across accountancy, finance and business. Combined, they help build the technical knowledge, professional skills and practical experience needed to become an ICAEW Chartered Accountant.

Each component is designed to complement each other, which means that you can put theory into practice and you can understand and apply what you learn to your day-to-day work. Progression through all the elements of the ACA simultaneously will enable you to be more successful in the workplace and exams.

The components are:

- Professional development
- Ethics and professional scepticism
- 3-5 years practical work experience
- 15 accountancy, finance and business modules

To find out more on the components of the ACA and what is involved in training, visit your dashboard at icaew.com/dashboard
2 Financial Accounting and Reporting

The full syllabus and technical knowledge grids can be found within the module study guide. Visit icaew.com/dashboard for this and more resources.

2.1 Module aim

To enable candidates to prepare complete single entity and consolidated financial statements, and extracts from those financial statements, covering a wide range of International Financial Reporting Standards (IFRS).

Candidates will also be required to explain accounting and reporting concepts and ethical issues, and the application of IFRS to specified single entity or group scenarios.

On completion of this module, students will be able to:

- Explain the contribution and inherent limitations of financial statements, apply the International Accounting Standards Board’s (IASB) conceptual framework for financial reporting and identify and explain key ethical issues.
- Prepare and present financial statements from accounting data for single entities, whether organised in corporate or in other forms, in conformity with IFRS and explain the application of IFRS to specified single entity scenarios.
- Identify the circumstances in which entities are required to present consolidated financial statements, prepare and present them in conformity with IFRS and explain the application of IFRS to specified group scenarios.

2.2 Method of assessment

The Financial Accounting and reporting module will be three hours long containing four written test questions. Candidates may use the IASB’s IRFS open book text.

The module will include questions on:

(a) Preparation of single entity financial statements (excluding statement of cash flows) from trial balance or draft financial statements;
(b) Preparation of consolidated financial statements (excluding consolidated statement of cash flows) from individual financial statements or draft consolidated financial statements; and
(c) Explanation of the application of IFRS to specified scenarios.

Other question types could include:

(a) Preparation of consolidated statement of cash flow, or extracts therefrom, from consolidated financial statements or draft consolidated statement of cash flow, and
(b) Mixed or single topic questions requiring extracts from single entity or consolidated financial statements (including from statement of cash flows) and/or explanation of accounting treatment with supporting calculations.

Concepts and ethics will be tested in any of the written test questions.

2.3 Specification grid

This grid shows the relative weightings of subjects within this module and should guide the relative study time spent on each. Over time the marks available in the assessment will equate to the weightings below, while slight variations may occur in individual assessments to enable suitably rigorous questions to be set.

<table>
<thead>
<tr>
<th>Syllabus area</th>
<th>Weighting (%)</th>
</tr>
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<tbody>
<tr>
<td>1 Accounting and reporting concepts and ethics</td>
<td>10</td>
</tr>
<tr>
<td>2 Single company financial statements</td>
<td>60</td>
</tr>
<tr>
<td>3 Consolidated financial statements</td>
<td>30</td>
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<td></td>
<td>100</td>
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</table>
3 Permitted Texts

At the Professional and Advanced Levels there are specific texts that you are permitted to take into your exams with you. All information for these texts, the editions that are recommended for your examinations and where to order them from, is available on www.icaew.com/permittedtexts.

<table>
<thead>
<tr>
<th>Professional Level Examinations</th>
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<tr>
<td>Audit and Assurance</td>
<td>✓</td>
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<td>Financial Accounting and Reporting</td>
<td>✓</td>
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<td>×</td>
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<tr>
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<tr>
<td>Business Planning: Banking/Insurance/Taxation</td>
<td>No restrictions</td>
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<table>
<thead>
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<th>Advanced Level Examinations</th>
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</thead>
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<tr>
<td>Corporate Reporting</td>
<td>No restrictions</td>
</tr>
<tr>
<td>Strategic Business Management</td>
<td>No restrictions</td>
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<tr>
<td>Case Study</td>
<td>No restrictions</td>
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</table>

Business Planning: Banking/Insurance/Taxation and the Advanced Level exams have no restrictions so you may take any hard copy materials into these exams that you wish, subject to practical space restrictions.

Although the examiners use the specific editions listed to set the assessment, you may use a different edition of the text at your own risk. If you use a different edition within your exams, you should note this inside your answer booklet, at the beginning of the question.

This information, as well as what to expect and what is and is not permitted in your exams is available in the Instructions to Candidates. You will be sent this with your exam admission details and it is also available on our website; www.icaew.com/exams.
4 Study guide

4.1 Help yourself study for your ACA exams

The right approach

1 Develop the right attitude

| Believe in yourself | Yes, there is a lot to learn. But thousands have succeeded before and you can too. |
| Remember why you’re doing it | You are studying for a good reason: to advance your career. |

2 Focus on the exam

| Read through the Syllabus and Study Guide | These tell you what you are expected to know and are supplemented by Examination context sections. |

3 The right method

| See the whole picture | Keeping in mind how all the detail you need to know fits into the whole picture will help you understand it better. |
| | - The Introduction to each chapter in the study guide puts the material in context. |
| | - The Learning objectives, Section overviews and Examination context sections in the study manual show you what you need to grasp. |
| Use your own words | To absorb the information (and to practise your written communication skills), you need to put it into your own words. |
| | - Take notes. |
| | - Answer the questions in each chapter. |
| | - Draw mindmaps. |
| | - Try ‘teaching’ a subject to a colleague or friend. |
| Give yourself cues to jog your memory | The Study Manual uses bold to highlight key points. |
| | - Try colour coding with a highlighter pen. |
| | - Write key points on cards. |

4 The right recap

| Review, review, review | Regularly reviewing a topic in summary form can fix it in your memory. The Study Manual helps you review in many ways. |
| | - Each Chapter Summary will help you to recall that study session. |
| | - The Self-test actively tests your grasp of the essentials. |
| | - Go through the Examples in each chapter a second or third time. |
4.2 Study cycle

The best way to approach the Study Manual is to tackle the chapters in order. We will look in detail at how to approach each chapter below but as a general guide, taking into account your individual learning style, you could follow this sequence for each chapter.

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<th>Key study steps</th>
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<td>Step 2</td>
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<td>Explanations</td>
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<td>Step 6</td>
<td>Examples</td>
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<td>Step 7</td>
<td>Answers</td>
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<td>Step 8</td>
<td>Chapter summary</td>
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<td>Step 9</td>
<td>Self-test</td>
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<tr>
<td>Step 10</td>
<td>Learning objectives</td>
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</table>

Step 1: Topic list
This topic list is shown in the contents for each chapter and helps you navigate each part of the book; each numbered topic is a numbered section in the chapter.

Step 2: Introduction
The practical significance and working context sections for each chapter, set out in this study guide give you the big picture in terms of the context of the chapter. The content is referenced by the Study guide, and Examination context guidance shows what the examiners are looking for. The Introduction tells you why the topics covered in the chapter need to be studied.

Step 3: Section overviews
Section overviews give you a quick summary of the content of each of the main chapter sections. They can also be used at the end of each chapter to help you review each chapter quickly.

Step 4: Explanations
Proceed methodically through each chapter, particularly focusing on areas highlighted as significant in the chapter introduction or study guide.

Step 5: Note taking
Take brief notes, if you wish. Don't copy out too much. Remember that being able to record something yourself is a sign of being able to understand it. Your notes can be in whatever format you find most helpful; lists, diagrams, mindmaps.

