

SMART NOTE

FINANCIAL ACCOUNTING
AND REPORTING



EdooSmart
Study Fast & Smart

SMART NOTE

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PREFACE

If you feel tired of long, text-heavy study guides, this Smart Note will come in handy.

In short, the Smart Note summarizes all important concepts and theories, along with visual illustrations, about financial accounting and reporting in simple words. With this Smart Note, you will understand theory faster, absorb information better, and ace your exams.

We hope you will enjoy studying accounting theories not only for your exams but also for your future career.

Are you ready? Let's get smart!

MODULE 1

THE FINANCIAL REPORTING ENVIRONMENT

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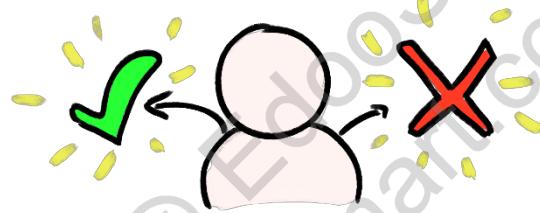
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1.1.1 THE PURPOSE OF ACCOUNTING

ACCOUNTING

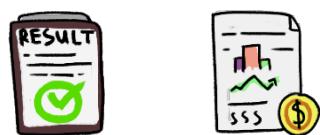


PROCESS OF RECORDING, ANALYSING AND SUMMARISING TRANSACTIONS OF A BUSINESS AND COMMUNICATING THAT INFORMATION TO DECISION MAKERS.



FINANCIAL ACCOUNTING

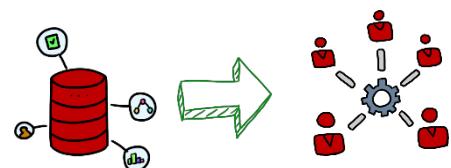
METHOD OF REPORTING A BUSINESS'S RESULTS AND FINANCES.



MANAGEMENT ACCOUNTING

(SOMETIMES CALLED "COST ACCOUNTING")

A MANAGEMENT INFORMATION SYSTEM THAT LOOKS AT DATA TO GIVE MANAGEMENT TEAM INFORMATION THEY CAN USE TO MAKE DECISIONS.



BUSINESS = ENTITY MAKING PROFIT

= INCOME - EXPENDITURE

A **RETURN** ON THE **MONEY** THEY HAVE PUT INTO THE BUSINESS.



3 MAIN TYPES OF BUSINESS ENTITY

SOLE TRADERS



- INDIVIDUALS WHO WORK FOR THEMSELVES AND MAY HAVE EMPLOYEES;
- PERSONALLY RESPONSIBLE FOR THE AMOUNTS OWED BY THEIR BUSINESS.



PARTNERSHIPS



- TWO OR MORE PEOPLE OR BUSINESSES ("PARTNERS") WORKING TOGETHER TO MAKE MONEY;
- PARTNERS ARE PERSONALLY RESPONSIBLE FOR THE AMOUNTS OWED BY THEIR BUSINESS.

LIMITED LIABILITY COMPANIES



- OWNERS ARE SHAREHOLDERS;
- OWNERS HAVE LIABILITY LIMITED TO THE AMOUNT UNPAID ON THEIR SHARES.

OTHER TYPES

NOT-FOR-PROFIT ENTITIES



GOVERNMENT ORGANISATIONS



Both may need to prepare financial statements yearly

BUSINESS ENTITY CONCEPT

FOR ACCOUNTING PURPOSES:



FYI. The law in Australia, the UK, India, New Zealand, China, Japan, and Germany says that sole traders and partnerships are not separate from their owners. In the US, however, partnerships do have their own legal personality, but the partners are responsible for all of the partnership's debts.

1.1.2 NATURE, PRINCIPLES AND SCOPE OF FINANCIAL REPORTING

FINANCIAL REPORTING

PROCESS OF **CLASSIFYING**, **RECORDING** AND **PRESENTING** FINANCIAL DATA IN ACCORDANCE WITH GENERALLY ESTABLISHED CONCEPTS AND **PRINCIPLES**.

