Accounting Technicians Ireland

Advanced Financial Accounting

Course Text

Professional, Practical, Proven

www.AccountingTechniciansIreland.ie

Table of Contents

FOREWORD .... **xi**

SYLLABUS: ADVANCED FINANCIAL ACCOUNTING .... **xvii**

CHAPTER 1: INTRODUCTION **1**

1.1 INTRODUCTION TO ADVANCED FINANCIAL ACCOUNTING 1

1.2 CHAPTER OUTLINES 2

CHAPTER 2: REGULATION IN FINANCIAL ACCOUNTING **7**

2.1 THE FUNCTION OF FINANCIAL ACCOUNTING AND REPORTING 8

2.2 THE NEED FOR ACCOUNTING REGULATION 9

2.2.1 Sole Trader 9
2.2.2 Partnerships 10
2.2.3 Unlimited Companies 10
2.2.4 Limited Companies 11
2.2.5 The Regulatory Framework under which Financial Statements are prepared 12

2.3 PROFESSIONAL REGULATION (BOTH INTERNATIONAL AND DOMESTIC) 13

2.3.1 Domestic Regulation 13
2.3.2 Irish and UK GAAP 13
2.3.3 International Regulation 14
2.3.4 Monitoring Board 15
2.3.5 The IFRS Foundation Trustees 15
2.3.6 The International Accounting Standards Board (IASB) 16
2.3.7 IFRS Interpretation Committee 16
2.3.8 The IFRS Advisory Council and Other Advisory Bodies 17
2.3.9 The SME Implementation Group (SMEIG) 17

2.3.10 IFRS Foundation Support Operations 18
2.3.11 Company Law 18
2.3.12 EU Directives 19
2.3.13 Stock Exchange Regulations 20

2.4 TRUE AND FAIR VIEW 21

2.5 THE STANDARD SETTING PROCESS 21
2.5.1 Setting the Agenda 22
2.5.2 Project Planning 22
2.5.3 Developing and Publishing the Discussion Paper 22
2.5.4 Developing and Publishing the Exposure Draft 23
2.5.5 Developing and Publishing the Standard 23
2.5.6 After the Standard is Issued 23

CHAPTER 3: ACCOUNTING CONCEPTS, CONVENTIONS AND FUNDAMENTALS 27

3.1 INTRODUCTION 28

3.2 BASIC CONCEPTS 28
3.2.1 Historical Cost 28
3.2.2 Prudence 28
3.2.3 Separate Entities 29

3.3 IAS 1 PRESENTATION OF FINANCIAL STATEMENTS 29
3.3.1 Fair Presentation and Compliance with IFRS 30
3.3.2 Annual Presentation 30
3.3.3 Accruals Concept 30
3.3.4 Going Concern 30
3.3.5 Consistency of Presentation 31
3.3.6 Materiality and Aggregation 31
3.3.7 Offsetting 32
3.3.8 Comparative Information 32

3.4 THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING 32
3.4.1 Importance of a Conceptual Framework 32
3.4.2 Scope of the Conceptual Framework 33

3.5 THE OBJECTIVE OF GENERAL PURPOSE FINANCIAL REPORTING - CHAPTER 1 34

3.6 QUALITATIVE CHARACTERISTICS OF USEFUL FINANCIAL INFORMATION - FUNDAMENTAL CHARACTERISTICS 35
3.6.1 Relevance 35
3.6.2 Materiality 36
3.6.3 Faithful Representation 36

3.7 QUALITATIVE CHARACTERISTICS OF USEFUL FINANCIAL INFORMATION – OTHER CHARACTERISTICS 37
3.7.1 Comparability 37
3.7.2 Verifiability 38
3.7.3 Timeliness 38
3.7.4 Understandability 38

3.8 THE UNDERLYING ASSUMPTION 38

3.9 THE ELEMENTS OF FINANCIAL STATEMENTS 38

3.10 IAS 8 ACCOUNTING POLICIES, CHANGE IN ACCOUNTING ESTIMATES AND ERRORS .. 40

3.11 ACCOUNTING POLICIES 41
3.11.1 Selection of Accounting Policies 41
3.11.2 Consistent Application of Accounting Policies 42
3.11.3 Change in Accounting Policies 42
3.11.4 Disclosures Required for a Change in Accounting Policies 42

3.12 ACCOUNTING ESTIMATES 43
3.12.1 Accounting Estimates and Changes in them 43

3.13 PRIOR PERIOD ERRORS 43
3.13.1 Correction of a Prior Period Error 43
3.13.2 Disclosures 43

CHAPTER 4: INCOMPLETE RECORDS 49

4.1 INTRODUCTION 50

4.2 REVISION OF INCOMPLETE RECORD CONCEPTS 50

4.3 REVISION OF INCOMPLETE RECORD TECHNIQUES 50

4.4 RATIOS AS A MEANS OF CALCULATING MISSING FIGURES 54

CHAPTER 5: PARTNERSHIPS 63

5.1 INTRODUCTION TO PARTNERSHIPS 64

5.2 PARTNERSHIP AGREEMENT 64

5.3 CAPITAL AND THE CURRENT ACCOUNT 65

5.4 THE APPROPRIATION ACCOUNT 66
5.4.1 Interest on Capital 66
5.4.2 Salaries 67
5.4.3 Drawings 67
5.4.4 Interest on Drawings 68
5.4.5 Profit Sharing Ratio (PSR) 68
5.4.6 Guaranteed Minimum Profit 69
5.4.7 Loans Extended from Partners to the Partnership Business 69

5.5 PRO FORMA CURRENT ACCOUNT AND APPROPRIATION ACCOUNT 70

5.6 THE STATEMENT OF FINANCIAL POSITION OF A PARTNERSHIP 72

CHAPTER 6: IAS 16 PROPERTY, PLANT AND EQUIPMENT 85

6.1 INTRODUCTION 86

6.2 NON-CURRENT ASSETS – BOOKKEEPING ENTRIES 86

6.3 IAS 16 PROPERTY, PLANT AND EQUIPMENT 89
6.4 INITIAL RECOGNITION 89
6.5 CAPITALISATION 90
6.6 MEASUREMENT OF ASSETS SUBSEQUENT TO INITIAL RECOGNITION 93
6.7 DEPRECIATION 102
6.8 DERECOGNITION 104
6.9 DISCLOSURE 104
6.10 IMPAIRMENT 105

CHAPTER 7: ACCOUNTING FOR INVENTORIES 111
7.1 INTRODUCTION 112
7.2 SCOPE OF IAS 2 113
7.3 KEY DEFINITIONS UNDER IAS 2 114
7.4 FUNDAMENTAL PRINCIPLE OF IAS 2 114
7.5 DETERMINATION OF COST AND NRV 115
7.6 TECHNIQUES FOR THE MEASUREMENT OF COST 117
7.7 WRITE DOWN OF INVENTORY TO NRV 118
7.8 DISCLOSURE REQUIREMENTS UNDER IAS 2 119

CHAPTER 8: ACCOUNTING FOR LEASES 125
8.1 IAS 17 LEASES 126
8.2 OBJECTIVES AND SCOPE OF IAS 17 126
8.3 CLASSIFICATION OF LEASES 127
8.4 ACCOUNTING FOR FINANCE LEASES IN THE BOOKS OF THE LESSEE 128
8.5 CALCULATION OF THE INTEREST CHARGE 129
8.6 DISCLOSURE REQUIREMENTS FOR FINANCE LEASES 132
8.7 ACCOUNTING FOR AN OPERATING LEASE IN THE BOOKS OF THE LESSEE 132
8.8 DISCLOSURE IN RELATION TO OPERATING LEASES 133

CHAPTER 9: ACCOUNTING FOR GOVERNMENT GRANTS 139
9.1 INTRODUCTION 140
9.2 IAS 20 ACCOUNTING FOR GOVERNMENT GRANTS 140
9.3 APPLICATION OF IAS 20 TO MONETARY GRANTS 141
9.3.1 Grants Relating to Items of Revenue Expenditure 141
9.3.2 Grants Relating to Items of Capital Expenditure 142

9.4 APPLICATION OF IAS 20 TO NON-MONETARY GRANTS ... 147

9.5 REPAYMENTS OF GRANTS ... 147

9.6 GOVERNMENT ASSISTANCE ... 148

9.7 REQUIRED DISCLOSURES ... 148

CHAPTER 10: PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS ... 155

10.1 IAS 37 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS ... 156

10.2 OBJECTIVES OF IAS 37 ... 156

10.3 PROVISIONS ... 157
- 10.3.1 Present Obligation as a Result of a Past Event ... 157
- 10.3.2 Transfer of Economic Benefit ... 158
- 10.3.3 Estimate/Measurement of the Provision ... 158

10.4 APPLICATION OF IAS 37 ... 159

10.5 CONTINGENT LIABILITIES ... 160

10.6 CONTINGENT ASSETS ... 160

10.7 CONTINGENT LIABILITIES, CONTINGENT ASSETS AND PROBABILITY ... 161

10.8 DISCLOSURES ... 161

CHAPTER 11: IAS 10 EVENTS AFTER THE REPORTING PERIOD ... 167

11.1 INTRODUCTION ... 168

11.2 IAS 10 EVENTS AFTER THE REPORTING PERIOD ... 168

11.3 AN ADJUSTING EVENT ... 168

11.4 NON-ADJUSTING EVENTS ... 170

11.5 GOING CONCERN ... 171

11.6 DISCLOSURE REQUIREMENTS ... 171

CHAPTER 12: PREPARATION OF THE FINANCIAL STATEMENTS OF A LIMITED COMPANY ... 177

12.1 INTRODUCTION ... 178

12.2 RECAP ON THE FUNDAMENTALS OF FINANCIAL STATEMENT PREPARATION ... 178
- 12.2.1 Depreciation ... 178
- 12.2.2 Inventories ... 180
- 12.2.3 Irrecoverable Receivables and Allowances for receivables ... 180
- 12.2.4 Accruals and Prepayments ... 183

12.3 INTRODUCTION TO THE STATEMENT OF COMPREHENSIVE INCOME FOR A LIMITED COMPANY ... 184

12.4 MANUFACTURING ACCOUNT ... 185
12.4.1 Format of a Manufacturing Account ... 187
12.4.2 The Format of the Statement of Profit or Loss of a Manufacturing Company ... 187
12.4.3 Cost Classification ... 188

12.5 FORMAT OF THE STATEMENT OF COMPREHENSIVE INCOME IN LIMITED COMPANIES ... 191

12.6 THE FORMAT OF THE STATEMENT OF FINANCIAL POSITION FOR A LIMITED COMPANY ... 193

12.7 ELEMENTS OF THE FINANCIAL STATEMENTS OF LIMITED COMPANIES ... 194
12.7.1 Corporation Tax ... 194
12.7.2 Other Comprehensive Income ... 197
12.7.3 Capital Structure of Limited Companies ... 198
12.7.4 Debentures ... 202
12.7.5 Equity Reserves ... 203