Step 6: Examples
Work through the examples very carefully as they illustrate key knowledge and techniques.

Step 7: Answers
Check yours against the suggested solutions, and make sure you understand any discrepancies.

Step 8: Chapter summary
Review it carefully, to make sure you have grasped the significance of all the important points in the chapter.

Step 9: Self-test
Use the Self-test to check how much you have remembered of the topics covered.

Step 10: Learning objectives
Ensure you have ticked off the Learning objectives.

Moving on...

When you are ready to start revising, you should still refer back to the Study Manual.

- As a source of reference (you should find the index particularly helpful for this).
- As a way to review (the Section overviews, Examination context, Chapter summaries and Self-test questions help you here).

Remember to keep careful hold of the Study Manual – you will find it invaluable in your work.

4.3 Detailed study guide

Use this schedule and your exam timetable to plan the dates on which you will complete each study period below.

Revision phase – your revision should be centred around using the questions in the ICAEW Question Bank.
Reporting framework

In order to fully appreciate international accounting standards and their significance it is important to understand the regulatory background from which these accounting standards have come.

Over time different practices and regulations have evolved to meet the requirements of national economic, financial and legal systems. The challenge of international harmonisation is to eliminate or reduce the differences, to produce a level playing field for financial reporting and to help create more efficient international capital markets.

The globalisation of accounting standards and the convergence process is one of the events in the field of financial reporting in the last decade. This process is more than likely to continue with increasing effects on UK and other countries alike.

Stop and think

Have you ever wondered how a company’s accountant/finance director decides which amounts should appear where in a set of annual financial statements? Part of the answer to this is the regulatory framework and the accounting standards that have come from that.

In all areas of accounting and reporting individuals will need a working knowledge of international accounting standards. A knowledge of the background to these standards is also important.

As professional accountants you are expected to have a high level of personal and professional integrity and it is important that you are aware of the ethical standards that the ICAEW expects of you.

Read through this chapter of the Study Manual carefully as this is important background knowledge of which you must be aware. Take particular note of the section on ethics. This area will be covered in each topic as you progress through the Study Manual but this section gives you the detail you require. Finally work through the Self-test questions carefully to ensure that you have grasped the main points in the chapter.

In the examination, candidates may be required to:

- Discuss the purpose of accounting regulations and standards for both profit-making and not-for-profit entities.
- Explain, with examples, the objectives and limitations of financial statements.
- Explain the qualitative characteristics of financial information and the constraints on such information.
- Describe the financial effects of the application of the definitions in the IASB Conceptual Framework.
- Perform simple calculations to demonstrate the difference between the accrual basis, cash accounting and the break-up basis.
- Discuss and comment on the convergence process, including recent developments.
- Identify and explain the ethical and professional issues for a professional accountant.

Specific syllabus references for this chapter are: 1a, 1b, 1c, 1d, 1e, 1f, 1g, 1i and 2g.
Format of financial statements

The way that financial information is presented to shareholders and other users is a fundamental part of financial accounting. Corporate scandals have increased public concern as to the adequacy of transparency in financial statements. Accounting standards provide guidance on presentation, although no system of rules can cover all eventualities.

To ensure that financial statements are prepared to an adequate level it is important that entities are provided with a basic framework for the preparation of their financial statements. IAS 1 Presentation of Financial Statements provides a basic framework but still allows a degree of flexibility so that formats and headings can be adapted so that information is presented in a way that aids understanding.

Stop and think

Can you think of any advantages and disadvantages of standardised formats for financial statements?

Chapter 2 is an important chapter as it introduces formats for the statement of financial position, statement of profit or loss and other comprehensive income, and statement of changes in equity. You must be able to reproduce these. You may also find it useful to refer to the Appendix at the end of the manual which includes a proforma set of financial statements.

Section 9 deals with the financial statements of not-for-profit entities. Read through this section carefully.

Exam requirements

The ability to prepare financial statements for an individual entity (including the statement of cash flows) is a fundamental part of the Financial Accounting and Reporting syllabus and has a syllabus weighting of 60%. It will therefore be examined in some form at every sitting.

A typical written test question would involve the preparation of, say, two of the main components of the financial statements from a trial balance, for example, a company statement of financial position and a statement of profit or loss. You would also be asked to make adjustments based on additional information and/or to produce notes to those financial statements.

In the examination, candidates may be required to:

- Discuss the way IAS 1 builds on the principles contained in the IASB Conceptual Framework, including the following matters:
  - Fair/faithful presentation
  - Accrual basis
  - Going concern
  - Materiality

- Draft in accordance with IAS 1:
  - A statement of financial position, distinguishing between current and non-current items
  - A statement of profit or loss and other comprehensive income
  - A statement of changes in equity
  - Notes to the financial statements

- Candidates may be provided with trial balance/nominal ledger information or draft financial statements may be provided which need finalising.
  - Prepare the equity section of the statement of financial position of a not-for-profit entity from financial and other data
  - Prepare a statement of cash flows in accordance with IAS 7 from an entity's statement of profit or loss and statement of financial position or finalise a draft statement of cash flows.

- Explain the difference between UK GAAP and international requirements, preparing simple calculations to illustrate.

Specific syllabus references for this chapter are: 2a, 2b, 2c, 2e, 2g, 2h.
### Study Period 3

**Practical significance**

**Reporting financial performance**

One of the key financial statements is the statement of profit or loss and other comprehensive income which indicates the performance of the business for the accounting period.

Many entities have operations in many different types of business and many different countries. This will almost always involve accounting for foreign currency transactions.

Many entities will have individuals and other entities connected with them in some way or another. The basic assumption is that all transactions that entities make are ‘arm’s length’ transactions but this may not always be the case for transactions with related parties. Therefore, disclosure of such related party transactions gives users the opportunity to reassess their view of the performance of the entity.

**Stop and think**

Information about discontinued operations is important in assessing the expected future performance of an entity, so it must be accurately presented in the financial statements.

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<th>Working context</th>
<th>Approach</th>
<th>Syllabus references and exam context</th>
<th>Due Date</th>
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</table>
| 3            | Reporting financial performance | It is highly likely that entities that you come across in your work will operate in different business sectors and trade in several countries round the world. They may also have related party relationships with other individuals and entities. | Section 1 deals with IAS 8 and the effects of changes in accounting policy  
Section 2 deals with discontinued operations. Note the presentation of discontinued operations in the financial statements.  
Section 3 covers the treatment of foreign currency transactions and balances. This is at a very basic level and should not cause any problems.  
Read through section 4 carefully making particular note of the definitions involved in identifying related parties. This is a disclosure only standard, but you need to understand why it is important and be able to recognise related parties in a given scenario.  
Section 5 deals with the calculation of EPS. You must be able to calculate basic EPS including accounting for the effect of rights and bonus issues.  
Read through section 6 to give yourself an awareness of the rules on profits available for distribution. In the final section carefully note the differences between UK GAAP and international practice in each of the areas covered in the chapter.  
Finally, work through the Self-test questions carefully to ensure that you have grasped the main points in the chapter. | In the examination, candidates may be required to:  
- Prepare financial statements or extracts including adjustments for:  
  - Changes in accounting policies  
  - Changes in accounting estimates  
  - Prior period adjustments  
  - Foreign currency transactions  
And be able to explain the required accounting treatment:  
- Identify and explain the circumstances in which an operation would meet the IFRS 5 definition of a discontinued operation.  
- Calculate basic EPS and comment on how it might be affected by different accounting policies.  
- Identify the distributable reserves for an entity and explain the rules surrounding the calculation.  
- Identify and discuss a related party situation.  
- Explain the difference between UK GAAP and international requirements, preparing simple calculations to illustrate. |  
Specific syllabus references for this chapter are: 2a, 2b, 2c, 2d, 2e, 2f. |
### Property, plant and equipment

In most entities the carrying amount of property, plant and equipment is an extremely significant figure in their statement of financial position. Increasingly, for many entities, the value of their intangible assets is also a significant figure.

