

FINANCIAL ACCOUNTING

PART I

SECTION 1

CPA

CIFA

STUDY TEXT

SYLLABUS

PAPER NO 1: FINANCIAL ACCOUNTING

GENERAL OBJECTIVE

This paper is intended to equip the candidate with knowledge, skills and attitudes that will enable him/her to prepare financial statements for different entities

LEARNING OUTCOMES

A candidate who passes this paper should be able to:

- Prepare books of original entry and basic ledger accounts under double entry system
- Prepare basic financial statements of sole traders, partnerships, companies and manufacturing entities and not for profit organisations
- Comply with the regulatory framework in the accounting field
- Account for assets and liabilities
- Analyse financial statements by use of ratios and statement of cash flows

CONTENT

1. Introduction to Accounting

- The nature and purpose of accounting
- Objectives of accounting
- Users of accounting information and their respective needs
- The accounting equation
- Regulatory framework of accounting (regulatory bodies such as ICPAK, IFAC, IASB, IPSAB)
- Accounting standards (IAS/IFRS), (Importance and limitations)
- Professional ethics
- Accounting concepts/principles
- Qualities of useful accounting information

2 Recording transactions

- Source documents (quotations_ purchases order, statement of account, remittance advice, receipts, petty cash vouchers_ sales and purchase invoices, credit notes and debit notes, bank statements)
- Books of original entry: sales journal, purchases journal, returns inward, returns outward journal, cashbook, petty cashbook and general journal
- Double entry and the ledger; general ledger, sales ledger, purchases ledger
- The trial balance
- Computerised accounting systems- Role of computers, application and accounting softwares in the accounting process, benefits and challenges of operating computerised accounting systems

3. Accounting for assets and liabilities

3.1 Assets

- Property, plant and equipment — recognition, capital and revenue expenditure, measurement (depreciation and revaluation), disposal and disclosures — property, plant and equipment schedule
- Intangible assets — recognition, measurement (amortisation, impairment and revaluation), disposals and disclosures
- Inventory - recognition, measurement and valuation using specific. cost method (FIFO and weighted average cost)
- Trade receivables - bad debts and allowance for doubtful debts and receivables control accounts
- Accrued income and prepaid expenses
- Cash at bank -- cashbook and bank reconciliation statement
- Cash in hand - cash book and petty cash book

3.2 Liabilities

- Bank overdraft - cash book and bank reconciliation
- Trade payables - payables control accounts
- Loans - accounting treatment of repayment of principal and interest
- Prepaid income and accrued expenses

4. Correction of errors and suspense account

5. Financial statements of a sole trader

- Income statement
- Statement of financial position
- Preparing financial statements under incomplete information

6. Financial statements of a partnership

- Partnership agreement
- Distinction between current and fixed capital
- Income statement
- Statement of financial position
- Changes in partnership – Admission of a new partner, retirement and change in profit sharing ratio

7. Financial statements of a company

- Types of share capital - ordinary shares and preference shares
- Issue of shares (exclude issue by instalment and forfeiture)
- Types of reserves share premium, revaluation reserve, general reserves and retained profits
- Income tax -Accounting treatment and presentation (exclude computation)
- Financial statements - Income statement and statement of financial position
- Published financial statements (describe a complete set of published financial statements but not preparation)

8. Financial statements of a manufacturing entity

- Features of a manufacturing entity
- Classification and apportioning costs between manufacturing and selling and administration
- Financial statements - manufacturing account, income statement and statement of financial position

9. Financial statements of a not-for-profit organisation

- Features
- Types of funds and their accounting treatment
- Income and expenditure account
- Statement of financial position

10. Analysing financial statements

- Statement of cash flows (categories of cash, methods of preparing statement of cash flows and the importance)
- Financial ratios — definition, categories, analysis and interpretation, application and limitations

11. Introduction to public sector Accounting

- Features of public sector entities (as compared to private sector)
- Structure of the public sector (National and county governments: state corporations and other agencies)
- Regulatory structures and oversight [IPSASB, PSASB (establishment, mandate and functions), Director of Accounting Services, National Treasury, Parliamentary Committees. Accounting Officers at national and county levels]
- Objectives of public sector financial statements
- Objectives of IFSAS
- Accounting techniques in public sector (budgeting, cash, accrual: commitment and fund) (Preparation of financial statements should be excluded)

12. Emerging issues and trends

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