

## SEMESTER - 3

### FINANCIAL ACCOUNTING [BAF-301]

#### INTRODUCTION

This course is designed to concentrate on preparation of financial statements, evaluation and interpretation of financial analysis under different business situations. This will help management to take appropriate decision on the basis of financial comments and recommendations of management accountant.

#### OBJECTIVE

To provide the students with a thorough knowledge of advanced aspects of financial accounting to enable them to:

- select and apply appropriate accounting techniques and procedures to specific circumstances, and
- prepare, analyse and interpret financial statements of entities under specific situations.

#### OUTCOMES

On completion of this course, students should be able to:

- describe the structure and objectives of regulatory framework and setting of international financial reporting standards;
- understand the meaning of conceptual framework and GAAP;
- define the qualitative characteristics and elements of financial statements;

- prepare and present the financial statements according to IAS1 (revised);
- describe the concept and accounting application of policies related to changes in accounting estimates and errors, revenue recognition related part disclosures, operating segments, non-current assets held for sale and discontinued operations, events after the reporting period and provisions, contingent liabilities and contingent assets;
- explain the accounting applications of property, plant and equipment, government grants, borrowing costs and investment projects;
- discuss the concept and accounting applications related to intangible non-current assets;
- get acquainted with the accounting treatment of impairment of assets ;
- describe and apply the methods of determining a lease type;
- prepare the cash flow statements;
- understand the applications of accounting standards for inventories, construction contracts and share transactions.
- understand basic consolidation of single parent and single subsidiary company.

#### INDICATIVE GRID

| PART         | SYLLABUS CONTENT AREA   | WEIGHTAGE   |
|--------------|---|-------------|
| A            | <b>REGULATORY AND CONCEPTUAL FRAMEWORK</b><br>1. The Regulatory Framework<br>2. The Conceptual Framework  | 10%         |
| B            | <b>SINGLE COMPANY FINANCIAL ACCOUNTS</b><br>3. IAS 1 Presentation of Financial Statements<br>4. Reporting Financial Performance<br>5. Other Reporting<br>6. Accounting for Non-Current Assets<br>7. Accounting for Intangible Non-Current Assets<br>8. Impairment of Assets<br>9. Leases<br>10. Statements of Cash Flows<br>11. Inventories<br>12. Construction Contracts | 75%         |
| C            | <b>BASIC CONSOLIDATION</b><br>13. Consolidated Statement of Financial Position (Single Parent and Single Subsidiary Company)<br>14. Consolidated Statement of Comprehensive Income (Single Parent and Single Subsidiary Company)  | 15%         |
| <b>TOTAL</b> |   | <b>100%</b> |

**Note:** The weightage shown against each section indicates, study time required for the topics in that section. This weightage does not necessarily specify the number of marks to be allocated to that section in the examination.

#### CONTENTS

##### PART - A

##### REGULATORY AND CONCEPTUAL FRAMEWORK

###### 1. The Regulatory Framework

- The International Accounting Standard Board (IASB)
- Setting of International Financial Reporting Standards
- Purpose and need of regulatory framework and the advantages and disadvantages of IFRS
- Are the accounting standards enough and complete as regulatory framework
- Principles based and rules based framework and relationship

- The process of standard setting by IASB and updation and interpretations of Standards
- Relationship of national standard setters to the IASB in respect of the standard setting process
- Components that affect accounting standard setting process

###### 2. The Conceptual Framework

- Conceptual framework for financial reporting and GAAP
- Need of conceptual framework and alternative systems
- Objectives of Financial statements
- Underlying assumptions

- Qualitative characteristics and the compliance with accounting standards
- The concept of financial and physical capital maintenance and their affects in determination of profits
- Limitations of financial statements

## **PART - B**

### **SINGLE COMPANY FINANCIAL ACCOUNTS**

#### **3. IAS 1 Presentation of Financial statements**

- General Features
- Recognition and recognition criteria' of elements of financial statements
- Subsequent measurement of elements of financial statements
- Preparation of Financial Statements
- Preparation of statement of profit and loss/Statement of Comprehensive Income
- Statement of Other Comprehensive Income
- Preparation of statement of changes in Equity
- Preparation of statement of Financial Position
- Disclosure requirement of notes to the accounts

#### **4. Reporting Financial Performance**

##### **IAS – 8: Accounting Policies, Changes in Accounting Estimates & Errors**

- Selection of accounting policies
- Changes in accounting policies
- Changes in accounting estimates
- Correction of prior period errors
- Disclosure