As non-current assets are such a significant element of the statement of financial position, it is important that they are not overstated. Impairment reviews and asset writedowns should therefore regularly take place in accordance with IAS 36.

**Stop and think**

If an entity’s statement of financial position shows a carrying amount for non-current assets of £1 million, a user of the financial statements would expect that those assets will provide a return of at least that amount to the business. If some of these assets are impaired, then this asset value could be misleading.

### Study Period

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<th>Approach</th>
<th>Syllabus references and exam context</th>
<th>Due Date</th>
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</table>
| 4            | **Property, plant and equipment** | As a professional accountant you will frequently be required to deal with non-current assets. You must therefore know whether or not they are to be recognised in a statement of financial position, and at what amount. When you analyse a business, it is vital that you understand the basis on which the financial statements are prepared. The reporting policies have a direct effect on the view given by the financial statements. | Sections 1 – 3 deal with the basics of recognising and measuring property, plant and equipment. Section 4 looks at borrowing costs, which can also form part of the carrying amount of a non-current asset. Sections 5 – 7 deal with changes to the initial carrying amount of an asset, in particular depreciation and revaluation. Pay particular attention to the impact of revaluation on the depreciation charge. Section 8 is important. Make sure that you learn the meaning of recoverable amount and the definition of the three figures that must be compared in order to determine recoverable amount. Section 9 covers non-current assets held for sale. Note the treatment and presentation of these assets. Section 10 deals with disclosure. Make sure you can prepare a property, plant and equipment note. In the final section carefully note the differences between UK GAAP and international practice in each of the areas covered in this chapter. Finally, work through the Self-test questions carefully to ensure that you have grasped the main points in this chapter. | In the examination, candidates may be required to:  
- Explain how the IASB Conceptual Framework applies to the recognition of property, plant and equipment.  
- Prepare and present financial statements or extracts therefrom in accordance with:  
  - IAS 16 Property Plant and Equipment  
  - IAS 23 Borrowing Costs  
  - IAS 36 Impairment of Assets  
  - IFRS 5 Non-current assets held for Sale and Discontinued operations  
- Explain the accounting treatment of property, plant and equipment, borrowing costs, asset impairment and non-current assets held for sale.  
- Explain and illustrate the difference between the relevant treatment under IFRS and UK GAAP.  
- Identify and explain any ethical issues. |  |
Intangible assets

In recent years the recognition and measurement of intangible assets has been one of the most controversial areas of financial reporting. As the nature of business has changed intangible assets have become a significant part of the value of an entity. The most important assets for many businesses are now brands, market positions, knowledge capital and people, but these are rarely recognised in financial statements. Bill Gates is said to estimate that 97% of the value of Microsoft is not recognised in the statement of financial position as a result.

In contrast to the treatment of internally generated intangibles, acquired intangibles are normally recognised in the statement of financial position. For example, an entity that has acquired a brand, as opposed to internally generated an equally valuable brand, will recognise it, since a fair value can be attributed to it. As the acquirer has paid a price to acquire this brand, that price provides a reliable measure.

Stop and think

Can you think of any other types of intangible assets that might add value to a business apart from those listed above?

At this stage of your training it is less likely that you will have had practical experience of the issues affecting intangible assets. You may have come across some of the more common examples including development expenditure, patents and goodwill. However, the issues affecting recognition and valuation of these assets are often complex and would normally be dealt with by more senior members of the audit team.

Read through Chapter 5 carefully. In section 3 note how the underlying principles of the IASB Conceptual Framework are reflected in IAS 38. Section 9 introduces the topic of goodwill which will be covered in more detail in Chapters 10 – 15.

You should attempt all Interactive questions and Self-test questions to confirm your understanding of this topic.

Examination commentary

Intangible assets could be examined in the context of a question where extracts to the financial statements are required. Such a question could feature the treatment of research and development expenditure, goodwill or other intangibles.

Alternatively, intangibles could feature in a published accounts question where financial statements are produced or could be examined within the context of group accounts.

Questions could also focus on the way in which the accounting treatment of intangibles applies the principles of the IASB Conceptual Framework.

Specific syllabus references for this chapter are: 1d, 2b, 2c, 2d, 2e.
<table>
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<th>Study Period</th>
<th>Practical significance</th>
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<th>Syllabus references and exam context</th>
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<tbody>
<tr>
<td>6</td>
<td><strong>Revenue and inventories</strong></td>
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</table>
|              | In more traditional businesses the point at which revenue should be recognised is usually straightforward. However, in recent years as business transactions have become more complex this area of accounting has become more controversial with some companies adopting aggressive, and in some cases questionable, accounting policies for revenue recognition. | Accounting for revenue and inventories is a complex area as there are many judgemental decisions which need to be made. As a result of this it is likely that more senior members of staff will be involved. If you work in audit you may have been involved in some aspects of this work, for example attending inventory counts. | Read through sections 1 and 2 of Chapter 6 and attempt Interactive question 1. Pay particular attention to section 2 which demonstrates how the concepts of IAS 18 Revenue apply to specific types of transactions. Then try Interactive questions 2 to 7. The remainder of this chapter then deals with inventories. You will have covered the basic principles involved in your Accounting studies so much of this will be revision. Notice however that the manual puts the topic into the context of IAS 2 Inventories. Complete Interactive question 8. You should also try all the Self-test questions to confirm your understanding of these topics. | In the examination, candidates may be required to:  
- Prepare and present financial statements or extracts therefrom in accordance with:  
  - IAS 18 Revenue  
  - IAS 2 Inventories  
- Explain the accounting treatment of revenue and inventories.  
- Explain the differences between the accounting treatment using the accrual basis and cash basis in relation to revenue recognition.  
- Know that the principles of revenue and inventory measurement and recognition are the same under IFRS and UK GAAP.  
**Specific syllabus references for this chapter are:** 1d, 1f, 2b, 2c, 2d, 2e. |
|              | The valuation of inventories will involve management judgement. For example, decisions will need to be made about which costs to allocate to individual items of inventory and estimates may need to be made regarding estimated selling prices in order to establish net realisable value. These decisions will have an impact not only on the carrying value of the asset but will also have a direct impact on reported profits. |  |  |  |  |
|              | IAS 2 Inventories provides guidance in this area. |  |  |  |  |
|              | **Stop and think** |  |  |  |  |
|              | What is the relationship between revenue recognition and inventories? |  |  |  |  |
### Leases

In Financial Accounting and Reporting the issue of how finance leases and operating leases should be accounted for by lessees is examined. Most assets are leased out by specialist lessors and financial institutions. In this paper we only look at leasing from the viewpoint of the lessee.

An important source of finance for many entities comes in the form of the sale and leaseback of assets. An asset, typically a property, is sold to alleviate cash flow problems or release capital for investment opportunities, and then leased back. This allows continuing usage of the asset, albeit without legal ownership. These transactions can become quite complex and we consider the accounting treatment in a variety of circumstances.

**Stop and think**

Why do you think it is important to account for leasing transactions according to their substance rather than their legal form?