12.8 STATEMENT OF CHANGES IN EQUITY ... 205

12.9 DISCLOSURE REQUIREMENTS ... 206
12.9.1 Statement of Comprehensive Income Notes ... 206
12.9.2 Statement of Financial Position Notes ... 207

12.10 GOODWILL AND INTANGIBLE ASSETS ... 208
12.10.1 Goodwill ... 208
12.10.2 Intangible Assets ... 209

12.11 STATEMENT OF COMPREHENSIVE INCOME AND STATEMENT OF FINANCIAL POSITION – WORKED EXAMPLE 7 ... 210

12.12 APPROACHING A QUESTION ... 217

CHAPTER 13: IAS 7 STATEMENT OF CASH FLOWS ... 227

13.1 INTRODUCTION ... 228

13.2 IMPORTANCE OF CASH TO A BUSINESS ENTITY ... 228

13.3 DEFINITIONS OF CASH AS PER IAS 7 ... 229

13.4 DISTINCTION BETWEEN PROFIT AND CASH ... 229
13.4.1 Treatment of Capital Items ... 229
13.4.2 Non-Cash Items ... 230
13.4.3 The Application of the Accruals Concept ... 231

13.5 PRO FORMA STATEMENT OF CASH FLOWS ... 232

13.6 CASH FLOW FROM OPERATING ACTIVITIES – DIRECT AND INDIRECT METHODS ... 233

13.7 IAS 7 AND THE PREPARATION OF A STATEMENT OF CASH FLOWS ... 233
13.7.1 Cash flow from operations - explaining and calculating the entries ... 234
13.7.2 Profit/Loss from sale of tangible non-current assets ... 236
13.7.3 Movements in Working Capital Items ... 236
13.7.4 Other Adjustments ... 238

13.7.5 Cash flow from investing activities - explaining and calculating the entries..............240
13.7.6 Cash flows from financing activities - explaining and calculating the entries............246
13.7.7 Dividends 247

13.8 CASH AND CASH EQUIVALENTS NOTE 247

13.9 INTERPRETATION OF A STATEMENT OF CASH FLOWS 247

13.10 APPROACHING A CASH FLOW QUESTION 249

CHAPTER 14: RATIO ANALYSIS 259

14.1 INTRODUCTION..........260

14.2 TYPES OF RATIO ANALYSIS AND USES THEREOF 260

14.3 INFORMATION FOR RATIO CALCULATIONS..........262

14.4 PROFITABILITY RATIOS 264

14.5 LIQUIDITY RATIOS..........267

14.6 EFFICIENCY RATIOS AND WORKING CAPITAL CYCLE 268

14.7 GEARING RATIOS..........273

14.8 INVESTMENT RATIOS 275

14.9 OVERTRADING 277

14.10 SOLVENCY 280

14.11 RATIO ANALYSIS AS A DECISION MAKING TOOL..........280

14.12 SUGGESTED REPORT FORMAT 281

14.13 LIMITATIONS OF RATIO ANALYSIS 289

CHAPTER 15: INTERNAL AND EXTERNAL AUDIT AND ETHICAL ISSUES..........301

15.1 INTRODUCTION..........302

15.2 THE IMPORTANCE AND NATURE OF THE EXTERNAL AUDIT 302
15.2.1 Agency Theory as Applied to Public Limited Companies..........303
15.2.2 Reducing Agency Problems through the External Audit Process 304

15.3 THE COMMON MISPERCEPTIONS OF THE EXTERNAL AUDIT..........305
15.3.1 Opinion Not Fact 305
15.3.2 Fraud..........305

15.4 FACTS CAN CHANGE..........306

15.5 INTERNAL CONTROL SYSTEMS AND CORPORATE GOVERNANCE 306
15.5.1 Internal Control Systems..........306
15.5.2 The Turnbull Report and Internal Control Systems..........307
15.5.3 Financial Internal Controls - An Example..........307

15.6 INTERNAL AUDIT 309

15.7 DIFFERENCES BETWEEN EXTERNAL AND INTERNAL AUDIT 309
- 15.7.1 Scope of the Work 309
- 15.7.2 Independence 309
- 15.7.3 Reporting 310
- 15.7.4 Legal Requirement of Both 310

15.8 ETHICAL ISSUES (CORPORATE SOCIAL RESPONSIBILITY) 312
- 15.8.1 Future Developments 312

15.9 ETHICS AND COMPANIES 312
- 15.9.1 The Rules Based Approach 313
- 15.9.2 The Principles Based Approach 313

15.10 ETHICS AND THE ACCOUNTING PROFESSION 314

INDEX 317

Foreword

This text has been developed by Accounting Technicians Ireland for use by students participating in our programme of study and preparing for our examinations. While every effort is made to ensure that the information outlined in this text is accurate, Accounting Technicians Ireland and the Author cannot accept the responsibility for lack of, or perceived lack of, information contained herein.

The text is intended to be a sufficiently detailed synopsis of the current syllabus material (and knowledge level required thereof) in relation to this module.

Students should take particular note of the weighting attaching to this module, as clearly outlined in the syllabus. It is on the basis of this weighting that students should prepare their own timetable for study.

On the completion of each chapter, students should refer to the relevant questions dealing with that chapter. Ideally, students should not continue with subsequent chapters until they have completed the questions attaching to the chapter currently under review.

The solutions to the questions are provided under separate cover and although they are the suggested solutions, tutors and students should recognise and appreciate that there might very well be different approaches which would, under examination conditions, be perfectly acceptable.

We recommend that, in order to get the full benefit of the question and answer concept, students should not refer to the solution until they have made a full and genuine attempt at each question.

We also recommend that when students have attained an understanding of each chapter studied, in addition to the questions provided, they should access the Accounting Technicians Ireland website (**www.accountingtechniciansireland.ie**) for past papers and "sit them under exam conditions". This will allow students to improve their time management skills and their approach to each type of question.

Acknowledgement

This text was reviewed and edited by Ann-Marie Ward. Ann-Marie is Professor of Accounting at the University of Ulster, Jordanstown.

Referencing

For the purposes of consistency, all references to “he” or “she” will be referred to as “he” in this publication. No other implication whatsoever is implied from this policy.

For the purposes of presentation, all references to “euro” or “sterling” will be referred to as “euro” in this publication. No other implication whatsoever is implied from this policy.

Advanced Financial Accounting – Online Tutorials[1]

TOPIC	TUTORIAL DESCRIPTION
The Financial Statements of Manufacturing Businesses **Textbook Reference:** Chp 12	This tutorial will look at the unique content and format of a manufacturing account. Preparing a manufacturing account requires a detailed knowledge of the different cost classifications (direct and indirect costs) and the different categories of inventories that are typically found in a manufacturing business. The tutorial takes you step-by-step through a past examination question which deals with depreciation, splitting costs, disclosures in the manufacturing account and how this statement links to the statement of profit or loss for a manufacturing business.
Company Financial Statements - Format of the Statement of Comprehensive Income - Format of the Statement of Financial Position - Accounting for taxation and dividends. **Textbook Reference:** Chp 12	This tutorial introduces you to the format of the Statement of Comprehensive Income and the Statement of Financial Position. It also introduces two new adjustments that are unique to companies: Taxation and Dividends. A simple short example for each is provided. Finally, an extended past exam question is worked through step-by-step including integrating the adjustments for taxation and dividends. This question also revises some of the important adjustments that were covered in Financial Accounting, namely, closing inventory, depreciation, deferred income, an accrual for debenture interest, and adjusting for an error (an inventory write-down).
Company Financial Statements - Issuing Share Capital - The Statement of Changes in Equity **Textbook Reference:** Chp 12	This topic focuses on the accounting treatment for an issue of shares. It takes you through the double entry and a short example. Then the purpose, format and contents of a Statement of Changes in Equity are examined. Finally, an adjusted past exam question is worked through step-by-step. This question requires you to prepare a Statement of Comprehensive Income and a Statement of Changes in Equity. The presentation takes you through several adjustments including closing inventory, depreciation, deferred income, an interim dividend, an accrual for debenture interest, irrecoverable debts, the provision for irrecoverable debts and a share issue.
IAS 20: Accounting for Government Grants **Textbook Reference:** Chp 9	IAS 20 was introduced to specify the appropriate accounting treatment of government grants in the financial statements of an entity. This topic will look at the fundamentals of IAS 20, and by working through practical examples students will learn how to account for government grants and gain an appreciation of how government grants affect the preparation of a Statement of Cash Flow.
Financial Regulation **Textbook Reference:** Chp 2	This topic looks at the area of regulation and the importance that it plays within financial accounting. The student will understand why accounting regulation is important and required, in addition to understanding the need for and the structure of professional regulation, company law, stock exchange regulation and EU directives. Finally the topic will outline the process through which an accounting standard comes into being. Relevant past examination questions are discussed throughout the presentation.

[1] KnowledgePoint Online Tutorials are included as part of your Course Materials. Login to your TouchPoint account on our website to view your tutorials as often as you wish.

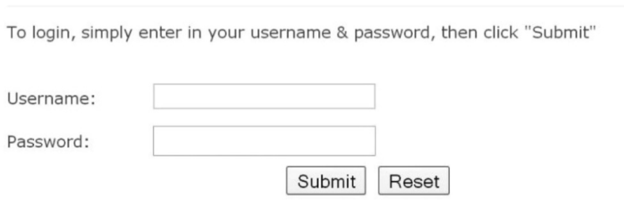
Accounting Technicians Ireland

knowledgepoint

IAS 37: Provisions, Contingent Liabilities & Contingent Assets **Textbook Reference:** Chp 10	IAS 37 was introduced to specify the appropriate accounting treatment for provisions, contingent liabilities & contingent assets in the financial statements of an entity. This topic will look at the fundamentals of IAS 37, and by working through practical exam standard examples students will be able to, when presented with a scenario, advise as to the appropriate accounting treatment under IAS 37 in the financial statements.

How to Access your KnowledgePoint Online Tutorials

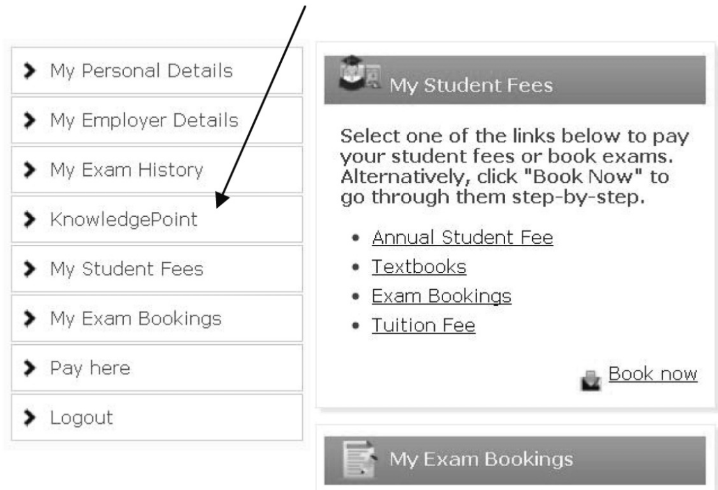
STEP 1: Login to TouchPoint.



