

Financial Reporting (FR)

Syllabus and study guide

September 2019 to June 2020

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1. Intellectual levels

The syllabus is designed to progressively broaden and deepen the knowledge, skills and professional values demonstrated by the student on their way through the qualification.

The specific capabilities within the detailed syllabuses and study guides are assessed at one of three intellectual or cognitive levels:

Level 1:	Knowledge and comprehension
Level 2:	Application and analysis
Level 3:	Synthesis and evaluation

Very broadly, these intellectual levels relate to the three cognitive levels at which the Applied Knowledge, the Applied Skills and the Strategic Professional exams are assessed.

Each subject area in the detailed study guide included in this document is given a 1, 2, or 3 superscript, denoting intellectual level, marked at the end of each relevant learning outcome. This gives an indication of the intellectual depth at which an area could be assessed within the examination. However, while level 1 broadly equates with Applied Knowledge, level 2 equates to Applied Skills and level 3 to Strategic Professional, some lower level skills can continue to be assessed as the student progresses through each level. This reflects that at each stage of study there will be a requirement to broaden, as well as deepen capabilities. It is also possible that occasionally some higher level capabilities may be assessed at lower levels.

2. Learning hours and education recognition

The ACCA qualification does not prescribe or recommend any particular number of learning hours for examinations because study and learning patterns and styles vary greatly between people and organisations. This also recognises the wide diversity of personal, professional and educational circumstances in which ACCA students find themselves.

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

Each syllabus is organised into main subject area headings which are further broken down to provide greater detail on each area.

3. Guide to ACCA examination structure and delivery mode

The structure and delivery mode of examinations varies.

Applied Knowledge

The Applied Knowledge examinations contain 100% compulsory questions to encourage candidates to study across the breadth of each syllabus. These are assessed by a two-hour computer based examination.

Applied Skills

The *Corporate and Business Law* exam is a two-hour computer-based objective test examination for English and Global. For the format and structure of the *Corporate and Business Law* or *Taxation* variant exams, refer to the 'Approach to examining the syllabus' in section 9 of the relevant syllabus and study guide.

The other Applied Skills examinations (PM, TX-UK, FR, AA, and FM) contain a mix of objective and longer type questions with a duration of three hours for 100 marks. These are assessed by a three hour computer-based exam. Prior to the start of each exam there will be time allocated for students to be informed of the exam instructions.

The longer (constructed response) question types used in the Applied Skills exams (excluding Corporate and Business Law) require students to effectively mimic what they do in the workplace. Students will need to use a range of digital skills and demonstrate their ability to use spreadsheets and word processing tools in producing their answers, just as they would use these tools in the workplace. These

assessment methods allow ACCA to focus on testing students' technical and application skills, rather than, for example, their ability to perform simple calculations.

Strategic Professional

Strategic Business Leader is ACCA's case study examination at Strategic Professional and is examined as a closed book exam of four hours, including reading, planning and reflection time which can be used flexibly within the examination. There is no pre-seen information and all exam related material, including case information and exhibits are available within the examination. Strategic Business Leader is an exam based on one main business scenario which involves candidates completing several tasks within which additional material may be introduced. All questions are compulsory and each examination will contain a total of 80 technical marks and 20 Professional Skills marks.

The other Strategic Professional exams are all of three hours and 15 minutes duration. All contain two Sections and all questions are compulsory. These exams all contain four professional marks.

For September and December 2019 sessions, all Strategic Professional exams will be assessed by paper based examination. From March 2020, these exams will become available by computer based examination. More detail regarding what is available in your market will be on the ACCA global website.

With Applied Knowledge and Applied Skills exams now assessed by computer based exam, ACCA is committed to continuing on its journey to assess all

exams within the ACCA Qualification using this delivery mode.

The question types used at Strategic Professional again require students to effectively mimic what they would do in the workplace and, with the move to CBE, these exams again offer ACCA the opportunity to focus on the application of knowledge to scenarios, using a range of tools – spreadsheets, word processing and presentations - not only enabling students to demonstrate their technical and professional skills but also their use of the technology available to today's accountants.

ACCA encourages students to take time to read questions carefully and to plan answers but once the exam time has started, there are no additional restrictions as to when candidates may start producing their answer.

