

ASSOCIATION OF ACCOUNTING TECHNICIANS

GUIDANCE NOTES

AAT ACCOUNTING QUALIFICATION – DIPLOMA PATHWAY

UNIT 11, DRAFTING FINANCIAL STATEMENTS

What the Unit covers

This unit is concerned with competence in drafting and interpreting the financial statements of limited companies. Students will have attained competence at levels 2 and 3 in the process of identifying and recording financial transactions in accounts and ledgers following the principles of double-entry bookkeeping. They will also be able to draft the financial statements of sole traders and partnerships. Students will thus have some experience in measuring assets and liabilities at level 3. Unit 11 builds upon these competences and concentrates on the function of drafting financial statements of limited companies from the records and accounts prepared. It ensures that students understand what information is required to be provided, how it is to be presented to users of the financial statements and how the rules and principles established in financial reporting standards apply to the process of drafting financial statements. The unit also ensures that students grasp the reasons why financial statements are prepared and communicated so that their significance is understood. They need to understand who these users are and what use they make of this information. The unit also requires the student to grasp the techniques applied to financial statements that are used to assess the financial performance and the financial position of an entity.

The Standard is divided into two elements:

**Element 11.1, Draft limited company financial statements, and
Element 11.2, Interpret limited company financial statements.**

Performance criteria for Element 11.1

A Draft limited company financial statements from appropriate information

B Correctly identify and implement subsequent adjustments and ensure that discrepancies, unusual features or queries are identified and either resolved or referred to the appropriate person

C Ensure that limited company financial statements comply with relevant accounting standards and domestic legislation and with the organisation's policies, regulations and procedures

D Prepare and interpret a limited company cash flow statement

E Ensure that confidentiality procedures are followed at all times

Range Statement for Element 11.1 makes it clear that the financial statements that are drafted under this element are the:

- Income statement
- Balance sheet
- Statement of total recognised income and expense
- Supplementary notes required by statute, SSAPs, FRSs and other relevant pronouncements

Element 11.1 requires that the financial statements be drafted from appropriate information. This might include a trial balance or an extended trial balance and might include other information about balances or transactions relating to the period under consideration. The range statement makes it clear that these financial statements might be unitary or consolidated. In other words, students may be asked to draft financial statements for single companies or consolidated group accounts. Performance criteria D makes it clear that the drafting of cash flow statements is also included in this element. These may be drafted from the other financial statements of a company in conjunction with further relevant information.

In drafting financial statements the knowledge and understanding required is set out in the Standards. Students will need to know and understand the general legal framework of limited companies and the obligations of directors in respect of the financial statements. This includes a grasp of the Companies Act accounting and reporting requirements. The student must thus be aware of the format of accounting statements and disclosure requirements in order that they can prepare the financial statements in proper form. This includes an understanding of the content and form of published accounts of limited companies. Pro-formas for the income statement, statement of recognised income and expense, balance sheet consistent with the requirements of IAS 1 are provided in examinations as is a pro-forma for the cash flow statement in consistent with the requirements of IAS 7. Items required to be disclosed in notes to the accounts required by IAS 1 and the disclosure of directors' emoluments under Schedule 6 Part I and the requirements for disclosure of auditors' remuneration under Section 390A of the Companies Act must be grasped. Cash flow statements are to be drafted in accordance with the requirements of IAS 7.

There must be an understanding of the UK regulatory framework of financial reporting. This includes a grasp of which bodies are involved in the standard-setting process, the process by which standards are promulgated, the structure of regulation and the roles of the bodies involved and the process of enforcing standards. Drafting financial statements involves a grasp of generally accepted accounting principles and concepts as well as detailed knowledge of the main requirements of relevant International Accounting Standards (IAS). Only IAS's will be assessed in the unit. The requirements of SSAP's and FRS's are not assessable. The extent to which IAS's will be assessable under this unit is given below. This guidance will be updated as new Standards are promulgated. Drafting consolidated financial statements involves a grasp of the general principles of consolidation. Only simple consolidations will be assessed. This will involve minority interests and pre-acquisition profits. However, the consolidation of sub-subsidiaries or acquisitions where shares in subsidiary undertakings are acquired at different times will not be assessable. Simple equity accounting for associated companies is assessable. The forms of equity and loan capital and the presentation of Corporation Tax in financial statements must be understood for all companies.