##### **IAS – 18: Revenue Recognition**

Recognition criteria of Revenue from

- Sale of goods and Service
- Interest , Royalties & Dividend
- Disclosures

##### **IAS – 24: Related Party Disclosures**

- Conditions for related party
- Related party transactions
- Disclosures

#### **5. Other Reporting**

##### **IAS – 10: Event after the Reporting Periods**

- Accounting treatment of Adjusting & Non-Adjusting Events
- Disclosures

##### **IAS – 37: Provisions, Contingent Liabilities & Contingent Assets**

- Recognition criteria of provision
- Difference between provision & contingent liability
- Recognition criteria of contingent assets
- Onerous executory contract
- Restructuring
- Disclosures

#### **6. Accounting for Non-Current Assets**

##### **IAS – 16: Property, Plant & Equipment**

- Cost calculation
- Initial recognition & subsequent measurement
- Depreciation
- Cost model & Fair value model
- Assets Disposal
- Disclosures

##### **IAS – 20: Government Grants**

- Grant related to asset
- Grant related to income
- Repayment of Grant

- Direct & indirect method
- Disclosures

##### **IAS – 23: Borrowing Costs**

- Accounting treatment of capitalization of borrowing costs
- General borrowing
- Specific borrowing

##### **IAS – 40: Investment Property**

- Initial recognition & subsequent measurement
- Cost model & Fair value model
- Transfer

#### **7. Accounting for Intangible Non-Current Assets**

- IAS 38 Intangible Assets
- Accounting treatment of Intangible assets

#### **8. IAS-36: Impairment of Assets**

- Cash Generating Units and impairment loss of its assets
- Impairment of Goodwill
- Accounting treatment of an Impairment Loss

#### **9. IAS-17: Leases**

- Characteristics of Leases
- Accounting for Leases
- Accounting for sale and lease back
- Concept of bargain purchase option
- Concept of guaranteed residual value

#### **10. IAS -7: Statements of Cash Flows**

- Preparing a Statement of Cash Flow of a single company
- Interpretation of Statements of Cash Flow

#### **11. IAS - 2: Inventories**

- Recognition and Measurement of Inventories
- Net Realizable Value
- Disclosures

#### **12. IAS – 11: Construction Contracts**

- Contract Revenue and Costs
- Recognition and measurement of Contract Revenue and cost
- Percentage of completion by using cost to cost method and work certified method
- Presentation in Financial Statement and Disclosures

## **PART – C**

### **BASIC CONSOLIDATION**

#### **13. Consolidated Statement of Financial Position (Single Parent and Single Subsidiary Company)**

- Concept of a group as single economic unit
- Objectives of preparation of consolidated financial statements
- conditions when an entity is required to prepare consolidated financial statements
- Principles of the Consolidated Statement of Financial Position
- Circumstances when exemptions are allowed from the preparation of consolidated financial statements.
- Pre and Post-Acquisition Profits
- Non-Controlling Interest
- Need for valuing investment and Net Assets Acquired in a subsidiary on Fair Values
- Accounting treatment of Unrealized Profit
- Accounting for Mid-Year Acquisitions
- Accounting treatment of goodwill

- Preparation of consolidated statement of financial position

#### 14. Consolidated Statement of Comprehensive Income (Single Parent and Single Subsidiary Company)

- Principles and elements of the Consolidated Statement of Comprehensive Income

- Intra-Company Transactions and why they need to be eliminated
- Other Consolidated Income Statement Adjustments
- Preparation of consolidated statement of comprehensive income

**TEACHING METHODOLOGY:** The faculty is advised to teach the topics in the mode of case studies based on knowledge and application with practical approach.

#### RECOMMENDED BOOKS

| CORE READINGS  |   |   |
|--|---|---|
| TITLE  | AUTHOR  | PUBLISHER                                   |
| CIMA, UK Study Text  | ---   | BPP   |
| Relevant Study Text  | ---   | Kaplan Publishing                           |
| Gripping: IFRS Pakistan Edition  | Cathrynne Sowden-Service                                | ICAP/ Lexis Nexis                           |
| Wiley IFRS: Practical Implementation Guide and Workbook  | Abbas Ali Mirza/Graham J. Holt                          | John Wiley & Sons, Inc.                     |
| Intermediate Accounting (IFRS Vol: 1&2)  | Donald E. Kieso / Jerry J. Weygandt / Terry D. Warfield | John Wiley & Sons, Inc.                     |
| Financial Accounting and Tax Principles  | PBP   | Professional Business Publications, Lahore. |
| ADDITIONAL READING   |   |   |
| Lease Accounting<br>Consolidated Financial Statements<br>Accounting for Construction and Contract and<br>Cash flow Statement | Javed H. Zuberi   | Petiwala Book Depot, Karachi                |