Time should be taken to ensure that all the information and exam requirements are properly read and understood.

The pass mark for all ACCA Qualification examinations is 50%.

4. Guide to ACCA examination assessment

ACCA reserves the right to examine any learning outcome contained within the study guide. This includes knowledge, techniques, principles, theories, and concepts as specified. For the financial accounting, audit and assurance, law and tax exams except where indicated otherwise, ACCA will publish *examinable documents* once a year to indicate exactly what regulations and legislation could potentially be assessed within identified examination sessions.

For most examinations (not tax), regulations **issued** or legislation **passed** on or before 31 August annually, will be examinable from 1 September of the following year to 31 August of the year after that. Please refer to the examinable documents for the exam (where relevant) for further information.

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

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

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

The study guide offers more detailed guidance on the depth and level at which the examinable documents will be examined. The study guide should therefore be read in conjunction with the examinable documents list.

For UK tax exams, examinations falling within the period 1 June to 31 March will

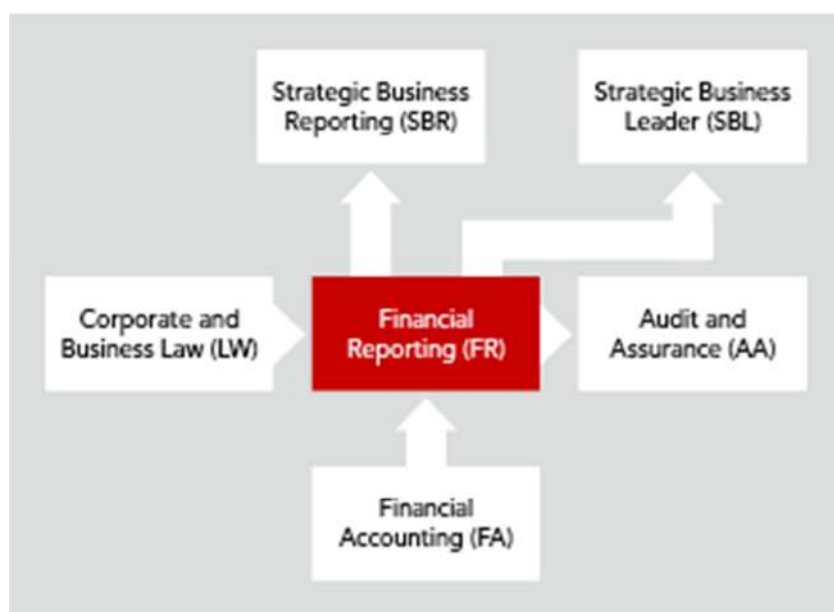
generally examine the Finance Act which was passed in the previous year. Therefore, exams falling in the period 1 June 2019 to 31 March 2020 will examine the Finance Act 2018 and any examinable legislation which is passed outside the Finance Act before 31 July 2018.

For additional guidance on the examinability of specific tax rules and the depth in which they are likely to be examined, reference should be made to the relevant Finance Act article written by the examining team and published on the ACCA website.

None of the current or impending devolved taxes for Scotland, Wales, and Northern Ireland is, or will be, examinable.

5. Relational diagram linking Financial Reporting with other exams

This diagram shows links between this exam and other exams preceding or following it. Some exams are directly underpinned by other exams such as Strategic Business Reporting by Financial Reporting. This diagram indicates where students are expected to have underpinning knowledge and where it would be useful to review previous learning before undertaking study.



6. Overall aim of the syllabus

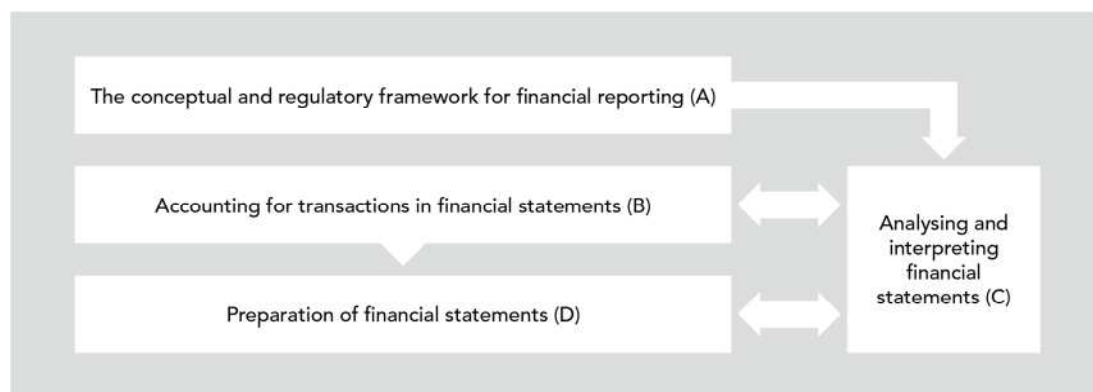
This syllabus and study guide is designed to help with planning study and to provide detailed information on what could be assessed in any examination session.