Performance criteria for Element 11.2

- A Identify the general purpose of financial statements used in limited companies
- B Identify the elements of financial statements used in limited companies
- C Identify the relationships between the elements within financial statements of limited companies
- D Interpret the relationship between elements of limited company financial statements using ratio analysis
- E Identify unusual features or significant issues within financial statements of limited companies
- F Draw valid conclusions from the information contained within financial statements of limited companies
- G Present issues, interpretations and conclusions clearly to the appropriate people

This element requires students to understand the general purposes of limited company financial statements. The Range Statement makes clear that the financial statements in question are:

- the balance sheet
- income statement.

The objective of financial statements is set out in the IASB's *Framework for the Preparation and Presentation of Financial Statements*. A knowledge of the purposes of financial statements as set out in this document is required by the knowledge and understanding of this unit. The users of financial statements and the purposes for which they use financial statements are set out in the *Framework*.

The elements of financial statements are set out in the Range Statement. This follows the identification of elements given in the *Framework*. The elements are:

- assets
- liabilities
- ownership interest
- gains, losses
- contributions from owners and distributions to owners

Students need to understand how these elements relate to each other within financial statements. This involves a grasp of which financial statement they appear in and how they are related to each other within the statements. In the balance sheet the relationship between assets, liabilities and ownership interest need to be understood using the accounting equation. The effect of contributions from owners and distributions to owners on the balance of ownership interest needs to be grasped. How gains and losses are reflected in the income statement must be understood and how the income statement articulates with the balance sheet must be grasped.

Students must also be able to interpret the relationship between elements of limited company financial statements using ratio analysis. This involves computing and interpreting accounting ratios relating to profitability, liquidity, efficient use of resources and financial position. Unusual features or significant issues raised by the analysis should be identified. Valid conclusions should be drawn from this information and the issues, interpretations and conclusions should be clearly presented to appropriate people.

How the unit will be assessed

This unit is assessed by a three-hour examination with 15 minutes reading time. The examination is divided into two sections. The first section centres on drafting financial statements and assesses the performance criteria of element 11.1. This will comprise 70% of the total assessment. The second section centres on interpreting financial statements and assesses the performance criteria of element 11.2. This will comprise 30% of the total assessment. The tasks are generally of a practical nature designed to provide evidence that the performance criteria have been met and to ensure that the relevant knowledge and understanding is present. Guidance on the time allocation of tasks will be given in the examination paper.

Typical tasks in the first section might include:

- Preparing a consolidated profit and loss account for a limited company
- Preparing a consolidated balance sheet for a limited company
- Calculating the goodwill on acquisition and/or minority interest for a limited company
- Calculating the amount at which an interest in an associate is to be included in consolidated financial statements
- Making adjustments to the balances in a trial balance or extended trial balance of a company in accordance with the requirements of company law, accounting concepts and accounting standards
- Explaining the UK regulatory framework of financial reporting including the bodies involved and their respective roles
- Explaining the reason for the adjustments by reference to accounting concepts and accounting standards
- Drafting a profit and loss account and/or a balance sheet from a trial balance or extended trial balance in accordance with the format and requirements of accounting standards
- Explaining the requirements for the accounting treatment of items in company financial statements by reference to the requirements of accounting standards
- Drafting notes to the accounts as required by accounting standards
- Explaining the general legal framework of limited companies and the obligations of directors in respect of the financial statements
- Drafting a statement of total recognised gains and losses for a limited company

- Drafting a cash flow statement and/or a reconciliation between operating profit and cash flow from operating activities from the financial statements of a limited company
- Interpreting a cash flow statement

Typical tasks in the second section might include:

- Setting out the general purposes of financial statements and illustrating these in relation to users and their needs
- Identifying and explaining the elements of financial statements
- Explaining what is meant by the balance sheet equation and how the elements fit into the equation
- Explaining the articulation of the balance sheet with the profit and loss account
- Demonstrating the effect of contributions from owners and distributions to owners on ownership interest
- Calculating ratios for limited companies
- Interpreting the meaning of the ratios and of changes in the ratios of limited companies
- Comparing ratios of limited companies with industry averages
- Setting out the results of the computation and analysis of ratios in report format or in a letter and clearly setting out conclusions of the analysis therein

What is the Chief Assessor looking for?