USERNAME: This is your Registration Number. If you have lost your Registration No., please contact us directly.

PASSWORD: This is your Date-of-Birth in full without spaces or hyphens. For example if your date of birth is 1^{st} Jan 1970 then your password is 01011970

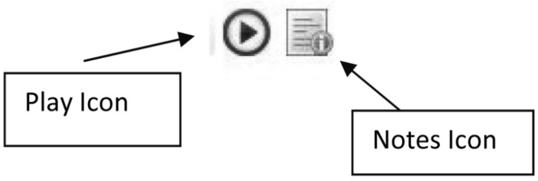
STEP 2: Select 'KnowledgePoint'



STEP 3: Select the 'My Library' Tab

STEP 4: Choose the Subject(s) you want to see

STEP 5: Click the 'Play' Icon to watch a Tutorial, or click the 'Notes' Icon to download the notes.



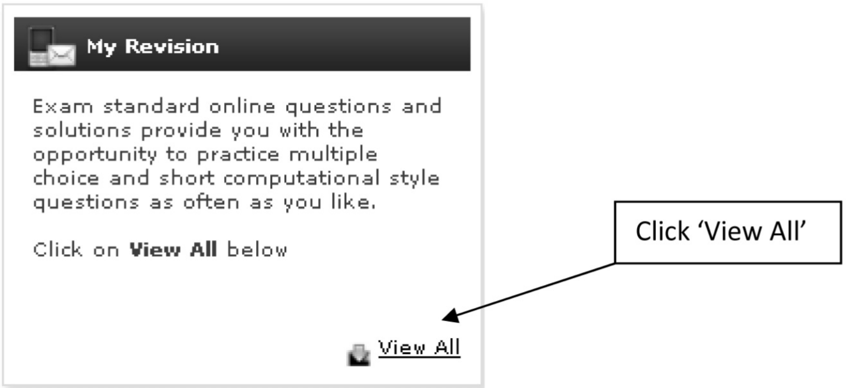
Online Solutions & Revision Questions

The solutions to the questions included in this text are available as an online resource through your TouchPoint portal. You can access these through the **'My Revision'** section. This section also includes questions from recent Past Exam Papers and Sample Papers for you to use as a revision tool.

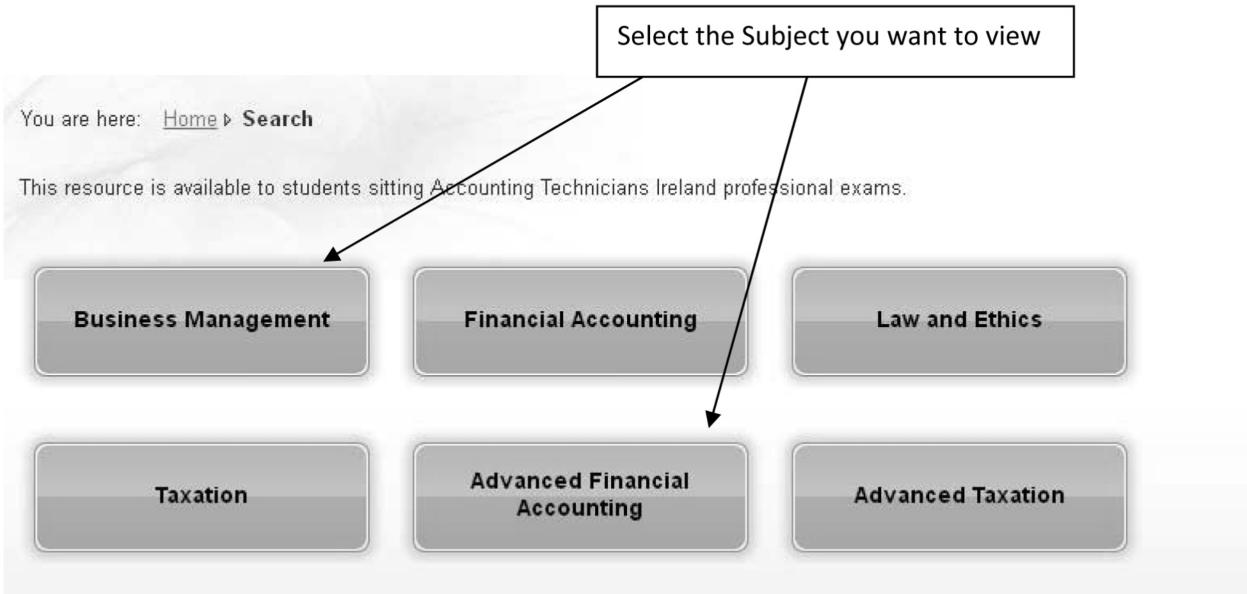
NOTE: The Online System is able to generate 'similar' questions in some cases, allowing you to generate and practice 'new' versions of the same type of question. This means that you have access to a much larger set of questions.

STEP 1 – Login to TouchPoint

STEP 2 – Click "View All" in the 'My Revision' section

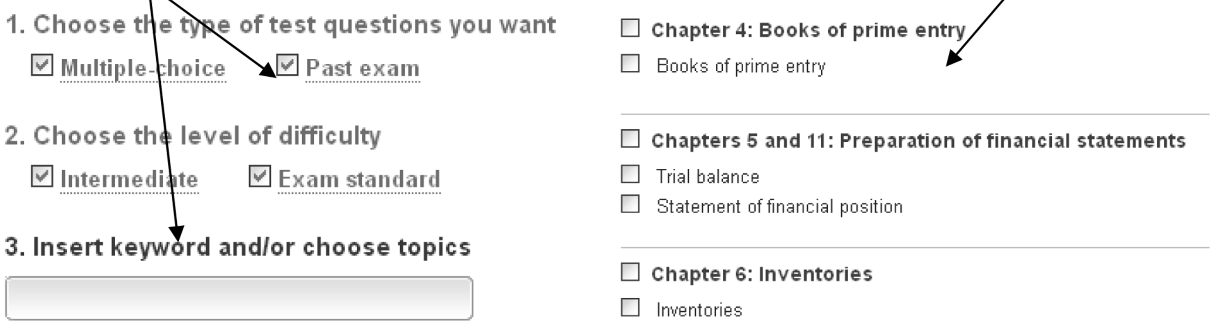


STEP 3 – Select the Subject you wish to view. (Note: The list of available subjects will vary depending on what you are studying)



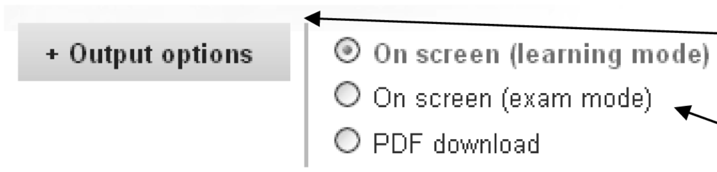
STEP 4 – Select the type of question you want to see OR Select the chapter you are revising.

Select the standard you need (or search by keyword) AND/OR Select the chapter you want, OR insert the question reference from the book



STEP 5 – The System will indicate the number of questions available based on your selection. You can adjust your selection if you wish. When you're ready, click 'Proceed'

STEP 6 – The System will show you a summary of the types of questions available. The "Options" button allows you to select an output option. It will default to 'On Screen (Learning Mode)'. Note that some questions (e.g. full exam questions) are only available as PDF downloads.



Click 'Output Options' to see all the available options.

'Exam Mode' allows you to test yourself

IN ON SCREEN MODE -- once you have selected the question(s) you want, Click 'Proceed' and you can attempt the question. In '*Learning Mode'* you will be able to see a hint and the solution before entering an answer. (NB: In '*Exam Mode*', the system will only show the solution AFTER you submit an answer.)

'Show me a similar question' will generate a new question of the same type.

IN PDF DOWNLOAD MODE, you will be able to download a PDF of the Question(s) or Solution(s).

SYLLABUS

Advanced Financial Accounting

Mandatory Module

Advanced Financial Accounting

Subject Status	**Mandatory**
Year-End Exam	100%
Module Pass Mark	50%
Learning Modes	Direct Lectures, Workshops, Tutorials, Self-Directed Learning
Pre-requisite:	Successful completion/exemption of/from Financial Accounting, Taxation and either Business Management or Law & Ethics

Key Learning Outcome

The key objective of this module is to ensure that learners build on the competencies gained in Financial Accounting and develop a knowledge and understanding of more advanced accounting issues.

Key Syllabus Elements and Weightings

1. Conceptual and Regulatory Framework 30%
2. Financial Statements 50%
3. Interpretation of Financial Statements 20%

Learning Outcomes linked to Syllabus Elements

Conceptual and Regulatory Framework

On completion of this aspect of the module, learners will have acquired the following knowledge, competencies and know-how:

(a) An understanding of the influence of legislation and accounting standards on the production of published accounting information for organisations

(b) An understanding of the accounting standard setting process

(c) A knowledge of specified accounting standards. The ability to critically analyse specified accounting standards.