The aim of the syllabus is to develop knowledge and skills in understanding and applying accounting standards and the theoretical framework in the preparation of financial statements of entities, including groups and how to analyse and interpret those financial statements.

7. Main capabilities

On successful completion of this exam, candidates should be able to:

- A Discuss and apply a conceptual and regulatory frameworks for financial reporting
- B Account for transactions in accordance with International accounting standards
- C Analyse and interpret financial statements.
- D Prepare and present financial statements for single entities and business combinations in accordance with International accounting standards



This diagram illustrates the flows and links between the main capabilities of the syllabus and should be used as an aid to planning teaching and learning in a structured way.

8.Rationale

The financial reporting syllabus assumes knowledge acquired in *Financial Accounting (FA)*, and develops and applies this further and in greater depth.

The syllabus begins with the conceptual framework for financial reporting with reference to the qualitative characteristics of useful information and the fundamental bases of accounting introduced in the *Financial Accounting (FA)* syllabus within the Knowledge module. It then moves into a detailed examination of the regulatory framework of accounting and how this informs the standard setting process.

The main areas of the syllabus cover the reporting of financial information for single companies and for groups in accordance with generally accepted accounting principles and relevant accounting standards.

Finally, the syllabus covers the analysis and interpretation of information from financial reports.

9. Approach to examining the syllabus

The syllabus is assessed by a three-hour computer based examination.

All questions are compulsory. The exam will contain both computational and discursive elements.

Some questions will adopt a scenario/case study approach.

Section A of the computer-based exam comprises 15 objective test questions of 2 marks each plus additional content as per below.

Section B of the computer-based exam comprises three questions each containing five objective test questions plus additional content as per below.

Section C of the exam comprises two 20 mark constructed response questions.

The 20 mark questions will examine the interpretation and preparation of financial statements for either a single entity or a group. The section A questions and the other questions in section B can cover any areas of the syllabus.

An individual question may often involve elements that relate to different subject areas of the syllabus. For example the preparation of an entity's financial statements could include matters relating to several accounting standards.

Questions may ask candidates to comment on the appropriateness or acceptability of management's opinion or chosen accounting treatment. An understanding of accounting principles

and concepts and how these are applied to practical examples will be tested.

Questions on topic areas that are also included in Financial Accountant (FA) will be examined at an appropriately greater depth in this paper.

Candidates will be expected to have an appreciation of the need for specified accounting standards and why they have been issued. For detailed or complex standards, candidates need to be aware of their principles and key elements.

10.The syllabus

A The conceptual and regulatory framework for financial reporting

1. The need for a conceptual framework and the characteristics of useful information
2. Recognition and measurement
3. Regulatory framework
4. The concepts and principles of groups and consolidated financial statements

B Accounting for transactions in financial statements

1. Tangible non-current assets
2. Intangible assets
3. Impairment of assets
4. Inventory and biological assets
5. Financial instruments
6. Leasing
7. Provisions and events after the reporting period
8. Taxation
9. Reporting financial performance
10. Revenue
11. Government grants
12. Foreign currency transactions

C Analysing and interpreting the financial statements of single entities and groups

1. Limitations of financial statements
2. Calculation and interpretation of accounting ratios and trends to address users' and stakeholders' needs
3. Limitations of interpretation techniques
4. Specialised, not-for-profit, and public sector entities

D Preparation of financial statements

1. Preparation of single entity financial statements
2. Preparation of consolidated financial statements including an associate