Detailed guidance on the difficulties encountered by students and on the strengths and weaknesses in student's work is given by the Chief Assessor in the booklet published by the AAT Competency-based Financial Accounting Level 4. What is expected of competent students in this unit and some typical areas of weakness are set out below:

Section 1

1. Students need to have a clear grasp what is involved in drafting consolidated financial statements. This involves a clear understanding of when there is a parent/subsidiary undertaking relationship. The student must grasp the principles behind consolidated accounts and demonstrate a clear grasp of the techniques of producing consolidated profit and loss accounts and balance sheets. The lack of a clear technique often lies behind the failure to demonstrate competence in these tasks.
2. In order to show competence in the tasks of adjusting balances a clear grasp of the accounts affected by transactions or the requirements of company law, accounting concepts and accounting standards is required as well as a grasp of the mechanics of journal entries. Failure in this area would result from a lack of precision in identifying the accounts affected and through confusions as to when an account is debited or credited.
3. Students need to be able to draft financial statements in accordance with the requirements of accounting standards. This involves an ability to enter the balances and transactions correctly onto the pro-formas provided. Students who are not sufficiently familiar with the accounts that form part of the financial statement balances may encounter problems. The lack of knowledge of certain accounting standards may be reflected in uncertainty as to the treatment of certain accounting items. This is a particular problem for this unit and is made more acute by the proliferation of, and detail included in, accounting standards. Guidance is given on the extent to which accounting standards are assessable is given below. Students need to have regard to this guidance in preparing for the examination and ensure that a wide range of assessable standards are covered if ignorance of the requirements of accounting standards is not to undermine performance in this unit. The lack of knowledge of these accounting standards undermines efforts to answer tasks that require an

explanation of adjustments to account balances or an explanation of accounting treatment of certain items in the financial statements of companies.

4. The drafting of financial statements in accordance with IAS 1 may cause problems for students. An adequate familiarity with the requirements of this accounting standard is required.
5. Tasks which require the drafting of notes to the accounts may suffer from an occasional gap in knowledge. Once again, reference to the guidance on accounting standards and the notes required therein given below should be made to ensure adequate coverage.
6. Knowledge of the standard-setting process and the bodies involved in the promulgation and policing of accounting standards is required by the unit. A lack of precise knowledge of the bodies involved and their particular roles may result in a lack of competence in tasks in this area.
7. The drafting of cash flow statements and the reconciliation and notes required by IAS 7 is required by this unit. A clear grasp of the technique of drafting such a statement and reconciliation may prove problematic for some students. The interpretation of such statements may also present particular problems for students. It is important to try and relate the information presented in cash flow statements into a coherent whole. Part of the problem with such tasks is the potential failure of students to be explicit in stating what information the cash flow statement and the reconciliation are giving about the company. If figures are left to speak for themselves there is little in the way of interpretation of the information.

Section 2

1. Students must demonstrate an awareness of the overall purpose of financial statements and of the particular purposes of individual users of financial statements. Students may not be competent on these tasks because they do not pay sufficient attention to the requirements of the task. Students need to be able to distinguish external and internal users of financial information as well as appreciating the difference between the use of financial statements for the purposes of stewardship and other economic decisions.
2. The student must be able to identify the elements of financial statements and give appropriate definitions. Some students may not be competent because they do not set out definitions of the elements with sufficient precision. They might fail to adequately explain the elements in terms of the SOP definitions and give examples of elements rather than explanations of the sort of thing that they are.
3. Students must have a clear grasp of the accounting equation and be able to show how the equation reflects the equation through a numerical example. The articulation of the profit and loss account with the balance sheet needs to be grasped and students should be prepared to show how the profit for the year and any other gains reported in shown in the statement of recognised income and expense changes the ownership interest.
4. The calculation of the various ratios that show profitability, liquidity, efficient use of resources and financial position is required by the unit. This involves a grasp of the formulas. Guidance on the appropriate formulas is given in the booklet published by the AAT. In general, students must demonstrate a grasp of the meaning of the ratios, the import of changes in the ratios from one year to the next or of the differences in ratios between two companies and/or the industry averages. The results of the analysis should be clearly set out and relevant conclusions drawn. Students may not demonstrate competence because their analysis is superficial and does not demonstrate a clear understanding of the ratios and the information they convey. Sometimes the ratios may be left to speak for themselves and little more is said than that the ratio went up or down, without any indication of the effect that this has on the company. Conclusions may be inadequately supported or not derived from a consideration of the preceding analysis. The presentation of answers to some of the tasks may not be in accordance with the requirements of the task. Credit for presentation would be accordingly lost.