2 TYPES OF FINANCIAL REPORTS



GENERAL PURPOSE FINANCIAL REPORTS

SPECIAL PURPOSE FINANCIAL REPORTS

= GENERAL PURPOSE FINANCIAL STATEMENTS

= NON-GENERAL PURPOSE FINANCIAL STATEMENTS

= ANNUAL FINANCIAL STATEMENTS

REQUIRED TO **PREPARE** BY ALL **REPORTING ENTITIES** AND **PUBLISH** BY LISTED COMPANIES

PREPARED FOR A **PARTICULAR GROUP OF USERS** AND FOR A **PARTICULAR PURPOSE**

EXAMPLES: (DETAILS – SEE 1.4.3)

- **STATEMENT OF FINANCIAL POSITION** (BALANCE SHEET)
- **STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME** (INCOME STATEMENT)
- **STATEMENT OF CHANGES IN EQUITY**
- **STATEMENT OF CASH FLOWS** (CASH FLOW STATEMENT)
- **NOTES**

EXAMPLES:

- FINANCIAL REPORT PREPARED FOR THE USE OF **TAX COMPUTATIONS**, **BANK REPORTING** AND FOR **FULFILMENT OF MEMBERS REPORTING RESPONSIBILITIES**
- **OWNERS OR LENDERS** CAN REQUEST **FORECASTS AND BUDGETS**

IN THIS MODULE:

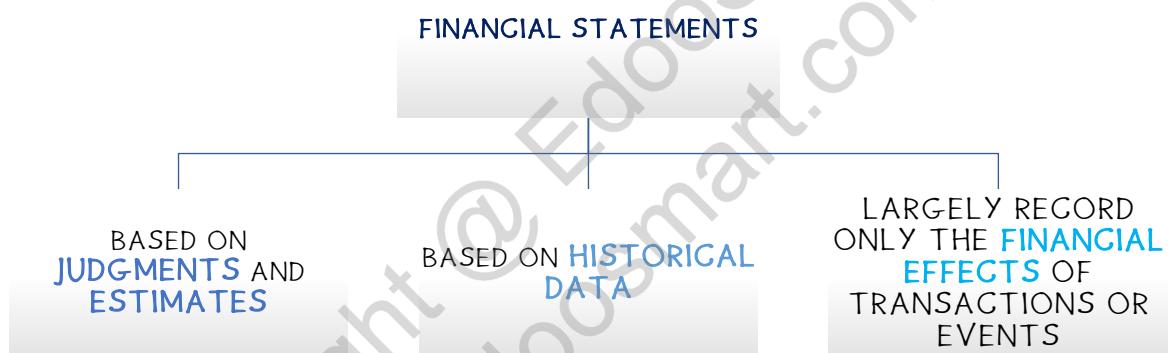
'**FINANCIAL REPORTS**' = GENERAL PURPOSE FINANCIAL REPORTS

'**FINANCIAL REPORTING**' = GENERAL PURPOSE FINANCIAL REPORTING

PURPOSE OF FINANCIAL STATEMENTS

PROVIDE USEFUL INFORMATION ABOUT THE **FINANCIAL POSITION**, **PERFORMANCE** AND **CHANGES IN FINANCIAL POSITION** OF AN ENTITY TO A WIDE RANGE OF USERS.

INHERENT LIMITATIONS OF THE FINANCIAL ACCOUNTING AND REPORTING PROCESS



1.1.3 USERS AND THEIR NEEDS

USERS OF FINANCIAL REPORTS (ACCOUNTS) NEED FINANCIAL INFORMATION TO:

MAKE ECONOMIC DECISIONS;

LOOK AT HOW WELL
MANAGEMENT IS DOING ITS JOB
(STEWARDSHIP).