11.Detailed study guide

A the conceptual and regulatory framework for financial reporting

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

- a) Describe what is meant by a conceptual framework for financial reporting.^[2]
- b) Discuss whether a conceptual framework is necessary and what an alternative system might be.^[2]
- c) Discuss what is meant by relevance and faithful representation and describe the qualities that enhance these characteristics.^[2]
- d) Discuss whether faithful representation constitutes more than compliance with accounting standards.^[1]
- e) Discuss what is meant by understandability and verifiability in relation to the provision of financial information.^[2]
- f) Discuss the importance of comparability and timeliness to users of financial statements.^[2]
- g) Discuss the principle of comparability in accounting for changes in accounting policies.^[2]

2. Recognition and measurement

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

- b) Apply the recognition criteria to:^[2]
 - i) assets and liabilities.
 - ii) income and expenses.
- c) Explain and compute amounts using the following measures :^[2]
 - i) historical cost
 - ii) current cost
 - iii) value in use
 - iv) fair value
- d) Discuss the advantages and disadvantages of historical cost accounting.
- e) Discuss whether the use of current value accounting overcomes the problems of historical cost accounting.^[2]
- f) Describe the concept of financial and physical capital maintenance and how this affects the determination of profits.^[1]

3. Regulatory framework

- a) Explain why a regulatory framework is needed including the advantages and disadvantages of IFRS over a national regulatory framework.^[2]
- b) Explain why accounting standards on their own are not a complete regulatory framework.^[2]
- c) Distinguish between a principles based and a rules based framework and discuss whether they can be complementary.^[1]
- d) Describe the IASB's Standard setting process including revisions to and interpretations of Standards.^[2]
- e) Explain the relationship of national standard setters to the IASB in respect of the standard setting process.^[2]

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

- a) Describe the concept of a group as a single economic unit.^[2]
- b) Explain and apply the definition of a subsidiary within relevant accounting standards.^[2]
- c) Using accounting standards and other regulation, identify and outline the circumstances in which a group is required to prepare consolidated financial statements.^[2]
- d) Describe the circumstances when a group may claim exemption from the preparation of consolidated financial statements.^[2]
- e) Explain why directors may not wish to consolidate a subsidiary and when this is permitted by accounting standards and other applicable regulation.^[2]
- f) Explain the need for using coterminous year ends and uniform accounting policies when preparing consolidated financial statements.^[2]
- g) Explain why it is necessary to eliminate intra group transactions.^[2]
- h) Explain the objective of consolidated financial statements.^[2]
- i) Explain why it is necessary to use fair values for the consideration for an investment in a subsidiary together with the fair values of a subsidiary's identifiable assets and liabilities when preparing consolidated financial statements.^[2]

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

B Accounting for transactions in financial statements

1. Tangible non-current assets

- a) Define and compute the initial measurement of a non-current asset (including borrowing costs and an asset that has been self-constructed).^[2]
- b) Identify subsequent expenditure that may be capitalised, distinguishing between capital and revenue items.^[2]
- c) Discuss the requirements of relevant accounting standards in relation to the revaluation of non-current assets.^[2]
- d) Account for revaluation and disposal gains and losses for non-current assets.^[2]
- e) Compute depreciation based on the cost and revaluation models and on assets that have two or more significant parts (complex assets).^[2]
- f) Discuss why the treatment of investment properties should differ from other properties.^[2]
- g) Apply the requirements of relevant accounting standards to an investment property.^[2]

2. Intangible non-current assets

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

- b) Distinguish between goodwill and other intangible assets.^[2]
- c) Describe the criteria for the initial recognition and measurement of intangible assets.^[2]
- d) Describe the subsequent accounting treatment, including the principle of impairment tests in relation to goodwill.^[2]
- e) Indicate why the value of purchase consideration for an investment may be less than the value of the acquired identifiable net assets and how the difference should be accounted for.^[2]
- f) Describe and apply the requirements of relevant accounting standards to research and development expenditure.^[2]

3. Impairment of assets

- a) Define, calculate and account for an impairment loss.^[2]
- b) account for the reversal of an impairment loss on an individual asset
- c) Identify the circumstances that may indicate impairments to assets.^[2]
- d) Describe what is meant by a cash generating unit.^[2]
- e) State the basis on which impairment losses should be allocated, and allocate an impairment loss to the assets of a cash generating unit.^[2]