AAT GUIDANCE NOTES ON THE ASSESSABILITY OF IAS IN UNIT 11 DRAFTING FINANCIAL STATEMENTS

These notes indicate the extent to which international accounting standards are assessable in Unit 11 Drafting Financial Statements. The areas that are assessable are described under each Standard. The number in brackets that follows refers to the paragraph in the main body of the Standard where the accounting issues and treatment is set out. Reference should be made to the Standard to identify the information that is assessable in examinations under this Unit. Further explanations may be available about these issues and treatment in other sections of the Standard or the Guidance Notes accompanying the Standard. Knowledge of these explanations may be useful in understanding the requirements of the Standard, but will not be examined.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS 1 First-time Adoption of International Financial Reporting Standards

- Not assessable.

IFRS 2 Share-based payment

- Not assessable.

IFRS 3 Business Combinations

- Definition of a business combination (4)
- Ways in which a business combination comes about (5)
- Requirement to apply this IFRS in consolidated financial statements (6)
- Requirement for use of purchase method in accounting for business combinations and preclusion of pooling of interests method (14)
- Requirement to identify an acquirer for all business combinations and definition of acquirer as entity obtaining control of the other entity or business (17)
- Explanation of control (19)
- Measurement of cost of a business combination (24) [fair value defined by IAS 2 (6)]
- Requirement to allocate the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed and criteria for recognition (36 & 37)
- Requirement to recognise goodwill (51)
- Measurement of goodwill after initial recognition, the preclusion of amortisation of goodwill and the requirement for impairment review in accordance with IAS 36 (54 & 55)

IFRS 4 Insurance Contracts

- Not assessable.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

- Requirement to classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use (6)
- Measurement of non-current assets held for sale at lower or carrying amount and fair value less costs to sell (15)
- Disclosure of non-current assets held for sale separately from other assets on the balance sheet (38)
- Requirement to disclose post-tax profit or loss of discontinued operations in income statement (33)

IFRS 6 Exploration for and Evaluation of Mineral Resources

- Not assessable.

IAS 1 Presentation of Financial Statements

- Purpose of financial statements (7)
- Components of financial statements (8)
- Requirement for financial statements to present fairly the financial position, financial performance and cash flows of an entity and its meaning including (13)
- Requirement to comply with IFRS (14) defined in the Standard (11)
- Circumstances in which departure from IFRS allowed and disclosure of departure (17 & 18)
- Requirement to assess going concern (23)
- Requirement for accrual accounting (27)
- Requirement for consistence of presentation and classification (27)
- Requirement to present each material class of similar items separately (29) and definition of material (11)
- Prohibition of offsetting elements (32)
- Requirement for comparative information (36)
- Requirement to identify clearly financial statements (44) and each component of financial statements (46)
- Reporting period (49)
- Requirement to separate current and non-current assets and liabilities (51)
- Criteria for current assets (57) and current liabilities (60)
- Information to be presented on face of the balance sheet (68), sub-classifications on the face of the balance sheet or in notes (74 & 75) and disclosure of other items on the face of the balance sheet or in notes (76)

[A pro-forma for balance sheets will be provided for students in the examination and includes the items students will be expected to be able to deal with. Assessment of notes in paragraph 76 is restricted to notes (a) (i), (ii) & (iii).]

- Requirement to disclose all items of income and expense recognised in the period in the profit and loss account (78)
- Information to be presented on the face of the income statement (81,82 & 83)

[A pro-forma for income statements will be provided for students in the examination and includes the items students will be expected to be able to deal with.

- Prohibition of extraordinary items (85)
- Separate disclosure of material items of income and expense (86)
- Requirement to analyse expenses based on nature of expenses or their function and criteria of choice (88 with examples of analysis in 92)

[Only the form of analysis in paragraph 92 will be assessed. A pro-forma for income statements using this analysis will be provided for students in the examination.]