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</thead>
</table>
| 7            | Leases                 | You are likely to come across more entities that are lessees than those that are lessors. Many entities enter into sale and leaseback transactions and therefore this is an area that you are likely to be exposed to. | Read carefully through section 3 and make sure you understand all the definitions as these are important when trying to determine the figures for accounting for a finance lease for a lessee. Work carefully through the example and interactive question. Sections 7 and 8 deal with operating leases. Make sure you know how to deal with rent-free periods. Section 9 deals with land and buildings. Note the recent change made by the IASB in respect of leases of land. Read carefully through section 10 as sale and leaseback is an important area. Make sure that you understand that the accounting treatments depend upon whether the leaseback is a finance lease or an operating lease and on a comparison of the sales value to fair value and carrying amount. In the final section carefully note the differences between UK GAAP and International practice in each of the areas covered in this chapter. Finally work through the Self-test questions carefully to ensure that you have grasped the main points in this chapter. | In the examination, candidates may be required to:  
- Explain and apply the principle of substance over form.  
- Prepare and present financial statements or extracts therefrom in accordance with IAS 17 Leases.  
- Explain the accounting treatment of lessee accounting including sale and leaseback transactions and prepare relevant financial statement extracts.  
- Identify and explain the judgements to be made relating to the classification and treatment of leases and sale and leaseback transactions.  
- Explain and illustrate the differences between the relevant treatment under IFRS and UK GAAP.  
- Identify and explain any ethical issues.  
Specific syllabus references for this chapter are: 2b, 2c, 2d, 2e. |
Financial instruments

In recent years there has been huge growth in the number and complexity of financial instruments. Historically many of these complex financial instruments were not even recorded in company statements of financial position as many derivatives, for example, had an immaterial initial cost. However, the implementation of IAS 32 and IAS 39 initially, followed by IFRS 7, has brought in detailed accounting and disclosure requirements for such financial instruments.

Stop and think

A company issues convertible loan stock which is almost certain to be converted into equity shares at some point in the future. Should this loan stock be classified as debt or as equity in the statement of financial position? What effect would the classification as debt or equity have on a user’s interpretation of the financial statements?
Other standards
This chapter deals with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, IAS 10 Events after the Reporting Period, and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. Particularly important are requirements in respect of provisions. In the past provisions were sometimes used to manipulate profits, which is why IAS 37 provides specific guidance on when a provision should and should not be recognised.

Stop and think
A provision is set up in Year 1 (when profits are high) with the effect that profits are charged with an expense. In Year 2 when profits are lower the expenditure relating to that provision is incurred but is not recognised as an expense in profit or loss but charged to the provision in the statement of financial position instead.

Effect? Profits in Year 1 are reduced – profits in Year 2 are increased – profits are smoothed.
### Group accounts: basic principles

In very simple terms a group is a collection of entities, where one, the parent, controls the activities of the others, its subsidiaries. In these circumstances the group is required to produce ‘consolidated’ financial statements. These present the position and results of the individual companies as if they were one entity.

Examples of the issues involved include:
- Whether an investment meets the definition of a subsidiary.
- Whether there are circumstances when it might be appropriate to exclude a subsidiary from consolidation.
- The value at which the net assets and results of the subsidiary should be consolidated.

Relevant standards are:
- **IFRS 3 Business Combinations**
- **IFRS 10 Consolidated Financial Statements**
- **IFRS 12 Disclosure of Interests in Other Entities**
- **IAS 27 Separate Financial Statements**

### Stop and think

From the shareholders’ point of view what do you think the benefits are of consolidated financial statements?

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</table>
| 10           | **Group accounts: basic principles** | If you work in a small or medium-sized firm you may have been involved in the preparation of consolidated financial statements. If you work in a large audit firm then a significant number of audit assignments are likely to involve the audit of a group of companies. This involves two key steps:  
- The financial statements of each individual entity within the group will be audited.  
- The consolidated financial statements will be audited by the principal auditor. The principal auditor is responsible for the overall audit opinion on the consolidated financial statements.  
  The aim of this chapter is to set down the broad principles which are applied when preparing group financial statements. Work through it carefully reviewing the Worked examples and completing the Interactive questions. Because the preparation of consolidated financial statements makes up 30% of the syllabus, each paper will feature questions requiring either a consolidated statement of financial position or a consolidated statement of profit or loss. Some papers may also include questions requiring a consolidated statement of cash flows or a consolidated statement of changes in equity. | In the examination, candidates may be required to:  
- Explain and demonstrate the concepts and principles surrounding the consolidation of financial statements including:  
  - The single entity concept  
  - Substance over form  
  - The distinction between control and ownership  
- Prepare the consolidated statement of financial position or statement of profit or loss (or extracts) including the results of the parent entity and one or more subsidiaries.  
  **Specific syllabus references for this chapter are: 3b and 3d.** | |
Group accounts: consolidated statement of financial position

The consolidated statement of financial position provides the owners of the group with important information over and above that which is available in the parent’s own statement of financial position. The cost of the investment made in the subsidiary is replaced with the net assets controlled by the parent company. This application of substance over form provides a more realistic representation of what their investment is really worth as the statements of financial position of the parent and subsidiary are produced as if they were a single entity. The single entity concept has more detailed implications for the preparation of the statement of financial position which we will look at in this chapter.

Stop and think

Why is information about the assets and liabilities of the subsidiary of more use to the shareholders than the cost of their investment?

Chapter 11 applies the principles introduced in Chapter 10 to the consolidated statement of financial position specifically. Note the technique to answering questions on this topic.

Sections 4 – 7 introduce a number of consolidation adjustments. These may feature in full consolidation questions or questions requiring extracts or discussion of principles, so review these carefully.

Issues in this area include goodwill calculations, fair value adjustments and the elimination of intra-group transactions and balances.

In the examination candidates may be required to:

- Prepare a consolidated statement of financial position (or extracts therefrom) including the results of the parent entity and one or more subsidiaries from individual financial statements or draft consolidated financial statements and including adjustments for the following:
  - Acquisition of a subsidiary, including mid-year acquisitions
  - Goodwill
  - Intra-group items
  - Unrealised profits
  - Fair values
- Other consolidation adjustments.
- Explain the process of preparing a consolidated statement of financial position in the context of the single entity concept, substance over form and the distinction between control and ownership.
- Explain the two methods of measuring the non-controlling interest at acquisition and prepare financial information by the two methods.
- Explain and illustrate the difference between the relevant treatment under IFRS and UK GAAP.

Specific syllabus references for this chapter are: 1d, 1h, 3d, 3e, 3f, 3g.
12

**Consolidated statements of financial performance**

The consolidated statement of profit or loss provides the owners of the group with important information over and above that which is available in the parent’s own statement of profit or loss. The investment income receivable from the subsidiary is replaced with the profits controlled by the parent company.

The consolidated statement of changes in equity provides a ‘bridge’ between the consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income. It achieves this by reconciling the group’s opening equity (capital, reserves and non-controlling interest) to the closing position.

**Note**

Consolidation issues arise in profit or loss rather than in other comprehensive income, so in this chapter we concentrate on the **statement of profit or loss**.

**Stop and think**

Why is information about the profits of the subsidiary of more use to the shareholders than information about the investment income received?