(d) Be able to recognise and comment on professional ethical issues relevant to business owners, managers and accountants

Financial Statements

On completion of this aspect of the module, learners will have acquired the following knowledge, competencies and know-how:

(a) The ability to prepare financial statements from incomplete records and advise on the requirements for a proper accounting system

(b) The ability to prepare financial statements for partnerships and demonstrate an understanding of capital and current accounts for individual partners

(c) The ability to prepare financial statements for limited companies for internal and external purposes and demonstrate an understanding of the impact of legislation and accounting standards on the publication of financial statements

(d) An appreciation of the importance of cash to business and the ability to prepare a statement of cash flows for limited companies

Interpretation of Financial Statements

On completion of this aspect of the module, learners will have acquired the following knowledge, competencies and know-how:

(a) An ability to understand, explain and use ratio analysis as a technique in decision making and performance evaluation

(b) The ability to critically analyse and interpret financial statements and communicate in a professional manner to relevant interested parties

ADVANCED FINANCIAL ACCOUNTING

Specific Functional Knowledge and Competencies	Understanding	Application	Analysis
Conceptual and Regulatory Framework (30%)			
Influence of legislation and accounting standards on the production of published accounting information for organisations			
Impact of legislation on the preparation and reporting of financial statements	●		
Roles of the IFRS Foundation Monitoring Board, the IFRS Foundation Trustees, the FRS Foundation, the International Accounting Standards Board, the IFRS Interpretations Committee, the IFRS Advisory Council and the Accounting Standards Advisory Forum	●		
Application of International Financial Reporting Standards to the preparation and presentation of financial statements	●		
Framework for the Preparation and Presentation of Financial Statements			
The objective of financial statements	●	●	
Underlying assumptions	●	●	
Qualitative characteristics of financial statements	●	●	
Elements of financial statements	●	●	
Standard setting process			
Standard setting process	●		
Accounting standards and the law	●		
Published financial statements	●	●	●
The role of the stock exchange	●		
Internal and external auditors and ethical issues for the Accounting Technician			
Role and duties of internal and external auditors	●		
Internal control systems	●	●	●
Ethical issues and responsibilities accruing	●	●	

Specific Functional Knowledge and Competencies	Understanding	Application	Analysis
Content and application of specified accounting standards			
IAS 1 Presentation of Financial Statements	●	●	●
IAS 2 Inventories	●	●	●
IAS 7 Statement of Cash Flows	●	●	●
IAS 8 Accounting Policies, Change in Accounting Estimates and Errors	●	●	●
IAS 10 Events after the Reporting Period	●	●	●
IAS 12 Income Taxes (excluding Deferred Tax)	●	●	●
IAS 16 Property, Plant and Equipment	●	●	●
IAS 17 Leases (Lessee accounting only)	●	●	●
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	●	●	●
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	●	●	●
Professional ethical issues relevant to business owners, managers and accountants			
Understanding and application of ethical issues	●	●	
Financial Statements (50%)			
Financial statements for limited companies for internal purposes and external purposes			
Preparation of financial statements for limited companies	●	●	
Differences between a sole trader and a limited company	●	●	●
Accounting records of a limited company	●	●	●
Capital structure of a limited company	●	●	●
Share premium account	●	●	●
Dividends	●	●	●
Reserves	●	●	●

Specific Functional Knowledge and Competencies	Understanding	Application	Analysis
Practical application of IAS's already listed above	●	●	●
Disclosure and filing requirements for limited companies			
Format and filing requirements	●	●	●
Wording and layout of a Statement of Comprehensive Income and a Statement of Financial Position	●	●	●
Size criteria for companies	●	●	●
Disclosure requirements	●	●	●
Split of turnover (Segmental Information)	●	●	●
Details regarding staff numbers and remuneration	●	●	●
Movement in non-current assets	●	●	●
Details of taxes owing	●	●	●
Statement of cash flows for limited companies and an understanding of the importance of cash to the business entity			
Preparation of statement of cash flows in accordance with IAS 7	●	●	●
Importance of cash to a business entity	●	●	●
Preparation of reports on the interpretation of a statement of cash flows	●	●	●
Preparation of financial statements for partnerships			
Preparation of financial statements of a partnership	●	●	
Preparation of, and distinction between, the capital and current accounts of individual partners	●	●	
The financial statements of manufacturing businesses			
Classification of costs	●	●	
Work in progress	●	●	
Preparation of the manufacturing account	●	●	

Specific Functional Knowledge and Competencies	Understanding	Application	Analysis
Preparation of financial statements from incomplete records			
Incomplete records	●	●	
Preparation of financial statements from incomplete records	●	●	
Interpretation of Financial Statements (20%)			
Ratio analysis of accounting information			
Broad categories of ratios	●	●	●
Profitability and return on capital employed	●	●	●
Long-term solvency and stability	●	●	●
Short-term solvency and liquidity	●	●	●
Efficiency	●	●	●
Shareholders' investment ratios	●	●	●
Interpretation of Financial statements and explanation of ratios used			
Interpretation of financial statements	●	●	●
Explanation of information provided by ratios	●	●	●
Limitations of ratio analysis	●	●	●
Preparation of reports for the users of accounting information as a tool in the decision making process			
Preparation of reports in a professional manner	●	●	●
Ratio analysis in the decision making process	●	●	●

Assessment Criteria	
Assessment Techniques	100% Assessment based on the final examination.
Format of Examination Paper	The Paper Consists of SIX Questions which will examine all key syllabus elements to ensure that learning outcomes are achieved **SECTION A** THREE Compulsory Questions **SECTION B** THREE Questions - Answer any TWO. (All questions in Section B carry equal marks)
Sample Papers	Each of the 3 sample papers will examine appropriate parts of this syllabus.

Essential Reading	Advanced Financial Accounting (Second Year) **Author:** Accounting Technicians Ireland
Web Resources	www.AccountingTechniciansIreland.ie www.charteredaccountants.ie www.businesspost.ie www.accaglobal.com www.cimaglobal.com www.cpaireland.ie www.ifrs.org
Other Resources	Business and Finance Accountancy Ireland, CAI Accountancy and Business, ACCA Irish Times Business Section Sunday Business Post Sunday Times – Business Section

CHAPTER 1

Introduction

1.1 INTRODUCTION TO ADVANCED FINANCIAL ACCOUNTING

Welcome to Advanced Financial Accounting. Having successfully completed Financial Accounting you will be aware of some financial accounting terminology. Financial accounting terminology differs between that used in UK/Ireland professional regulations and that used under international professional regulations, although accounting for the underlying item/event is the same.

For example under UK/Irish professional regulation the term given to credit customers who owes our company monies is **debtors**, under international regulation the term used is **trade receivables**. In both cases the underlying item is the exact same – credit customers who owe monies to the company.

Globally there has been a significant shift away from local professional accounting regulation towards international regulation – the reasons for this are explained in detail later in this manual. The Advanced Financial Accounting syllabus (and this text) have been written and will be examined under international professional regulations. As a student of Accounting Technicians Ireland you are training for a professional qualification and therefore use of the appropriate terminology and format, in this case **International Financial Reporting Standards and terminology, is expected by your examiner.**

This is an important point to note as you prepare to commence your studies. Therefore before proceeding, the international professional terminology outlined below should be reviewed to ensure that you are familiar with it and understand it.

Terminology

Ireland/UK	International
Profit and Loss Account	Statement of Profit or Loss
Turnover/Sales	Revenue
Bad debts	Irrecoverable receivables
Corporation Taxation	Income Tax (Under the provisions of IAS 12 corporation tax is referred to as income tax. However this should not be confused with personal income tax)
Balance Sheet	Statement of Financial Position
Fixed Assets	Non-Current Assets
Tangible Fixed Assets	Property, Plant and Equipment
Stock	Inventory
Debtors	Receivables
Provision for Bad Debt	Allowance for Receivables
Creditors	Payables
Shareholders' Funds	Equity
Capital and Reserves	Equity

1.2 CHAPTER OUTLINES

The manual is split into 15 chapters and a brief outline of each chapter is now provided.

Chapter 1: Introduction

Chapter 1 provides the contextual background for Advanced Financial Accounting, highlighting the regulatory framework being followed (International Financial Reporting Standards), the differences in the terminology between the manual, which is prepared using International Financial Reporting Standards (IFRS) and what is commonly used in practice in Ireland and in the UK. Most small and medium sized entities in Ireland and in the UK follow the Accounting Standards issued by the Financial Reporting Council (FRC). The FRC assumed responsibility for accounting standards on 2 July 2012. National accounting standards were formerly issued by the Accounting Standards Board (ASB). The terminology in these standards is different but widely used in practice so it is important that you familiarise yourself with the IFRS and UK/Ireland terminology.

The rest of this chapter provides a brief summary of the contents of each chapter in the manual.

Chapter 2: Regulation in Financial Reporting

The introductory part of chapter two describes the financial accounting function and explains the link between the Financial Accounting course and the Advanced Financial Accounting Course. However, the regulatory framework for financial reporting is the main focus of this chapter. Regulation typically comes from three sources, company law, stock exchange rules and the accounting profession. In this manual the focus is on the international regulation being supported by the accounting profession. To this end, the chapter describes the structure of the bodies that support the professional accounting global standard setting body, the International Accounting Standards Board (IASB). In addition, it describes the process of how the European Union adopts IFRS. The chapter not only describes the international regulatory structures but it also outlines the processes that are followed by the IASB when formulating a new, or updating an existing standard.

Chapter 3: Accounting Concepts, Conventions and Fundamentals

This chapter considers the fundamental principles that underpin financial accounting. This version of the manual has been updated to include the newest version of the IASB's Conceptual Framework for Financial Reporting. The new framework no longer refers to reliability as a key quality of information, using the term 'fair representation' instead. The chapter discusses the new framework, the updated objective of financial statements, the assumptions, the elements and covers recognition, measurement and the concept of capital and capital maintenance, in brief. The latter part of the chapter deals with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', detailing differences between the treatment of each type of change that is required to already prepared financial statements.

Chapter 4: Incomplete Records

The technical side of accounting that was focused on in Financial Accounting is revisited in this chapter. This provides a strong foundation for the rest of the text as students are encouraged to revisit all the adjustments and control accounts that were examined in depth in Financial Accounting. Proforma control accounts are provided and a range of questions are included at the end of the chapter for revision.

Chapter 5: Partnerships

This chapter starts by recapping (from Financial Accounting) on what partnerships are and outlines the typical contents of a partnership agreement. Partnership financial statements are similar to sole traders' financial statements but their capital (equity) account is more complicated. Instead of having a single capital account, partnerships typically have two accounts for each partner, called the capital account and the current account. The capital account records the long-term investment made by the partners and the current accounts records the profit allocation and the drawings from those profits. In addition, another statement called the profit and loss appropriation account is required. This account shows the adjustments to and from distributable profit before it is split between the partners in their profit sharing ratio.

Chapter 6: Property, Plant and Equipment

This chapter examines IAS 16 Property, Plant and Equipment. It discusses the valuation of assets, their subsequent revaluation and devaluation, depreciation, the sale of an asset and the disclosure requirements for tangible assets. Several worked examples are used to explain the treatment under IAS 16.

Chapter 7: Accounting for Inventories

This chapter examines IAS 2 Inventories. It defines inventory, highlights the impact that inventory valuation has on the financial statements, highlights the fundamental principle underpinning the valuation of inventory and works through an example on the valuation of inventory.

Chapter 8: Accounting for Leases

This chapter examines IAS 17 Leases. This is a controversial standard that is currently being updated by the IASB and therefore is subject to change. However, for the purpose of the syllabus it has been decided to examine what is covered in the manual. This chapter outlines the differences between an operating lease and a finance lease and the accounting for each type.

Chapter 9: Accounting for Government Grants

The accounting treatment for government grants is provided in IAS 20 Government Grants. It highlights that grants need to be classified as either revenue (period) or capital (related to an asset). The accounting treatment for each type will differ and examples of both are included in this chapter. Indeed, two treatments are allowed for capital grants (both covered in the chapter) though only one is recommended for use in Ireland and in the UK. This chapter highlights this and explains why.

Chapter 10: Accounting for Provisions, Contingent Liabilities and Contingent Assets

Accounting for provisions, contingent liabilities and contingent assets is given in IAS 37. Using this standard, Chapter 10 defines, explains and provides examples of provisions, contingent liabilities and contingent assets. It can sometimes be difficult to determine if an event is a liability that requires a provision or a contingent liability. By explaining the conditions for recognition of a provision or a contingent liability and by providing a number of worked examples, this chapter aims to provide students with the skills that enable them to recognise the conditions that are required for either and to then advise on the appropriate accounting treatment, including disclosures.