4. Inventory and biological assets

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

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

5 Financial instruments

- a) Explain the need for an accounting standard on financial instruments.^[1]
- b) Define financial instruments in terms of financial assets and financial liabilities.^[1]
- c) Explain and account for the factoring of receivables.
- d) Indicate for the following categories of financial instruments how they should be measured and how any gains and losses from subsequent measurement should be treated in the financial statements:^[1]
 - i) amortised cost
 - ii) fair value through other comprehensive income (including where an irrevocable election has been made for equity instruments that are not held for trading)
 - iii) fair value through profit or loss^[2]
- e) Distinguish between debt and equity capital.^[2]
- f) Apply the requirements of relevant accounting standards to the issue and finance costs of:^[2]
 - i) equity
 - ii) redeemable preference shares and debt instruments with no conversion rights (principle of amortised cost)
 - iii) convertible debt

6. Leasing

- a) Account for right of use assets and lease liabilities in the records of the lessee.^[2]

- b) Explain the exemption from the recognition criteria for leases in the records of the lessee.^[2]
- c) Account for sale and leaseback agreements.^[2]

7. Provisions and events after the reporting period

- a) Explain why an accounting standard on provisions is necessary.^[2]
- b) Distinguish between legal and constructive obligations.^[2]
- c) State when provisions may and may not be made and demonstrate how they should be accounted for.^[2]
- d) Explain how provisions should be measured.^[1]
- e) Define contingent assets and liabilities and describe their accounting treatment and required disclosures.^[2]
- f) Identify and account for:^[2]
 - i) warranties/guarantees
 - ii) onerous contracts
 - iii) environmental and similar provisions
 - iv) provisions for future repairs or refurbishments.
- g) Events after the reporting period
 - i) distinguish between and account for adjusting and non-adjusting events after the reporting period ^[2]
 - ii) Identify items requiring separate disclosure, including their accounting treatment and required disclosures.^[2]

8. Taxation

- a) Account for current taxation in accordance with relevant accounting standards.^[2]
- b) Explain the effect of taxable temporary differences on accounting and taxable profits.^[2]
- c) Compute and record deferred tax amounts in the financial statements.^[2]

9. Reporting financial performance

- a) Discuss the importance of identifying and reporting the results of discontinued operations.^[2]
- b) Define and account for non-current assets held for sale and discontinued operations.^[2]
- c) Indicate the circumstances where separate disclosure of material items of income and expense is required.^[2]
- d) Account for changes in accounting estimates, changes in accounting policy and correction of prior period errors
- e) Earnings per share (eps)
 - i) calculate the eps in accordance with relevant accounting standards (dealing with bonus issues, full market value issues and rights issues) ^[2]
 - ii) explain the relevance of the diluted eps and calculate the diluted eps involving convertible debt and share options (warrants) ^[2]

10. Revenue

- a) Explain and apply the principles of recognition of revenue:

- (i) Identification of contracts
 - (ii) Identification of performance obligations
 - (iii) Determination of transaction price
 - (iv) Allocation of the price to performance obligations
 - (v) Recognition of revenue when/as performance obligations are satisfied.
- b) Explain and apply the criteria for recognising revenue generated from contracts where performance obligations are satisfied over time or at a point in time.^[2]
- c) Describe the acceptable methods for measuring progress towards complete satisfaction of a performance obligation.^[2]
- d) Explain and apply the criteria for the recognition of contract costs.^[2]
- e) Apply the principles of recognition of revenue, and specifically account for the following types of transaction:^[2]
- i) principal versus agent
 - ii) repurchase agreements
 - iii) bill and hold arrangements
 - iv) consignments
- f) Prepare financial statement extracts for contracts where performance obligations are satisfied over time.^[2]
- 11. Government grants**
- a) Apply the provisions of relevant accounting standards in relation to accounting for government grants.^[2]
- 12. Foreign currency transactions**
- a) Explain the difference between functional and presentation currency and explain why adjustments for foreign currency transactions are necessary.
- b) Account for the translation of foreign currency transactions and monetary/non-monetary foreign currency items at the reporting date.
- C Analysing and interpreting the financial statements of single entities and groups**
- 1. Limitations of financial statements**
- a) Indicate the problems of using historic information to predict future performance and trends.^[2]
- b) Discuss how financial statements may be manipulated to produce a desired effect (creative accounting, window dressing).^[2]
- c) Explain why figures in a statement of financial position may not be representative of average values throughout the period for example, due to:^[2]
- i) seasonal trading
 - ii) major asset acquisitions near the end of the accounting period.
- d) Explain how the use of consolidated financial statements might limit interpretation techniques
- 2 Calculation and interpretation of accounting ratios and trends to address users' and stakeholders' needs**
- a) Define and compute relevant financial ratios.^[2]
- b) Explain what aspects of performance specific ratios are intended to assess.^[2]