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</table>
| 12           | **Consolidated statements of financial performance** | In very simple terms, the preparation of the consolidated statement of profit or loss and consolidated statement of changes in equity involves the combination of the individual statements of the group members. As we said in Chapter 10, this process is often computerised. However, detailed work will be needed on the consolidation adjustments, particularly in respect of the consolidated statement of profit or loss. This might include the identification and elimination of intra-group transactions and the elimination of unrealised profit. We will look at a number of consolidation adjustments in this chapter. | Section 2 deals with the major issues in preparing the consolidated statement of profit or loss – intra-group trading and non-current assets transfers. Do Interactive questions 1 and 2. Section 3 shows you the standard workings which you should learn for the exam. Interactive question 3 will take you through these. Make sure you understand how to deal with a mid-year acquisition and go carefully through Section 7 on the Consolidated statement of changes in equity. | In the examination candidates may be required to:  
- Prepare a consolidated statement of profit or loss (or extracts therefrom) including the results of the parent entity and one or more subsidiaries from individual financial statements or draft consolidated financial statements and including adjustments for the following:  
  - Acquisition of a subsidiary, including a mid-year acquisition  
  - Intra-group transactions  
  - Unrealised profits  
  - Interest and management charges  
- Explain the preparation of a consolidated statement of profit or loss in the context of the single entity concept, substance over form and the distinction between control and ownership.  
- Prepare a consolidated statement of changes in equity (or extracts there from) including the effects of new and continuing interests in subsidiaries.  
- Explain and illustrate the difference between the relevant treatment under IFRS and UK GAAP.  
Specific syllabus references for this chapter are: 1d, 1h, 3d, 3e, 3f, 3g. |
In Chapters 10 – 12 we have seen that companies may acquire other entities as a means of achieving growth and meeting corporate objectives. We have been looking at situations where an investor obtains control of an investee through the ownership of a majority of the ordinary share capital. However, there are other ways in which an investment may be made. A non-controlling stake could be obtained such that the investor can influence, rather than control, the key decisions made by the entity. This is normally achieved through the acquisition of 20% or more of the voting rights (normally attached to ordinary shares). This type of investment is referred to as an associate.

Another option is the acquisition of joint control by entering into a joint venture with other parties. Joint ventures are accounted for using the equity method – the same method used for associates.

**Stop and think?**

How do you think a simple trade investment differs from an investment in an associate or in a joint venture?

Chapter 13 deals with the treatment of an associate or joint venture in the consolidated financial statements. Read through section 1, paying particular attention to the definition of significant influence. Then move on to the equity method in sections 2 and 3. Review these sections carefully working through Interactive question 1 and 2. Make sure that you understand the difference between this method and the consolidation technique used for subsidiaries.

Work through section 5. Make sure that you appreciate that the treatment of unrealised profits will depend on whether the associate or the parent is the selling company.

Sections 6 – 8 cover joint ventures. These are also accounted for using the equity method. Section 9 deals with disclosure requirements under IFRS.

Specific syllabus references for this chapter are: 3c, 3d, 3e, 3f, 3g.

In the examination candidates may be required to:

- Incorporate the results of an associate in the consolidated financial statements using the equity method.
- Explain the equity method and the principles behind it.
- Incorporate the results of a joint venture in the consolidated financial statements.
- Explain and illustrate the difference between the relevant treatment under IFRS and UK GAAP.
14  

**Group accounts: disposals**  
So far, we have been looking at the circumstances in which one entity acquires an investment in another entity. However, the decision to dispose of an investment is an equally important decision. A company may decide to dispose of an investment for a number of reasons, including:  
- The need to generate cash.  
- The fact that the investment does not fit in with future strategic plans.  
- Underperformance of the investment.

This chapter considers the accounting treatment of the disposal of a subsidiary.

**Stop and think**  
What kinds of strategic decisions might lead to the disposal of an investment?

Where a subsidiary has been disposed of there are a number of key issues which the accountant will need to consider. The most important of these considerations will include establishing the date of disposal and the net assets of the subsidiary at the disposal date. The disposal must be appropriately accounted for and disclosed.

Chapter 14 covers a lot of technical detail, dealing with the disposal of subsidiaries. You may find the summary table at the end of the chapter useful as it provides an overview of the topic.

Sections 2 – 3 cover the disposal of a subsidiary. Try to ensure that you can calculate the group profit or loss on disposal and that you understand the implications for the consolidated financial statements. Also notice that the complete disposal of a subsidiary constitutes a discontinued activity which should be disclosed as such.

Preparation of consolidated financial statements represents 30% of the syllabus and disposals of subsidiaries forms part of this. Questions are likely to focus on the impact of the disposal on the consolidated financial statements as a whole.

In the examination candidates may be required to:
- Prepare consolidated financial statements including the effects of a complete disposal of a subsidiary.  
- Prepare extracts from the consolidated financial statements including the calculation of the group profit or loss on complete disposal of a subsidiary.  
- Explain the principles behind the treatment of the complete disposal of a subsidiary.

Specific syllabus references for this chapter are: 1h, 3d, 3e, 3f.
15  

**Group statement of cash flows**

The process involved in preparing a consolidated statement of cash flows is very similar to that used in the preparation of a statement of cash flows for an individual entity.

**Stop and think**

What information do investors obtain from a group statement of cash flows?

If you have worked for a large company you may have worked on a group statement of cash flows.

Section 1 is a useful recap of the method of preparing the statement of cash flows. Note the treatment of finance leases.

Section 2 goes over the particular issues involved in a group statement of cash flows – acquisitions and disposals, dividends paid to the non-controlling interest and dividends received from associates and joint ventures.

In acquiring a subsidiary, the parent will probably also be acquiring cash balances and these will need to be adjusted for. Note also that the effect of assets and liabilities acquired on the group working capital movements will have to be accounted for. Interactive Question 4 is good practice for this.

Make sure you do self-test questions 9 and 10.

In the examination candidates may be required to:

- Prepare a consolidated statement of cash flows for a group of companies including subsidiaries and associates.
- Prepare extracts from a consolidated statement of cash flows.

**Specific syllabus references for this chapter are: 3e, 3f.**
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<td>UK GAAP – FRS 102</td>
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</table>
|              | FRS 102 is the new UK standard, based on the IFRS for SMEs. | You may be working for, or working on the audit of, a company which reports under UK GAAP and will now be moving to FRS 102 | Sections 1-12 cover the topics included in this manual – but from a UK GAAP perspective. Section 13 compares this to IFRS. Note carefully those areas where FRS 102 diverges from IFRS. These are the topics that are likely to be tested in your exam. | In the examination candidates may be required to:  
- Explain the principal differences between IFRS and UK GAAP and prepare simple extracts from single entity financial statements in accordance with UK GAAP.  
- Explain the principal differences between IFRS and UK GAAP and prepare simple extracts from consolidated financial statements in accordance with UK GAAP. |          |

**Stop and think**

What type of company is likely to be reporting under FRS 102?

Specific syllabus references for this chapter are: 2e, 3g.
5 Syllabus and learning outcomes

1 Accounting and reporting concepts and ethics

Candidates will be able to explain the contribution and inherent limitations of financial statements, apply the International Accounting Standards Board’s conceptual framework for financial reporting and identify and explain key ethical issues.