Chapter 11: Events after the Reporting Period

This topic is covered in IAS 10 and the chapter is written using the guidance on accounting for events after the reporting period that are outlined in IAS 10. Specifically the chapter identifies two types of event, those that are ‘adjusting events’ and those that are ‘non-adjusting’. Lists of examples and problem questions and solutions are used to assist students in their comprehension of this topic.

Chapter 12: Preparation of Financial Statements of a Limited Company

One of the larger chapters in the manual, this chapter deals with the published financial statements (the Statement of Profit or Loss or the Statement of Comprehensive Income – where there is other comprehensive income), the Statement of Financial Position and a new statement called the Statement of Changes in Equity). The chapter starts off by examining some new transactions that are unique to companies such as taxation, debentures and issuing shares. It uses double entry and worked examples to guide the student through the new adjustments. Then manufacturing accounts are introduced. This statement is unique to manufacturing entities and provides a detailed breakdown of all the factory costs that make up the cost of goods sold in the company's Statement of Profit or Loss. As this statement focuses on identifying and analysing costs, a section is included which considers all the different revenue costs that a company incurs and details how these are classified as either factory direct or indirect, (in which case they will be disclosed in the manufacturing account) or administration, selling and distribution or finance costs (in which case they will be disclosed in the Statement of Profit or Loss).

Finally, a section discusses each of the main statements, proformas for each type of statement are provided and worked examples outline how to prepare each type of statement from source information.

Chapter 13: Statement of Cash Flows

This chapter starts by explaining the importance of cash for a business and more importantly how useful it is for stakeholders to know the sources and uses of cash in a period. A brief explanation of the difference between profit and cash is provided with examples of non-cash items and accounting adjustments that are required under the accruals and matching concept but which are not cash. Next the format, as recommended by IAS 7 *Statement of Cash Flows,* of the statement of cash flows is explored with a proforma and a discussion of the typical entries that can be found under the three main headings: Cash flows from operating activities, cash flows from investing activities and cash flows from financing activities. Perhaps you, the reader, could list five types of cash flow that you might expect to find under each heading? The chapter provides detail on a number of calculations that you typically have to do when preparing the Statement of Cash Flows from the Statement of Profit or Loss such as taxation, interest, grants, non-current assets and issuing shares.

Finally the last part of the chapter discusses the interpretation of the Statement of Cash Flows and outlines the best way to approach preparing a Statement of Cash Flows in an exam type question.

Chapter 14: Ratios

This chapter introduces ratio analysis and how it can be used to compare the financial statements of an entity across time, across companies and relative to the industry average. It discusses a variety of ratios that are analysed according to their ability to provide information on the profitability, liquidity, efficiency, gearing and investment potential of an entity.

In the latter part of the chapter overtrading is explained and the symptoms discussed. Then guidance on preparing a report is provided. Examination questions on ratio analysis typically require a report to be prepared so a proforma is presented and a worked example puts the theory into practice. Finally, the limitations of ratio analysis are outlined.

Chapter 15: Internal and External Audit and Ethics Issues

By this stage of the manual, students should have a reasonable understanding of accounting and the systems underpinning accounting transactions. The concluding chapter in the manual deals with auditing. This topic is left to last on purpose as it is easier to understand its role and the types of testing used after a good knowledge of accounting is achieved. This chapter considers the importance of external audits and why they are carried out, explains the limits of an audit, describes and discusses the internal control function and the internal audit function, explains the difference between external and internal auditing and discusses the importance of ethics in financial accounting and the processes the accounting profession have put in place to promote ethical behaviour within their membership.

CHAPTER 2

Regulation in Financial Accounting

LEARNING OUTCOMES

Upon completion of this chapter you should be able to understand:

- The difference between management and financial accounting.
- Why accounting regulations are important and required.
- The need for and the structure of professional regulation, company law, stock exchange legislation and EU Directives.
- How the different aspects of regulation work together and complement each other.
- The process through which an accounting standard comes into being.

REVISION RESOURCES

EXAM QUESTIONS: ***Sample and Past papers*** are available from the website of Accounting Technicians Ireland and are essential aids when studying Advanced Financial Accounting topics.

2.1 THE FUNCTION OF FINANCIAL ACCOUNTING AND REPORTING

The International Accounting Standards Board (IASB) in their *Conceptual Framework for Financial Reporting* state that '*the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit*'. This Conceptual Framework is discussed in detail within chapter 3. Therefore, the motivation for all accounting is to provide information, financial or otherwise, that can assist the users of financial statements in their economic decision-making.

While there are many definitions of accounting worldwide, provided by various accounting bodies, all tend to have the following elements in common. That is that financial accounting is a process which is undertaken with the ultimate aim of:

- Identifying
- Measuring
- Communicating

information to the users of accounting information, in order to allow them to make informed judgements and decisions. The information which is identified, measured and communicated is largely financial in nature.

The identification of information is undertaken in the bookkeeping process - covered in Financial Accounting. Here transactions are identified and recorded in the books and records of the business entity via the double entry system of bookkeeping.

At year-end or month-end, information is extracted from the double entry bookkeeping system and is measured, presented and communicated in a manner that is more understandable to the users of accounting information – for example in the Statement of Comprehensive Income the prime piece of information measured and communicated is whether the entity made a profit/loss in the period covered by the Statement of Comprehensive Income. While in the Statement of Financial Position, information relating to the assets and liabilities and the ultimate financial position of the business entity is measured and communicated.

Financial Accounting focused on the following areas:

- *Identification* and recording of financial information – this is achieved via the double entry bookkeeping system which records transactions. Accounting procedures such as the preparation of control accounts and bank reconciliation statements ensure that the information contained in the double entry system is accurate. Items in the control accounts or bank reconciliation for which there is inadequate information are initially recorded and subsequently corrected via a suspense account. This suspense account is a working account that must be cleared before the financial statements are published. (A suspense account should never appear in either a Statement of Profit or Loss or Statement of Financial Position).
- *Measuring* the financial performance of a sole trader via the Statement of Profit or Loss and the Statement of Financial Position.
- *Communicating* by preparing the financial statements of a sole trader or a not-for profit organisation.

In Advanced Financial Accounting, the knowledge gained in Financial Accounting is built and expanded upon. The preparation of a Statement of Profit or Loss (Statement of Comprehensive Income) and Statement of Financial Position for a partnership and limited company are examined. A new financial statement that measures the cash position of a business entity is also examined. Therefore while Financial Accounting primarily focused on identifying and measuring financial information, Advanced Financial Accounting focuses on the communication of this information to users of accounting information. How this information is communicated is extremely important as the ultimate aim of the financial accounting process is to produce financial information about an entity that is understandable, relevant, reliable and comparable to aid the users of financial information make decisions about the business entity.

Take for example the financial information of a limited company – this is potentially of interest to a wide variety of users (e.g. suppliers, investors, credit institutions, etc.) of accounting information. All of these users have different needs and requirements. Therefore the manner in which financial information is communicated is important. A significant body of professional regulation and Company Law requirements seek to ensure that appropriate detail is provided in a readily understandable format to meet various users' needs. These rules and regulations are discussed in detail in Advanced Financial Accounting.

It should be clear that the information presented in Financial Accounting and Advanced Financial Accounting combined describe in detail the financial accounting process. Students should be aware that the information presented in Financial Accounting is assumed knowledge and is built upon over the course of Advanced Financial Accounting. It is quite possible that the Advanced Financial Accounting examination will incorporate areas covered in Financial Accounting.

2.2 THE NEED FOR ACCOUNTING REGULATION

When an individual chooses to set up a business, that business can be carried on through the medium of either: a sole trader business, a partnership, a limited company or a European Company**.** A European company (*Societas Europaea* (SE)) operates on a Europe-wide basis and is governed by EC law directly applicable in the Member States, rather than by national law.

The decision, as to which medium to carry on a business through, depends upon several factors. Conducting business through each type of business entity has both advantages and disadvantages. These, other than a European Company, were examined in Financial Accounting and are assumed knowledge.

The need for and importance of accounting regulation only becomes apparent when the key characteristics of the various mediums through which a business venture can be carried on is examined.

2.2.1 Sole Trader

A sole trader business, as the name suggests, is a business where one person owns the business. A sole trader business tends to be small and operates on an informal basis. Further and critical to understanding the need for professional regulation, the following two traits of a sole trader business must be understood:

- A sole trader will usually undertake an active role in the management and running of the business. Therefore on a daily basis a sole trader will know how the business is performing in financial terms.

The Statement of Profit or Loss and Statement of Financial Position produced at the end of each month/year will just formalise in financial terms what the sole trader is already aware of.

Sole traders are only required to produce financial information for the tax authorities or where a loan is being sought they may be required to produce this information for the lending institution.

- The sole trader and the business are not recognised as separate legal entities, and because of this sole traders have unlimited liability. Unlimited liability means that there is no distinction between the sole trader's personal wealth and that of the business. If the business runs into financial difficulty and cannot meet its debt repayments, the business's payables (people to whom the money is owed) have recourse to the personal assets of the sole trader. The sole trader bears all the risks and receives all the return from the business operations. This feature reduces the risk of interacting on a business level with sole traders as not only do payables have recourse to the wealth of the business but to the personal wealth of the sole trader, should the business fail.
- The sole trader is responsible for the tax on all the profits of the business and hence it is regarded as a drawing, not a business expense.

2.2.2 Partnerships

Partnerships are business entities where ownership is divided between at least two people. Usually partnerships have no more than twenty individual partners. Partnerships are discussed in detail in Chapter 5. However for the moment the most important feature of a partnership business is that, like a sole trader business, partners in a partnership tend to be involved in the day to day operations of the business. Partnerships are not required to produce financial information for any other users of accounting information except the partners of the partnership, the tax authorities or a lending institution, where applicable. Like sole traders, partners in a partnership typically do not enjoy limited liability, however, some partnerships can incorporate as Limited Liability Partnerships (LLPs). For example, PricewaterhouseCoopers LLP or KPMG Europe LLP. A LLP is a partnership that is set up as a corporate body (an independent legal entity that is separate from the partners). The members (partners) have joint responsibility for the business; however, are not responsible for the other partner's actions. Like shareholders in a limited company, partners in a LLP cannot lose more than they invest, unless they have committed fraud or wrongful trading. If one partner commits a fraud and the other partners are unaware of this and have good business practices which are designed to circumvent or uncover fraud, then they, as individuals, are not liable for the claims made because of actions by that partner.

There are similarities between a LLP and a partnership when it comes to taxation, with the partners being legally responsible for their share of the tax on business profits, not the LLP (The taxation expense does not form part of the financial statements of a LLP).