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

- i) previous period's financial statements
- ii) another similar entity/group for the same reporting period
- iii) industry average ratios.

- d) Interpret financial statements to give advice from the perspectives of different stakeholders.^[2]

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

3. Limitations of interpretation techniques

- a) Discuss the limitations in the use of ratio analysis for assessing corporate performance.^[2]
- b) Discuss the effect that changes in accounting policies or the use of different accounting policies between entities can have on the ability to interpret performance.^[2]
- c) Indicate other information, including non-financial information, that may be of relevance to the assessment of an entity's performance.^[1]
- d) Compare the usefulness of cash flow information with that of a statement of profit or loss or a statement of profit or loss and other comprehensive income.^[2]
- e) Interpret a statement of cash flows (together with other financial information) to assess the performance and financial position of an entity.^[2]

- f) i) explain why the trend of eps may be a more accurate indicator of performance than a company's profit trend and the importance of eps as a stock market indicator^[2]
- ii) discuss the limitations of using eps as a performance measure.^[3]

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

- a) Explain how the interpretation of the financial statement of a specialised, not-for-profit or public sector organisations might differ from that of a profit making entity by reference to the different aims, objectives and reporting requirements.^[1]

D Preparation of financial statements

1. Preparation of single entity financial statements

- a) Prepare an entity's statement of financial position and statement of profit or loss and other comprehensive income in accordance with the structure and content prescribed within IFRS and with accounting treatments as identified within syllabus areas A, B and C.^[2]
- b) Prepare and explain the contents and purpose of the statement of changes in equity.^[2]
- c) Prepare a statement of cash flows for a single entity (not a group) in accordance with relevant accounting standards using the indirect method.^[2]

2. Preparation of consolidated financial statements including an associate

individual financial statements and/or those of the group (restricted to disposals of the parent's entire investment in the subsidiary).

- a) Prepare a consolidated statement of financial position for a simple group (parent and one subsidiary and associate) dealing with pre and post acquisition profits, non-controlling interests and consolidated goodwill.^[2]
- b) Prepare a consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income for a simple group dealing with an acquisition in the period and non-controlling interest.^[2]
- c) Explain and account for other reserves (e.g. share premium and revaluation surplus).^[1]
- d) Account for the effects in the financial statements of intra-group trading.^[2]
- e) Account for the effects of fair value adjustments (including their effect on consolidated goodwill) to:^[2]
 - i) depreciating and non-depreciating non-current assets
 - ii) inventory
 - iii) monetary liabilities
 - iv) assets and liabilities not included in the subsidiary's own statement of financial position, including contingent assets and liabilities
- f) Account for goodwill impairment.^[2]
- g) Describe and apply the required accounting treatment of consolidated goodwill.^[2]
- h) Explain and illustrate the effect of the disposal of a parent's investment in a subsidiary in the parent's

Summary of changes to Financial Reporting (FR)

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

Note of significant changes to study guide:

Table 1 – Deletions

	Section and subject area	Reason for change
A2c)	c) Explain and compute amounts using the following measures : ^[2] i) historical cost ii) current cost iii) net realisable value iv) present value of future cash flows v) fair value	This learning outcome has been updated to reflect the revised Conceptual Framework for Financial Reporting® (March, 2018)

Table 2 – Additions

	Section and subject area	Reason for change
A2c)	c) Explain and compute amounts using the following measures : ^[2] i) historical cost ii) current cost iii) value in use v) fair value	This learning outcome has been updated to reflect the revised Conceptual Framework for Financial Reporting® (March, 2018)