In the assessment, candidates may be required to:

(a) Explain the standard-setting process used by UK and international bodies and the authority of UK and international standards, using appropriate examples as illustration. 1
(b) Explain the objectives and inherent limitations of financial statements, giving appropriate examples. 1
(c) Explain the qualitative characteristics of financial information and the constraints on such information, using appropriate examples to illustrate the explanation. 1
(d) Identify the financial effects of transactions in accordance with the IASB Conceptual Framework. 1
(e) Discuss the concepts of ‘fair presentation’ and ‘true and fair view’ and the circumstances in which these concepts may override the detailed provisions of legislation or of accounting standards. 1
(f) Explain the differences between financial statements produced using the accrual basis and those produced using the bases of cash accounting and break-up, performing simple calculations to illustrate the differences. 1
(g) Explain, in non-technical language, the different bases of measurement of the elements of the financial statements and the different definitions of capital and capital maintenance used in accrual basis financial statements, illustrating the explanation with simple calculations and examples. 1
(h) Explain and demonstrate the concepts and principles surrounding the consolidation of financial statements. 10
(i) Identify and explain the ethical and professional issues for a professional accountant undertaking work in financial accounting and reporting and identify appropriate action. 1, 8
2 **Single entity financial statements**

Candidates will be able to prepare and present financial statements from accounting data for single entities, whether organised in corporate or in other forms, in conformity with IFRS requirements and explain the application of IFRS to specified single entity scenarios.

In the assessment, candidates may be required to:

(a) Identify the laws and regulations, and accounting standards and other requirements applicable to the statutory financial statements of an entity. 1,2

(b) Calculate from financial and other data the amounts to be included in an entity's financial statements according to the international financial reporting framework. 2,3,4,5,6,7,8,9

(c) Prepare and present the financial statements, or extracts therefrom, of an entity according to its accounting policies and appropriate international financial reporting standards. 2,3,4,5,6,7,8,9

(d) Explain the application of IFRS to specified single entity scenarios. 2,3,4,5,6,7,8,9

(e) Explain the principal differences between IFRS and UK GAAP and prepare simple extracts from single entity financial statements in accordance with UK GAAP. 2,3,4,5,6,7,8,9,16

(f) Define and calculate from information provided the distributable profits of an entity. 3

(g) Identify the circumstances in which the use of IFRS, and International Public Sector Accounting Standards (IPSASs) for not-for-profit entities might be required. 1,2

(h) Calculate from financial and other data the amounts to be included in the equity section of the statement of financial position of a not-for-profit entity in accordance with its accounting policies and the appropriate financial reporting framework. 1,2

3 **Consolidated financial statements**

Candidates will be able to identify the circumstances in which entities are required to present consolidated financial statements, prepare and present them in conformity with IFRS and explain the application of IFRS to specified group scenarios.

In the assessment, candidates may be required to:

(a) Identify and describe the circumstances in which an entity is required to prepare and present consolidated financial statements. 10

(b) Identify the laws and regulations, and accounting standards and other requirements applicable to the legal entity and consolidated financial statements of an entity. 10

(c) Identify from financial and other data any subsidiary, associate or joint venture of an entity according to the international financial reporting framework. 10

(d) Calculate from financial and other data the amounts to be included in an entity's consolidated financial statements in respect of its new, continuing and discontinuing interests in subsidiaries, associates and joint ventures (excluding partial disposals of subsidiaries and disposals of associates or joint ventures) according to the international financial reporting framework. 10,11,12,13,14,15

(e) Prepare and present the consolidated financial statements, or extracts therefrom, of an entity in accordance with its accounting policies and the international financial reporting framework, using calculated amounts and other information. 10, 11, 12, 13, 14, 15

(f) Explain the application of IFRS to specified group scenarios. 10, 11, 12, 13, 14, 15

(g) Explain the principal differences between IFRS and UK GAAP and prepare simple extracts from consolidated financial statements in accordance with UK GAAP. 11, 16
6 Skills assessment guide

6.1 Technical knowledge

The tables contained in this section show the technical knowledge in the disciplines of financial reporting, audit and assurance, business analysis, ethics and taxation covered in the ACA syllabus by module.

For each individual standard the level of knowledge required in the relevant Certificate and Professional Level module and at the Advanced Level is shown.

The knowledge levels are defined as follows:

Level D
An awareness of the scope of the standard.

Level C
A general knowledge with a basic understanding of the subject matter and training in its application sufficient to identify significant issues and evaluate their potential implications or impact.

Level B
A working knowledge with a broad understanding of the subject matter and a level of experience in the application thereof sufficient to apply the subject matter in straightforward circumstances.

Level A
A thorough knowledge with a solid understanding of the subject matter and experience in the application thereof sufficient to exercise reasonable professional judgement in the application of the subject matter in those circumstances generally encountered by Chartered Accountants.

Key to other symbols:
→ the knowledge level reached is assumed to be continued

Financial Reporting

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<th>Advanced Level</th>
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**DIFFERENCES BETWEEN IFRS AND UK GAAP**

The following table identifies the scope of the differences examinable in the ACA qualification and where they will be introduced. In general, the differences will become examinable where the relevant IFRS is set at knowledge level ‘A’. The differences may also be examined in subsequent modules but only in a different context, for example at the Advanced Level where knowledge of the differences forms part of an integrated question. Where a general awareness only of an accounting standard is expected (knowledge level ‘D’) any differences will also be dealt with at this level.