2.2.3 Unlimited Companies

It is possible to have an unlimited company which is much the same as a limited company, except that the liability of the members is unlimited (This fact will be stated in the company's Memorandum and Articles of Association). An unlimited company has the advantage of not requiring a Court Order in order to return its capital to its members and has recently become more common for certain groups of companies to have an unlimited company in their group structure for this reason.

2.2.4 Limited Companies

The term limited company is derived from the fact that, in most cases, the liability of the owners (shareholders) of a limited company is limited to the funds which they have invested in the company. In some cases involving fraud/reckless trading the Directors may become personally liable for the debts of the company; however, this would be a matter decided by the courts. Thus, in most cases a key advantage of a limited company is that the personal wealth of the owners is protected to a greater extent than either a sole trader or partnership business.

However from the point of view of those that interact with limited companies this increases the risk that they face. If a limited company goes into liquidation, creditors do not have recourse to the personal wealth of the company owners, recourse is limited to the wealth and assets of the company.

A limited company can either be a Private Limited Company (Ltd) that does not sell its shares to the general public or a Public Limited Company (PLC) that sells its shares to the public. As discussed in detail in Chapter 12 the possession of an ordinary share in a limited company gives the holder the right of partial ownership of the company. EU regulations allow the formation of private limited companies with only *one member* as against previous requirements for a minimum of two members.

Some limited companies are *limited by guarantee* – the guarantee being the amount the members agree to pay in the event of the company going into liquidation. This form of company is more suitable for clubs and associations than for trading businesses.

Limited companies are subject to much more regulation than other forms of business entity as the owners are typically external to the management and the owners' liability is limited. Therefore, the owners need regulation to provide them with information that enables them to obtain some assurance that management are looking after their interests and loan providers (creditors of all types) need information to enable them to determine if managers are putting their funds at risk or not. These two points are now discussed more fully:

- *Limited liability* – this implies that those who interact with the company on a daily basis, for example suppliers who supply goods and services on credit, are exposed to the risk that the company will go out of business. In such a situation suppliers only have recourse to the assets of the business in order to secure payment for debts and not to personal assets of the owners of the business (the shareholders). This implies that those who interact with limited companies take on a high level of risk. The risk can be mitigated by examining the financial statements of a limited company prior to commencing transacting with that company.
- Ownership of limited companies tends to be much broader and more dispersed than that of either a sole trader or partnership business. In most cases in PLCs the shareholders (owners) will not be involved in the day to day running of the business at all. Thus shareholders require information as to the financial performance and position of the PLC. This is achieved by making the financial statements of a PLC widely available.

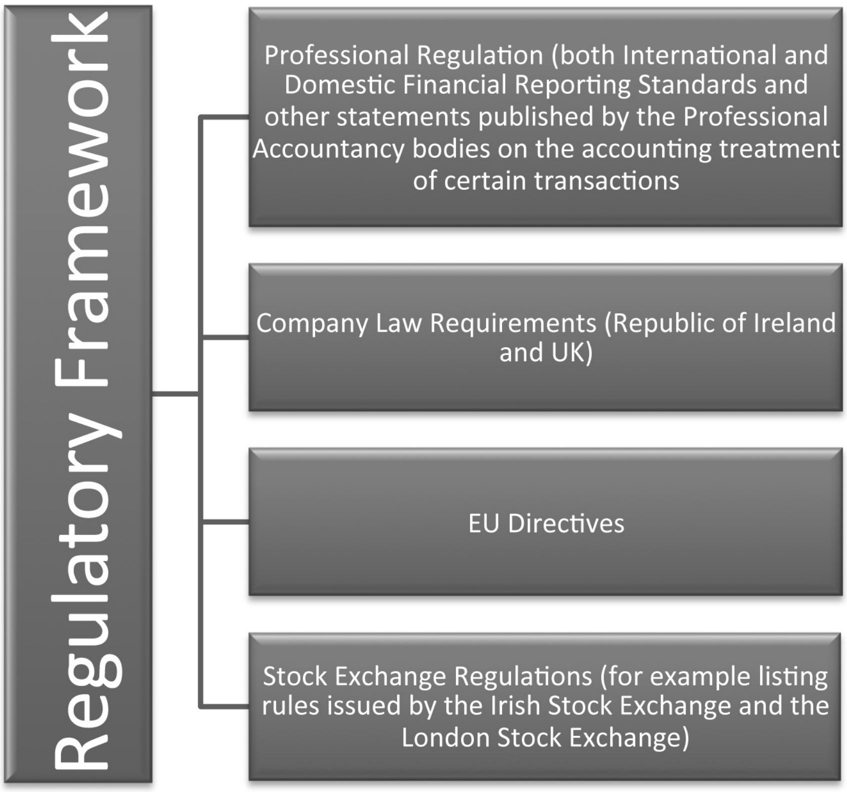
The preceding discussion highlights that the financial statements of limited companies (both private and public) are available to a much wider population of users than those of either a sole trader or partnership business. Many of these users have no involvement in the day to day running of the company, yet they still need to be able to rely upon and understand the information contained in the financial statements. Over time, to this end, a wide body of professional regulation and statutory legislation has been developed. The remainder of the chapter is devoted to examining the various sources of regulation in financial reporting in Ireland and the UK.

2.2.5 The Regulatory Framework under which Financial Statements are prepared

The users of financial information are a broad and diverse group as discussed in Financial Accounting. The users of financial information require information for a wide variety of reasons. Nonetheless, every user of financial information has a common requirement, i.e. that the information is relevant, fairly presented, understandable and comparable. To this end a broad range of regulation has developed around the preparation and presentation of a set of financial statements. Combined these are referred to as the Regulatory Framework or Generally Accepted Accounting Practices (GAAP).

The term GAAP is used widely in relation to accounting regulation although the term is seldom referred to in the Companies Acts and is not defined therein. Generally Accepted Accounting Practices are made up of all the accounting rules and regulation in a particular jurisdiction.

In Ireland and the UK the various pieces of regulations, which combined, constitute GAAP/Regulatory Framework are as follows:



GAAP in other countries may be different but the source of regulation is typically the same, for example, US GAAP, is different to Irish and UK GAAP but is still comprised of US Professional Regulation, US Corporations Law and Stock Exchange Regulations.

2.3 PROFESSIONAL REGULATION (BOTH INTERNATIONAL AND DOMESTIC)

2.3.1 Domestic Regulation

Professional regulation was largely absent in Ireland and the UK prior to the 1970s. The Institute of Chartered Accountants in England and Wales issued guidance on accounting principles to its members. The guidance issued was not enforceable. In the late 1960s the accounting profession suffered a wave of adverse publicity in relation to the accounting principles widely used by companies. One such example was the GEC-AEI takeover. AEI, prior to the takeover, issued a forecasted profit figure for 1967 of £10m (Sterling). GEC re-prepared the profit statement for the same period using the accounting methods used by GEC and reported a forecast loss of £4.5m. About £5m of the difference was explained by the fact that AEI's profit forecast contained predicted information for a number of months whereas GEC's profit statement was based on actual data and the predictions had not been correct. However, an outcry resulted from the fact that £9.5m of the difference occurred because GEC used a different method of inventory valuation for the same underlying inventory items. The fundamental issue behind the controversy was that the methods of valuing inventory used by the two companies were allowable at the time. The concern which this raised was that if entities were free to choose different accounting methods and these methods resulted in very different profit figures being reported, then how could the users of accounting information rely on the information contained in the annual report of companies.

A significant amount of criticism was levied against the accounting profession in this respect. Therefore in the 1970s the Accounting Standards Committee (ASC) was set up by the UK accounting profession in an attempt to self regulate and address the criticisms that had been levied. The committee issued accounting standards known as Statements of Standard Accounting Practices (SSAPs). Later in the 1990s the Accounting Standards Board (ASB) replaced the ASC. The ASB issued accounting standards known as Financial Reporting Standards (FRSs). In 2012 responsibility for the issuance of accounting standards transferred to the 'Accounting Council of the Financial Reporting Council'. Currently in the UK and Ireland both FRSs and SSAPs exist; however, they are currently being superseded by three Financial Reporting Standards that are applicable for companies in the UK and in the Republic of Ireland (see below for more detail). Their function is to describe and provide guidance to accounting practitioners and the users of financial information about how contentious and difficult areas, where a variety of different treatments have developed over time, should be treated. Thus an accounting standard outlines the recommended treatment and disclosure requirement of a particular item in financial statements.

2.3.2 Irish and UK GAAP

In 2012 and 2013 the FRC revised financial reporting standards in the UK and Republic of Ireland. The revisions reformed financial reporting, replacing almost all current financial standards with three succinct Financial Reporting Standards. The standards are effective for accounting periods that begin on or after 1 January 2015, though earlier adoption is permitted. The standards are broadly consistent with IFRS but are proportionate to the size and complexity of the relevant entities and the information needs of their users. The standards are:

FRS 100 Application of Financial Reporting Requirements
FRS 101 Reduced Disclosure Framework
FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland.

The Financial Reporting Standard for Smaller Entities (FRSSE) continues to be available for small entities.

Any entity that wishes to prepare financial statements that provide a true and fair view must prepare them in accordance with accounting standards. Some companies have a choice. For example, small companies can apply the FRSSE, or can opt to apply FRS 102 or EU-adopted IFRS. Qualifying companies (companies that are subsidiaries or ultimate parents that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS) may apply FRS 101 which has reduced financial reporting requirements and disclosure exemptions when compared with FRS 102.

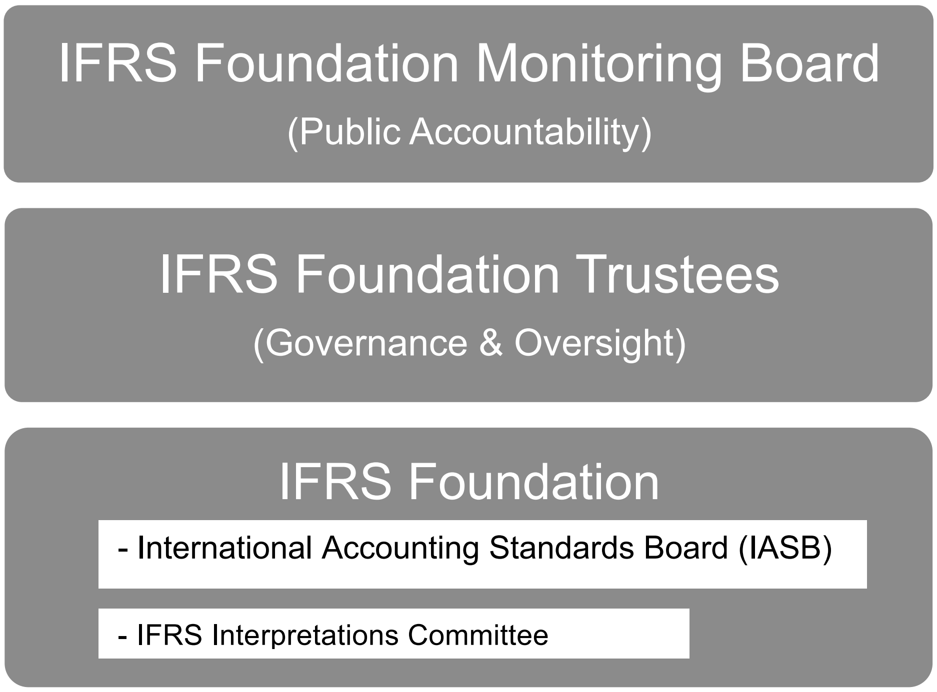
Towards the end of the 20th century international trade began to grow significantly. This was evidenced both through a significant increase in cross border trade between nations and through the growth of the multinational organisation. A multinational organisation is one that operates in more than one country. A significant portion of the companies which we interact with every day are multinational organisations. Many within the accounting profession were therefore of the opinion that a worldwide accounting standard body was necessary.