2 TYPES OF USERS

INTERNAL USERS

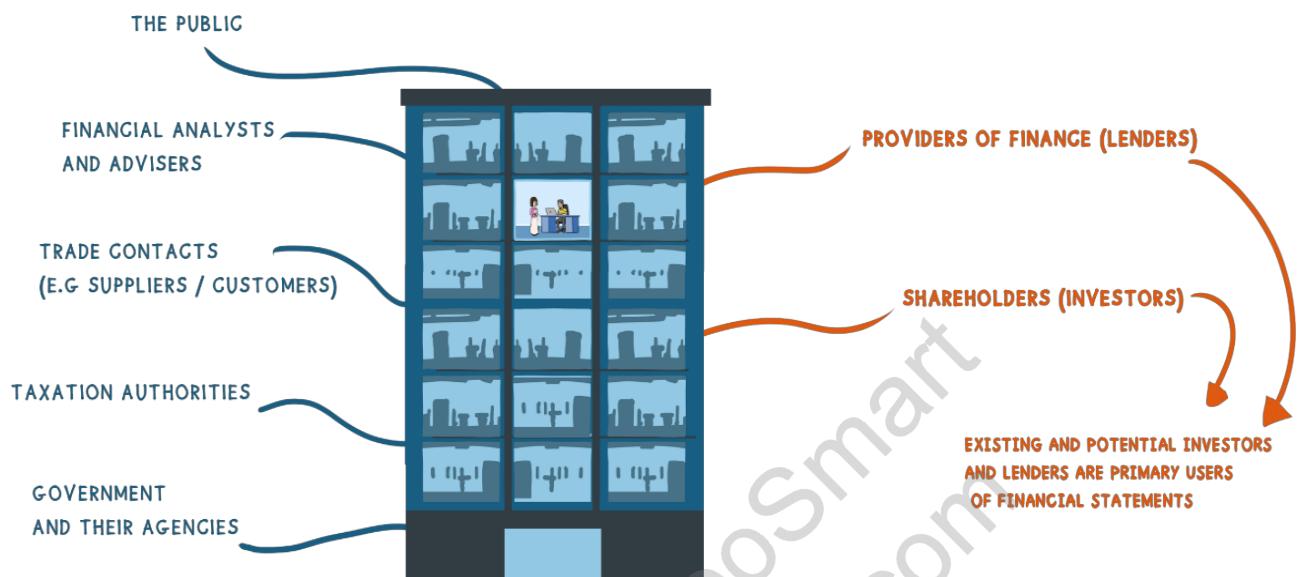


MANAGERS OF THE COMPANY: need info to decide how to run the business.

EMPLOYEES OF THE COMPANY: want to know if the company is financially secure and if their jobs are safe.

EXTERNAL USERS

NORMALLY RELY ON PUBLISHED FINANCIAL REPORTS FOR INFORMATION.



SHAREHOLDERS (INVESTORS) OF THE COMPANY: need information about company performance, to make investment decisions and to evaluate performance of management.



PROVIDERS OF FINANCE (LENDERS) TO THE COMPANY: want to know if the company can repay what it owes.

FINANCIAL ANALYSTS AND ADVISERS: need information to advise audience or clients.

TRADE CONTACTS (E.G. SUPPLIERS / CUSTOMERS): want to know if the company can continue to run, pay what it owes, and provide its goods or services.

TAXATION AUTHORITIES: need information to assess company tax liability.

GOVERNMENT AND THEIR AGENCIES: want to know details on how the company helps the national economy.

THE PUBLIC: have general interest in how companies contribute to the national wealth.