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<th>Title</th>
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<td>Preface to International Financial Reporting Standards</td>
<td>Not applicable.</td>
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</table>
| Conceptual Framework for Financial Reporting     | • Qualitative characteristics are simplified as a list on one tier rather than being based on fundamental qualitative characteristics of relevance and faithful representation and then having enhancing qualitative characteristics.  
  • Two common measurement bases are described, being historical cost and fair value rather than four.                                                                                                                                                        |
| IAS1 Presentation of Financial Statements        | • Choice of presenting performance in a single statement of comprehensive income or in two statements being an income statement and a statement of comprehensive income.  
  • A single statement of income and retained earnings rather than a statement of comprehensive income and statement of changes in equity may be used in specific circumstances.  
  • The 'bottom line' of the statement of comprehensive income may be presented as 'profit or loss' where there are no items of comprehensive income.  
  • Different terminology for line items in the statement of financial position (which is referred to as a balance sheet in the Companies Act) such as debtors and creditors, rather than receivables and payables and fixed assets rather than non-current assets.  
  • Non-current (due after more than one year) debtors and creditors may be combined on the face of the statement of financial position.  
  • Minor differences in the classification of headings on the face of the financial statements.                                                                                                                                                                                                                                             |
| IAS2 Inventories                                 | • Inventories held for distribution at no or nominal consideration, or through a non-exchange transaction, should be measured at adjusted cost (to recognise any loss of service potential). IAS 2 includes no such requirement.  
  • Additional guidance is provided on what should be included in production overheads.  
  • Impairment losses can be reversed if there are changes in economic circumstances or circumstances which led to the impairment no longer exist. No such guidance is provided in IAS 2.                                                                 |
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<td>IAS7 Statement of Cash Flows</td>
<td>• An exemption from the preparation of a statement of cash flows is available for a member of a group where the parent entity prepares publicly available consolidated financial statements and that member is included in the consolidation.</td>
</tr>
<tr>
<td>IAS8 Accounting Policies, Changes in Accounting</td>
<td>• The standard explicitly states that a change to the cost model when a reliable measure of fair value is no longer available is not a change in accounting policy. IAS 8 contains no such statement.</td>
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<tr>
<td>IAS10 Events after the Reporting Period</td>
<td>• Consistent with IAS 10 a dividend declared after the end of the reporting period should not be recognise as a liability. However, the standard states that the amount of the dividend may be presented as a segregated component of retained earnings at the end of the reporting period.</td>
</tr>
<tr>
<td>IAS11 Construction Contracts</td>
<td>• A very simplified approach is adopted, although the overriding principles are the same as IAS 11.</td>
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<tr>
<td>IAS12 Income Taxes</td>
<td>• The standard requires deferred taxation to be recognised on the basis of timing differences rather than IAS 12’s temporary differences.</td>
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<td>• The treatment of VAT is included. IAS 12 does not include such guidance.</td>
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<td>• Simplified guidance is provided.</td>
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<td>• Reduced disclosures are set out compared with IAS 12.</td>
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<tr>
<td>IAS16 Property, Plant and Equipment</td>
<td>• Very clear and simple guidance is provided on the treatment of major spare parts and standby equipment. IAS 16 provides much higher level guidance.</td>
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<td>• If indicators of a change exist then residual value, depreciation method and the useful life of an asset should be reviewed. IAS 16 requires the residual value, depreciation method and the useful life of an asset to be reviewed at least at each financial year-end.</td>
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<td></td>
<td>• Compensation from third parties for items of property, plant and equipment that have been impaired/lost should be recognised in profit or loss when the receipt of the amount is ‘virtually certain’. IAS 16 states that the amount should be recognised when it becomes ‘receivable’.</td>
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<td>• A plan to dispose of an asset before the previously expected date is an indicator of impairment that triggers the calculation of the asset’s recoverable amount for the purpose of determining whether the asset is impaired. IFRS 5 deals with non-current assets held for sale and would require the asset to be valued at the lower of carrying amount and fair value less costs to sell.</td>
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<tr>
<td>IAS17 Leases</td>
<td>• Reduced disclosures are set out compared with IAS 17.</td>
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<tr>
<td>IAS18 Revenue</td>
<td>• The standard is specific in its guidance and uses clear examples whilst being all encompassing – there are no examinable differences.</td>
</tr>
<tr>
<td>Title</td>
<td>Key examinable differences between IFRS and FRS 102 (UK GAAP)</td>
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| IAS19 Employee Benefits | - General recognition principles are set out for all types of employee benefits. IAS 19 has specific recognition requirements for each type of employee benefit.  
- Undiscounted amounts should be used in the measurement of outstanding short-term employee benefits and absences. IAS 19 is not explicit in this respect.  
- Simplified guidance is provided.  
- Reduced disclosures are set out compared with IAS 19. |
| IAS20 Accounting for Government Grants and Disclosure of Government Assistance | - A government grant may be recognised using either the performance model or the accrual model (prohibiting the deduction of a government grant from the carrying amount of the related asset). IAS 20 has the more general requirements that they should be recognised on a systematic basis matching the related expenditure (which in practice means using a capital or income approach).  
- There is a specific requirement that the accounting policy should be applied on a class-by-class basis. No such requirement exists in IAS 20.  
- IAS 20 provides specific guidance on the treatment of a repayment of a government grant. FRS 102 includes no such requirement. |
| IAS21 The Effects of Change in Foreign Exchange Rates | - On the disposal of a net investment in a foreign operation any related exchange differences accumulated in equity should not be recognised in profit or loss. IAS 21 requires such accumulated exchange differences to be reclassified from equity to profit or loss.  
- IAS 21 requires the cumulative amount of exchange differences recognised in other comprehensive income to be presented in a separate component of equity. FRS 102 includes no such specific requirement.  
- Reduced disclosures are set out compared with IAS 21. |
| IAS23 Borrowing Costs | - Entities are provided with the choice of capitalising borrowing costs. This is a choice of accounting policy and must be applied consistently to a class of assets. IAS 23 requires borrowing costs to be included as part of the directly attributable costs of a qualifying asset.  
- Where general borrowings are used, the amount of borrowing costs eligible for capitalisation are determined by applying a capitalisation rate to the expenditure on that asset, which is consistent with IAS 23. However, for this purpose the expenditure on the asset is the average carrying amount of the asset during the period, including borrowing costs previously capitalised. No such guidance is provided in IAS 23. |
<p>| IAS24 Related Party Disclosures | - Unlike IAS 24, wholly owned UK subsidiaries are not required to disclose transactions between two or more members of a group. |</p>
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| IAS26 Accounting and Reporting by Retirement Benefit Plans | • Reduced disclosures are set out compared with IAS 26.  
• Specific disclosures are required around different risks, for example credit risk.  
• UK pension schemes are required to apply the Pensions SORP in addition to the requirements of FRS 102. |
| IAS27 Separate Financial Statements | • There are three options for accounting for investments in subsidiaries, associates and joint ventures in a parent entity’s separate financial statements. IAS 27 only allows cost or measurement and recognition in accordance with IFRS 9.  
• Additional disclosures are required under IAS 27.  
• The accounting treatment for exchanges of businesses and other non-monetary assets for an interest in a subsidiary, joint venture or associate is provided. IAS 27 provides no such guidance.  
• The standard includes guidance on the accounting treatment for intermediate payment arrangements. IAS 27 provides no such guidance. |
| IAS28 Investments in Associates and Joint Ventures | • Simplified guidance is provided on recognising an associate where the investor is not a parent and hence only prepares individual company financial statements. Under IFRS, accounting for such financial instruments in individual financial statements would instead follow guidance in IAS 27 and IFRS 9.  
• Simplified disclosures are set out. Detailed disclosures are instead set out in a single accounting standard, being IFRS 12. |
| IAS29 Financial Reporting in Hyperinflationary Economies | No examinable differences |
| IAS32 Financial Instruments: Presentation | Simplified language is used with specific examples – there are no examinable differences. |
| IAS33 Earnings per Share | No separate guidance is provided, instead it states that IAS 33 should be followed. |
| IAS34 Interim Financial Reporting | No UK accounting standard on interim financial reporting. IAS34 is broadly comparable with the ASB statement on interim reports. |
| IAS36 Impairment of Assets | • Additional guidance is provided on the measurement of fair value less costs to sell.  
• Where future cash flows are estimated using financial budgets or forecasts, extrapolation techniques should be used. IAS 36 states that such financial forecasts or budgets should cover a maximum of five years unless there is justification for a longer period.  
• Reversals of impairment losses are permitted on all assets, including goodwill. IAS 36 prohibits the reversal of impairments of goodwill.  
• Reduced disclosures are provided. |
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<tr>
<td>IAS37 Provisions, Contingent Liabilities and Contingent Assets</td>
<td>- The standard’s scope extends to include certain types of financial guarantee contracts. Such contracts are instead within the scope of IAS 39/IFRS 9.</td>
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| IAS38 Intangible Assets | - The capitalisation of development expenditure is optional, although a consistent accounting policy should be adopted. IAS 38 requires development expenditure to be capitalised where it meets the recognition criteria.  
- Heritage assets are specifically excluded from its scope, with separate guidance instead provided for such assets. IAS 38 does not include a similar exclusion.  
- An intangible asset acquired in a business combination should not be recognised when it arises from legal or other contractual rights and there is no history or evidence of exchange transactions for the same or similar assets and otherwise estimating fair value would be dependent on immeasurable variables. IAS 38 does not include this specific requirement for recognition.  
- If an intangible asset is acquired by way of a grant, the cost of that intangible asset is its fair value at the date the grant becomes receivable. IAS 38 states that there is a choice of recognition at fair value or at the nominal value of the grant.  
- All intangible assets are considered to have a finite useful life. IAS 38 permits both intangible assets with finite and indefinite useful lives.  
- If an entity is unable to make a reliable estimate of the useful life of an intangible asset, a maximum useful life of five years is allocated. IAS 38 contains no such limitation.  
- If indicators of a change exist then the amortisation method and period for an intangible asset should be reviewed. IAS 38 requires the amortisation method and period for an intangible asset to be reviewed at least at each financial year-end. |
| IAS39 Financial Instruments: Recognition and Measurement | - The choice to use simplified measurement provisions is available for basic financial instruments.  
- Measurement after initial recognition is generally at amortised cost or fair value through profit or loss, whereas IAS 39 has more complex categories with four for financial assets and two for financial liabilities.  
- Simplified guidance in relation to hedge accounting is provided.  
- IAS 39 includes more detailed and specific guidance on derecognition of financial assets and liabilities and the accounting for non-closely related embedded derivatives. |
| IAS40 Investment Property | - Mixed use property can be separately accounted for provided that separate fair values can be determined for each component. IAS 40 however includes the stipulation that the separate components could be sold separately, otherwise the non-investment property element should be insignificant.  
- Property held for the primary provision of social benefit is excluded. IAS 40 does not include such an exclusion.  
- The standard requires measurement at fair value provided that it can be measured reliably without undue cost or effort. IAS 40 allows a choice between cost and fair value. |
### Key examinable differences between IFRS and FRS 102 (UK GAAP)