Though the International Framework has been in existence for several decades its globalisation gained momentum in 2005 when the EU decided that all publicly quoted companies on European exchanges were required to prepare their financial statements under EU-adopted IFRS. Since this time the majority of educational institutions and professional bodies have taught accounting under IFRS. This may change in the future as the FRC experienced stiff opposition when it tried to achieve full harmonization with IFRS. The resulting compromise is the new national framework of three key standards. For the forthcoming year, Accounting Technicians Ireland have decided to continue teaching financial accounting under IFRS.

2.3.3 International Regulation

The International Accounting Standards Committee (IASC) was set up in 1973. The IASC issued accounting standards called International Accounting Standards (IAS). Its members were drawn from the professional bodies of accountants worldwide (including the ASC and later the ASB in Ireland and the UK). Members were encouraged to use their best efforts to encourage domestic standard setters, auditors, governments and stock exchanges to comply with international financial reporting standards. The aim of the IASC was to promote international comparability and consistency between the financial statements prepared by companies worldwide. International financial reporting standards are only effective if adopted by national regulatory bodies in various countries.

In January 2001 the International Accounting Standards Board (IASB) on the recommendation of the IASC's Strategy Working Party replaced the IASC as the standard setting body. The Strategy Working Party was created in 1997 and charged with reviewing the IASC in terms of structure and process. The IASB adopted the IASs that had been published by the IASC. They update these standards and issue new standards called International Financial Reporting Standards (IFRS). The current structure of the International Regulatory Framework is as follows:



2.3.4 Monitoring Board

The function of the Monitoring Board is to oversee the activities carried out by the Trustees of the IFRS Foundation. The Monitoring Board participates in the Trustee nomination process and approves the appointments of the Trustees. The Monitoring Board was formed on 1 February 2009 to enhance the public accountability of the IFRS Foundation while not impairing the independence of the standard setting process. The board is made up of representatives from public authorities such as the Emerging Markets and Technical Committees of the International Organisation of Securities Commission (IOSCO), the European Commission, the Financial Services Agency of Japan (JFSA) and the US Securities and Exchange Commission (SEC).

2.3.5 The IFRS Foundation Trustees

The IFRS Foundation was established on 1 March 2010 and is concerned with governance and oversight and at the time of writing is comprised of 21 Trustees. The trustees are appointed by the Monitoring Board and report to the Monitoring Board. The objective of the IFRS Foundation is to:

- develop a single set of high quality, understandable, enforceable and globally accepted International Financial Reporting Standards (IFRSs) through its standard-setting body, the International Accounting Standards Board (IASB);
- to promote the use and rigorous application of those standards;
- to take account of the financial reporting needs of emerging economies and small and medium-sized entities (SMEs); and to promote; and
- facilitate adoption of IFRSs, being the standards and interpretations issued by the IASB, through the convergence of national accounting standards and IFRSs.

(IFRS website, 2014)

95455 Adv_ Fin_Acc_14 - Manual.indb 15 21/05/2014 11:12

Significant activities undertaken by the IFRS Foundation are as follows:

- Appointing members of the IASB, the IFRS Advisory Council and the IFRS Interpretation Committee
- Overseeing the work of the IASB, in terms of structure, strategy and effectiveness
- Consideration of, but not determination of the IASB's agenda
- Establishing and amending the operating procedures, consultative arrangements and due process for the three organisations (the IASB, the IFRS Advisory Council and the IFRS Interpretations Committee)
- Establishing and maintaining financing arrangements

(IFRS website, 2014)

The Trustees of the IFRS Foundation are not involved in technical matters relating to the development of accounting standards. Responsibility for such matters rests with the IASB.

2.3.6 The International Accounting Standards Board (IASB)

At the time of writing the IASB had sixteen members drawn from around the world. The IASB has full control over developing and setting its own technical agenda, the IFRS Foundation considers this agenda but does not have the power of determination.

The International Accounting Standards Board aims to establish:

- A thorough, open, participatory and transparent due process;
- Engagement with investors, regulators, business leaders and the global accountancy profession at every stage of the process
- Collaborative efforts with the worldwide standard-setting community.' (IASB and the IFRS Foundation, 2010)

(IFRS website, 2014)

By the 1st Januay 2013 the IASB has issued 14 IFRSs (including the IFRS for SMEs) and support 28 IASs. Some of these standards will be discussed in this manual under the relevant topic area.

Since 2002 the IASB and the US Financial Accounting Standards Board (FASB) have been working together to achieve convergence of IFRSs and US GAAP following the issue of a Memorandum of Understanding (MOU) following the "Norwalk Agreement". In 2009 FASB and IASB reaffirmed these commitments to the MOU and have issued proposed new standards for Leases and Revenue Recognition with a view to having a single approach to these topics. At the time of writing these standard had not yet been finalised.

2.3.7 IFRS Interpretation Committee

The IFRS Interpretation Committee is comprised of fourteen members. According to the IASB website, the Interpretations Committee's mandate is 'to review on a timely basis widespread accounting issues that have arisen within the context of current IFRSs'. It aims to reach a consensus on the appropriate accounting treatment and to provide authoritative guidance on those issues. The accounting treatments agreed on are published as '*IFRIC Interpretations'*.

When developing IFRIC Interpretations, the Interpretations Committee works closely with similar national committees. The IFRIC Interpretations cover:

- ‘Newly identified financial reporting issues not specifically dealt with in IFRSs
- Issues where unsatisfactory or conflicting interpretations have developed, or seem likely to develop in the absence of authoritative guidance’

(IFRS website, 2014)

2.3.8 The IFRS Advisory Council and Other Advisory Bodies

The IFRS Advisory Council provides a forum for participation by organisations and individuals interested in international financial reporting. There are between 30 and 40 members of the IFRS Advisory Council, including representatives from national standard setters, preparers, financial analysts, academics, auditors, regulators, investor groups and other interested parties. The role envisaged for national standards setters (the ASB in the UK and Ireland for example) in the future is for them to become part of the Advisory Council that will feed into the setting of new international standards. The members of the Advisory Council have a diverse geographical and functional background. The main objectives of the IFRS Advisory Council are as follows:

- ‘To advise the IASB on the technical agenda, timetable and to prioritise the IASB’s work
- To inform the IASB of the views of the organisations and individuals on the Advisory Council on major standard setting projects with particular emphasis on practical application and implementation issues, including matters relating to existing standards that should be brought to the IFRS Interpretation Committee’s attention.

It also supports the IASB in the promotion and adoption of IFRSs throughout the world.’

(IFRS website, 2014)

IASB Advisory Bodies

The IASB also has a number of formal advisory bodies that consult with interested parties from a diverse geographical area in a transparent manner and feedback to the IASB comments on its work. The advisory bodies include national standard setting bodies, the Accounting Standards Advisors Forum (established by the IASB in 2013), the Capital Markets Advisory Committee, the Emerging Economies Group, the Global Preparers Forum, the SME Implementation Group and consultative groups (technical sector experts).

2.3.9 The SME Implementation Group (SMEIG)

This group was established on 1 January 2010 to support the international adoption of the IFRS for Small and Medium-sized Entities (SMEs) and to monitor its implementation. This standard is a separate IFRS that was issued by the IASB in 2009 to cater for the needs of smaller organisations.

2.3.10 IFRS Foundation Support Operations

A further body, the IFRS Foundation Support Operations, also supports the IFRS Foundation Trustees in promoting the global use of IFRS. This body has a number of initiatives that it currently supports including:

- The creation of an XBRL taxonomy for IFRS and the IFRS for SMEs. The XBRL taxonomy is a set of standardised formats and labels which should enable the electronic use, exchange and comparability of financial data across countries
- The production of high-quality, understandable and up-to-date material in support of the IFRS for SMEs (to assist with training) and the organisation of workshops and conferences on IFRSs
- Promotion of the IFRS brand and global convergence

(IFRS website, 2014)

2.3.11 Company Law

A detailed discussion of the provisions and requirements of the Companies Acts is beyond the scope of the course. The Companies Acts cover all aspects relating to a company, for example: the setting up of a company (preparation of the Memorandum and Articles of Association), the rights and responsibilities of the officers of a company (for example the company directors), the manner in which financial information must be presented and disclosed to the users of accounting information and filing requirements for companies. For example, when financial statements are due to be filed with the Company Registration Office and thereby made available to the public?

From the perspective of Advanced Financial Accounting the most relevant aspects of Company Law are the disclosure requirements – the information that under law must be presented in a set of financial statements. Examples of disclosures include the level and nature of directors' remuneration and the level of the audit fee. This is discussed in more detail in Chapter 12.

Company law also determines what a set of financial statements must include - this depends upon the size of the company. Company law prescribes the criteria for determining the size of a company.

In the Republic of Ireland the criteria are as follows:

Size	Small	Medium	Large
Statement of Financial Position total up to	€4,400,000	€7,618,428	> €7,618,428
Turnover up to	€8,800,000	€15,236,856	> €15,236,856
Average number of employees	50	250	> 250

Note: the company must comply with two of the three criteria to qualify.

In the UK the criteria are as follows:

Size	**Small**	**Medium**	**Large**
Statement of Financial Position total up to	£3,260,000	£12,900,000	>£12,900,000
Turnover up to	£6,500,000	£25,900,000	>£25,900,000
Average number of employees	50	250	> 250

Normally an entity will require that two out of the three criteria be met for two consecutive years, for the entity to fall within a particular category.

The following table outlines what information must be disclosed depending upon the size of a company.

Company Type	**Content of Financial Statements**
Small private company limited by shares	Auditor's report (if applicable) and an abridged/abbreviated Statement of Financial Position
Medium private company limited by shares	Auditor's report, directors' report, a Statement of Comprehensive Income (starting at gross profit) and a Statement of Financial Position
Large private company limited by shares	Auditor's report, directors' report, a Statement of Comprehensive Income and a Statement of Financial Position
Public company limited by shares	Auditor's report, directors' report, a Statement of Comprehensive Income, a Statement of Financial Position and a Corporate Governance Statement.