APPENDICES

APPENDIX 1 – SMART SHEET

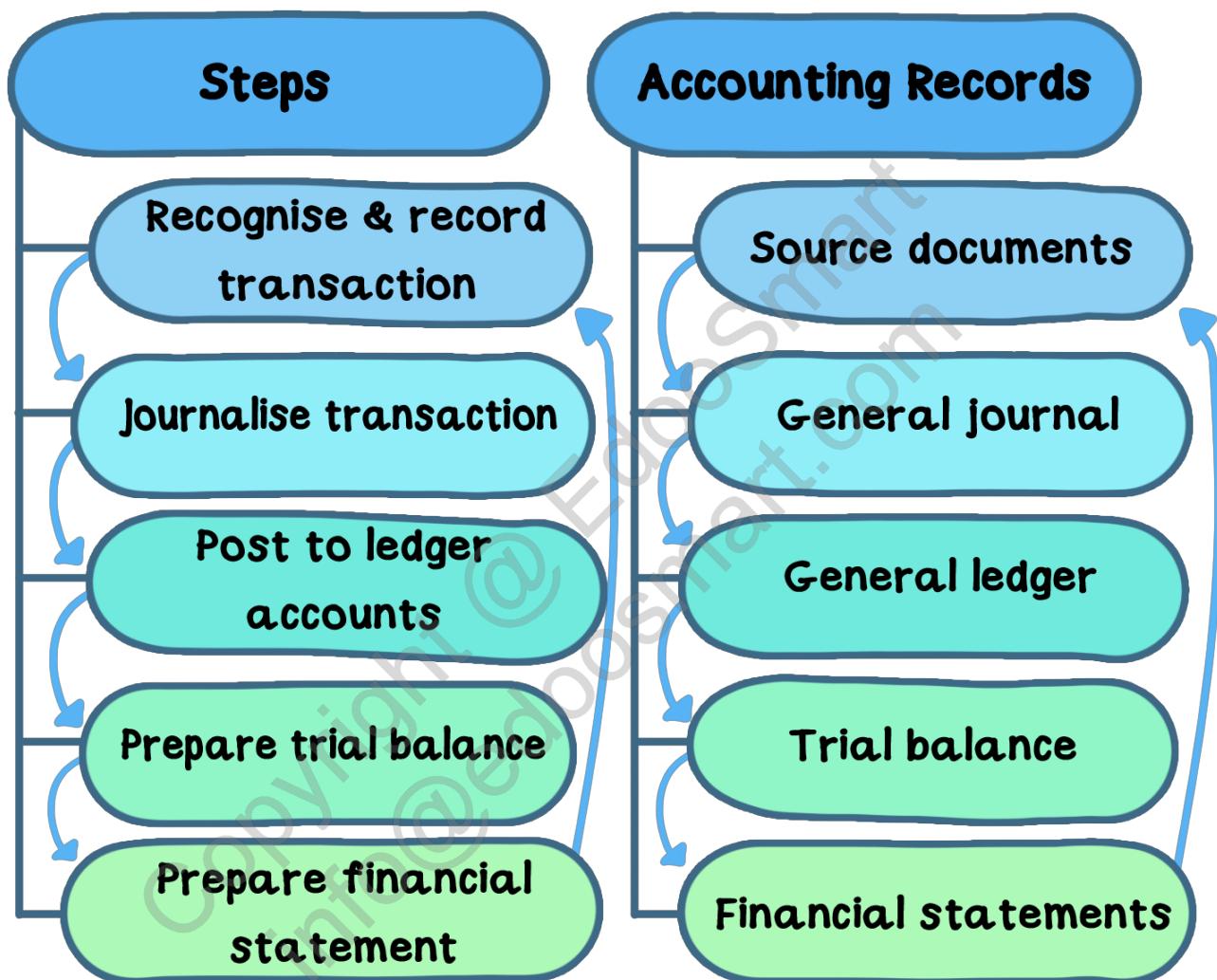
B/S	$A =$ (own)	$L + OE$ (owe) $(A - L)$
I/S	E (spend/Consume)	R (earn)
	$DR \uparrow$	$CR \downarrow$

APPENDIX 2 – EXAMPLES OF ACCOUNTS

ACCTS	Assets (A)	Liabilities (L)	Equity/Owner Equity (OE)	Income	Expense (E)
A	Cash at bank	Accounts payable	Owner's Capital	Revenue (R)	Salaries Expense*
C	Petty cash	Mortage Payable	Drawings*	Interest Income	Utilities Expense*
O	Accounts Receivable	Unearned revenue		Rental Income	Advertising Expense*
U	Office supplies	GST Payable			
N	Equipment				
T	Land				
S	Building				

* these items reduce equity

APPENDIX 3 – ACCOUNTING CYCLE



REFERENCE

2019. Financial Accounting and Reporting. 9th ed. BPP Learning Media Ltd.