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| IAS 40                     | • IAS 40 covers guidance on the exchange of investment property for non-monetary assets. No such guidance is included in FRS 102.  
• Simplified guidance is provided on the disposal/transfer of investment properties.  
• Reduced disclosures are provided. |
| IAS 41 Agriculture         | • For each class of biological assets and its related agricultural produce an entity has the choice whether to apply a fair value model or a cost model. IAS 41 requires that biological assets are measured at fair value less costs to sell.  
• Reduced disclosures are provided. |
| IFRS 1 First-Time Adoption of IFRS | • IFRS 1 and FRS 102 provide transitional provisions for first time adopters of IFRS and FRS 102 respectively. The provisions are specific to the accounting regimes and therefore differ. |
| IFRS 2 Share-based Payment | • Simplified guidance is provided generally, for example if there is a cancellation or settlement this is recognized immediately as if vesting has occurred. IFRS 2 contains extensive guidance and treats a cancellation or settlement as a repurchase of an equity instrument.  
• For a group plan, an alternative simplified treatment of measuring the share-based payment expense on the basis of a reasonable allocation of the expense for the group is permitted. No such alternative is available in IFRS 2.  
• Reduced disclosures are provided. |
| IFRS 3 Business Combinations | • The definition of a business combination is included in its simplest form and provides expanded guidance on what it might include. IFRS 3 includes a more open definition although additional discussion/guidance is provided in the basis of conclusions.  
• The standard includes the separation of group reconstructions from other business combinations and the use of merger accounting for such transactions. Common control transactions are outside of the scope of IFRS 3.  
• Business combinations should be accounted for using the purchase method. IFRS 3 stipulates the use of the acquisition method.  
• Guidance on the identification of the acquirer is provided. IFRS 3 includes a more open definition although additional discussion/guidance is provided in the basis of conclusions.  
• The standard requires acquisition-related costs to be included in the cost of the business combination. IFRS 3 requires them to be treated as period costs recognised in profit or loss.  
• Where control is achieved following a series of transactions, the cost of the business combination is the aggregate of the fair values of the assets given, liabilities assumed and equity instruments issued by the acquirer at the date of each transaction in the series. IFRS 3 instead requires the acquirer to remeasure its previously held equity interest at its acquisition date fair value. |
### Key examinable differences between IFRS and FRS 102 (UK GAAP)

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<td><strong>Post-acquisition changes to the estimates of contingent consideration affect the amount of goodwill recognised (assuming the adjustment is probable and can be reliably estimated). IFRS 3 permits few subsequent changes to be reflected in goodwill.</strong></td>
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<td><strong>Goodwill arising from a business combination is considered to have a finite useful life. IFRS 3 prohibits amortisation and requires annual impairment reviews.</strong></td>
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<tr>
<td><strong>If an entity is unable to make a reliable estimate of the useful life of goodwill arising from a business combination, a maximum useful life of five years is required. IFRS 3 prohibits amortisation.</strong></td>
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<tr>
<td><strong>Negative goodwill is capitalised as a separate item within goodwill and amortised over the period over which any related losses are expected and as acquired non-monetary assets are realised. IFRS 3 requires immediate recognition as a gain in profit or loss and also refers to 'negative goodwill' as a 'bargain purchase'.</strong></td>
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<td><strong>The non-controlling interest should be measured based on the share of ownership not held by the parent (ie on a proportionate basis). IFRS 3 contains an option the measure the non-controlling interest at fair value.</strong></td>
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<td><strong>Reduced narrative disclosures are provided compared with IFRS 3.</strong></td>
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<tr>
<td><strong>IFRS4 Insurance Contracts</strong></td>
<td>The Companies Act contains specific requirements for insurance companies, along with extensive guidance set out in FRS 103.</td>
</tr>
<tr>
<td><strong>IFRS5 Non-current Assets Held for Sale and Discontinued Operations</strong></td>
<td>Continuing and discontinued activities must be analysed. Unlike IFRS 5 detailed analysis is shown on face of the income statement.</td>
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<td>Classification and measurement of assets generally continues as normal without regard for the disposal. This includes depreciation until the date of disposal. IFRS 5 on the other hand requires depreciation to cease while a non-current asset is held for sale.</td>
</tr>
<tr>
<td><strong>IFRS6 Exploration for and Evaluation of Mineral Resources</strong></td>
<td>No examinable differences</td>
</tr>
<tr>
<td><strong>IFRS7 Financial Instruments: Disclosures</strong></td>
<td>Simplified disclosures are provided in line with the simplified measurement and valuation basis.</td>
</tr>
<tr>
<td><strong>IFRS8 Operating Segments</strong></td>
<td>No separate guidance is provided; instead it states that IFRS 8 should be followed.</td>
</tr>
<tr>
<td><strong>IFRS9 Financial Instruments</strong></td>
<td>The choice to use simplified measurement provisions is available for basic financial instruments.</td>
</tr>
<tr>
<td><strong>IFRS10 Consolidated Financial Statements</strong></td>
<td>The exemptions from the preparation of consolidated financial statements are slightly different and include an exclusion of a subsidiary from consolidation on the grounds of severe long-term restrictions, no such exemption exists under IFRS 10.</td>
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<td></td>
<td>The definition of control is linked to the power to govern the financial and operating policies. IFRS 10 is slightly wider in its definition.</td>
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### Key examinable differences between IFRS and FRS 102 (UK GAAP)

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<tr>
<td>• Special purpose entities are specifically identified as being included in consolidated financial statements where they are controlled by the entity.</td>
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<tr>
<td>• The standard includes extensive guidance on the treatment of total and partial acquisitions and disposals of subsidiaries. IFRS 10 includes less detailed guidance.</td>
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**IFRS11 Joint Arrangements**

- The accounting treatment for all types of joint venture arrangements are covered, including the separate treatment of jointly controlled assets. IFRS 11 instead classifies jointly controlled assets as jointly controlled operations.
- Simplified guidance is provided on recognising a joint venture where the investor is not a parent and hence only prepares individual company financial statements. Accounting for such financial instruments in individual financial statements would instead follow guidance in IAS 27 and IFRS 9.
- Simplified disclosures are set out. Detailed disclosures are instead set out in a single accounting standard, being IFRS 12.

**IFRS12 Disclosure of interests in Other Entities**

- Simplified disclosures are generally set out.

**IFRS13 Fair Value Measurement**

- Simplified guidance is provided on how fair value should be determined and suitable valuation techniques.

### IFRS in individual company accounts

Candidates may be required to discuss the key issues that need to be considered when considering whether UK companies should retain UK GAAP for their individual company accounts or to move to IFRS. This is examinable in the Financial Accounting and Reporting module.
7 Key resources

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