2.3.12 EU Directives

Both Ireland and the UK joined the European Community (formally the European Economic Community) on January 1st 1973. One of the fundamental projects that the EU has engaged in is harmonisation across member States. Financial Accounting is no different in this respect and several EU Directives were issued in the 1980s and 1990s towards this goal.

It was recognised that achieving harmonisation in this manner would prove time consuming and costly. The European Commission decided not to issue further directives concerning accounting but instead to support the accounting standards issued by the IASC (now the IASB) in its efforts to ensure harmonisation of accounting policies across the EU. In June 2002, the EU issued a regulation requiring companies listed on a regulated market (stock market) to prepare consolidated financial statements in accordance with international accounting standards by 2005 (including comparative figures for 2004). With respect to unlisted private companies – small and medium enterprises/entities (SMEs), the EU states that Member States either require or allow unlisted companies to prepare their financial statements in line with international accounting standards.

In August 2009 the ASB (now the FRC), the national accounting standard setting body for Ireland and the UK issued a discussion paper proposing that all non-publicly accountable companies (mainly private limited companies) prepare financial statements under reporting standard IFRS for Small and Medium Size Entities (IFRSME) by 31 December 2012. By 2012 therefore, all public limited companies would be reporting under full IFRS and all private limited companies would be reporting under a modified version of IFRS. Local accounting standards issued by the ASB were predicted to disappear.

However, due to objections to the removal of various options that exist in Irish/UK GAAP, the FRC has introduced three new Financial Reporting Standards (discussed earlier) that are in the main consistent with IFRS but tailored for smaller entities that do not qualify for reporting under the FRSSE. Hence IFRS for non-listed companies is not being mandated by the FRC. Hence IFRS is only required in PLCs and that requirement is enforced through legislation.

The conversion to IFRS has in effect allowed the EU to achieve its goal of harmonising accounting standards and treatments across the EU. This was deemed an essential ingredient in the promotion of cross border trade and investment between member states.

From a company's point of view, the advantages of preparing financial statements under international accounting standards are significant:

- The largest capital markets (where finance to grow a business is secured) are located in the USA and London. Investors in these capital markets will be more inclined to invest in companies from other countries, such as Ireland, if the financial statements of the companies in these countries are prepared under accounting rules and regulations with which they are familiar.
- Similarly, if all EU companies are preparing financial statements under the same regulations this should increase the level of cross border share ownership. For example an Irish investor is more likely to purchase the shares of a French company if that French company is preparing financial statements under regulation with which the Irish investor is familiar.
- Prior to the introduction of international financial accounting standards, a multinational with companies operating in Ireland, France and Germany, for example, would have had to produce a set of financial statements for the Irish company under Irish accounting standards, the French company under French accounting standards and the German company under German accounting standards. In addition, all of the financial statements would have had to have been re-prepared using the GAAP of the country of the Head office of the company so that overall group financial statements could be prepared. Now all of these can be prepared under International Financial Reporting Standards and used to prepare the overall group financial statements. This significantly reduces costs for the multinational organisation and therefore helps to promote cross border trade.

2.3.13 Stock Exchange Regulations

These regulations only apply to those companies which seek to float on a regulated market. That is, to the public limited companies who issue (sell) shares and have their shares traded by the investing public on the stock exchange. Companies listed on the Main Securities Market of the Irish Stock Exchange (ISE) must comply with the Listing Rules (ISE), the UK Corporate Governance Code, the Irish Corporate Governance Annex; the Admissions to Trading Rules (ISE) and relevant EU legislation.

Stock exchange regulation contains important regulations not addressed in other areas, arguably the most important of which relates to the disclosure of price sensitive information to all shareholders at the same time. This ensures that no market participant has an unfair advantage over others. The situation where an individual has information which is not available to the public and uses that information for their own personal benefit is referred to as insider trading and is illegal.

2.4 TRUE AND FAIR VIEW

The primary objective of the accounting and auditing regulatory bodies is to ensure that the financial statements produced and relied upon by the users of accounting information present a “true and fair” view of the financial performance (Statement of Comprehensive Income), financial position (Statement of Financial Position) and the cash flows (Statement of Cash Flows) of a company. While the term “true and fair” has never been defined by the courts it would appear that in order for a set of financial statements to give a true and fair view, which is required by Company legislation, they usually comply with both Financial Reporting Standards and company law. Instead of using the term “true and fair view”, international financial accounting standards refer to a “fair presentation” which has a very similar meaning to a “true and fair view”.

In very rare circumstances entities may choose not to comply with the provisions of financial reporting standards. This occurs where compliance with the standard together with additional disclosure would not result in a “fair presentation” and is referred to as the “true and fair override”.

Although IFRS and company law deal with calculation and disclosures, financial reporting standards tend to deal with how the various figures in the financial statements should be calculated while company law tends to focus on how the information should be presented to users. Therefore it can be seen that both financial reporting standards and company law requirements work together in order to achieve the overall goal that a set of financial statements are true and fair and can be relied upon by the users of accounting information as the basis for making economic decisions regarding the company.

2.5 THE STANDARD SETTING PROCESS

The process through which International Financial Reporting Standards are developed involves six steps and a consultation process which involves interested individuals and organisations from around the world.

The six steps are as follows:

1. Setting the agenda
2. Planning the project
3. Developing and publishing the discussion paper
4. Developing and publishing the exposure draft
5. Developing and publishing the standard
6. Review of standards following their issue

(IFRS website, 2014)

2.5.1 Setting the Agenda

Here the focus is on what area in financial accounting should be addressed through a standard, a key factor in the decision is the all embracing aim to provide better quality information to all users of financial statements. Specifically the decision as to whether an item is added to the agenda is mainly based upon the informational needs of investors. When deciding if an item should be added to the agenda the IASB considers the following factors:

- The relevance of the information to users
- The reliability of the information which would be provided
- Existing guidance in the area
- The quality of the standard to be developed
- Whether the new item increases the possibility of convergence and resource constraints.

(IFRS website, 2014)

Before deciding to place an item on the agenda the IASB will consult the IFRS Advisory Council and other accounting standard setting bodies on proposed agenda items and setting priorities (what issues are the most urgent).

The IASB discussions on potential projects and its decision as to whether it should adopt a new project take place in public IASB meetings where the decision to add an item to the agenda, or not, is made simply by majority.

2.5.2 Project Planning

Once an item has been added to the agenda the next decision is whether the IASB should conduct the project alone or whether it should do so with another standard setter, e.g. the UK FRC or the US FASB. Once this has been determined, a project team is assembled: this may include members from other standard setting bodies where this is deemed appropriate by the IASB.

Sometimes the IASB request certain companies to “field test” a proposed standard and seek feedback on suggested alternative treatments of certain financial transactions before it publishes a standard.

2.5.3 Developing and Publishing the Discussion Paper

The function of a discussion paper is to explain the issue and solicit early comment from various interested parties. The IASB will usually issue a discussion paper on any major new topic. Normally a discussion paper will contain the following elements

- A detailed overview of the issue (why a standard is required in this area)
- Different potential approaches for dealing with the issue
- Preliminary views of the IASB on dealing with the issue
- An invitation to comment on the issue.

(IFRS website, 2014)

2.5.4 Developing and Publishing the Exposure Draft

The exposure draft is an important step in the process as it sets out a specific proposal in the form of a draft standard for dealing with an issue. The development of the exposure draft is based upon the IASB considering the comments which it received from the discussion paper, research carried out by its own employees and suggestions made from other standard setting bodies.

2.5.5 Developing and Publishing the Standard

Once the exposure draft has been issued, comments will be received by the IASB on the proposed treatment of the issue. Such comments may lead to the proposed treatment of the issue being revised. Where this is the case, the IASB will assess whether they need to issue the revised treatment for further public comment through the issuing of a second exposure draft. This occurred recently with the proposed standard on leasing.

Where the IASB is satisfied that it has reached a conclusion on the treatment of an issue, a draft of the IFRS is drawn up. This is referred to as the pre-ballot draft. The pre-ballot draft will normally be subjected to external review which is usually undertaken by the IFRIC. IASB members are then balloted and if the ballot is in favour of the publication of the standard then the IFRS is issued.

2.5.6 After the Standard is Issued

The issuing of the new standard is not the final step in the process. After the standard has been issued the IASB will hold regular meetings with interested parties, including other standard setting bodies in order to examine and understand any unanticipated issues relating to the practical application of the standard.

Sometimes a standard can give rise to unforeseen consequences due to alternative interpretations of the standard's provisions or the standard being applied to types of transactions not envisaged when the standard was being developed. Standards can be revised after their application has been reviewed, when the financial reporting environment or regulatory requirements change and when comments are received.

As can be seen from the preceding discussion the process through which an accounting standard is developed involves a significant amount of public consultation. This is undertaken in order to improve transparency in the standard setting process.

In addition, it should be noted that the IASB operates with an objective of being fully transparent in its operations. To help satisfy this objective, it records all of its meetings and makes them available as podcasts for interested parties to view.

PRACTICE QUESTIONS

Question 1 (ref: 1900)

"Management accounting information and financial accounting information are prepared under different regulatory environments".

a) Outline your understanding of both management and financial accounting.

b) Do you agree with the statement as outlined above? You are required to support your answer.

Tuition note: this question draws on knowledge gained in Financial Accounting, this is assumed knowledge in Advanced Financial Accounting. The information is discussed in this question in order re-fresh student knowledge.

Question 2 (ref: 1901)

Outline why rules and regulations in financial accounting are important.

Question 3 (ref: 1902)

Outline your understanding of the current structure of International Financial Reporting Regulation.

Question 4 (ref: 1903)

Outline the standard setting process currently in place for new International Financial Reporting Standards.

Question 5 (ref: 1904)

In your opinion is there any place for local accounting standing setting bodies like the Financial Reporting Council or has their role been replaced by international developments?

Question 6 (ref: 1905)

It is important that financial reporting be subject to rules and regulations. The rules and regulations which apply are commonly referred to as the 'regulatory framework' or Generally Accepted Accounting Practices ('GAAP').

(a) Explain the need for regulation in the context of financial reporting and explain why it is important. **8 Marks**

(b) Describe briefly the four main sources of regulation that represents Irish/UK GAAP. **12 Marks**

Total 20 Marks

(May 2011, Q1)

Question 7 (ref: 1906)

Describe the aims of the IASB.

Question 8 (ref: 1907)

Outline the history of the establishment of professional regulation for financial reporting in Ireland and the UK.

Question 9 (ref: 1908)

Describe the different types of regulation that are supported by the following sources: the professional accounting bodies, company law and stock exchange rules.

Question 10 (ref: 1909)

List and describe the function of the bodies that make up the International Regulatory Framework for Financial Reporting.