- Requirement to present a statement of changes in equity (96)

[A pro-forma of the statement of changes in equity, in the form of a statement of recognised income and expense, will be provided in the examination.]

- General requirements for notes (103), cross referencing (104), disclosure of accounting policies (108), disclosure of dividends proposed (125)

IAS 2 Inventories

- Definition of inventories (6)
- Measurement of inventories (9) and definition of net realisable value (6)
- What is included in cost of inventories (10 & 15) and what is excluded (16)
- Formulas for determining the cost of inventories for interchangeable items i.e. FIFO and weighted average (25)
- Recognition as an expense when inventories sold (34)

IAS 7 Cash Flow Statements

- Requirement for an entity to prepare a cash flow statement in accordance with this Standard (1)
- Definitions of terms used in Standard (6)
- Requirement to report cash flows during the period classified by operating, investing and financing activities (10)
- Examples of cash flows from operating activities (14)
- Examples of investing activities (16)
- Examples of financing activities (17)
- Requirement to report cash flows from operating activities using either the direct method or the indirect method (18) [Only the indirect method will be assessed. An example of the indirect method is given in Appendix A of the Standard. This provides a models of the Cash Flow Statements that should be used in drafting such statements. A pro-forma will be given in the examination.]
- Requirement to report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities (21)
- Requirement to disclose separately cash flows from interest and dividends received and paid in a consistent manner from period to period as either operating, investing or financing activities (31)
- Requirement to disclose separately cash flows from taxes on income as cash flows from operating activities unless they can be specifically identified with financing and investing activities (35)
- Requirement to present separately aggregate cash flows from acquisitions and disposals of subsidiaries or other business units as investing activities (39)
- Disclosure of components of cash and cash equivalents and the reconciliation of the amounts in its cash flow statement with the equivalent items reported in the balance sheet (45)

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

- Requirement to apply IFRS's (Standards and Interpretations defined in (5)) to transactions, other events or conditions to which they apply (7)
- Criteria to be used where judgement is required because there is no Standard or Interpretation (10,11 & 12)
- Requirement for consistency in applying accounting policies (13) as defined (in 5)
- Conditions that require a change in accounting policy
- Requirement to follow transitional arrangements arising from the initial application of a Standard or Interpretation where they are included in the Standard, otherwise retrospectively (23)
- Requirements of retrospective application of a change in accounting policy (22)
- Requirement to correct material prior period errors retrospectively (42) as defined (in 5)

IAS 10 Events after the Balance Sheet Date

- Definitions of events after the balance sheet date and adjusting and non-adjusting events (5)
- Requirement to adjust for adjusting events after the balance sheet date (8) with examples (9)
- Prohibition on adjustment of non-adjusting events after the balance sheet date (10) with examples (11)
- Prohibition on recognising dividends declared after the balance sheet date as a liability (12)
- Prohibition on preparing financial statements on a going concern basis if there is an intention to liquidate or cease trading (14)
- Requirement to disclose date when financial statements were authorised (17)
- Requirement to disclose material non-adjusting events (21) with examples (22)

IAS 11 Construction Contracts

- Not assessable.

IAS 12 Income Taxes

- Requirement for recognition of unpaid current tax (12)
- Requirement to recognise a deferred tax liability for all taxable temporary differences (15) including definitions of deferred tax liabilities and taxable temporary differences (5)
- Measurement rule for current tax liabilities (46)
- Disclosure of tax expense related to profit or loss from ordinary activities on face of income statement (77) and of current and deferred tax (81 (a))

[There will be no assessment of the computation of current tax or of deferred tax.]

IAS 14 Segment Reporting

- Application of Standard to entities whose equity or debt securities are publicly traded (3) or to those who voluntarily choose to disclose segment information
- Definition of business segment and geographical segment (9)
- Rule on whether the primary segment reporting format will be business segments or geographical segments (26)
- Requirement to prepare segment information (44)

[There will be no assessment involving the preparation of segment information.]

IAS 16 Property, Plant and Equipment

- Definition of property, plant and equipment (6)
- Recognition rule for items of property, plant and equipment (7)
- Recognition rules for subsequent expenditure (12, 13 and 14)
- Measurement rule at recognition (15) and of elements of cost (16, 17 & 19)
- Measurement rules after recognition (29) including explanation of cost model (30) and revaluation model (31)
- Definitions of fair value (6) and how it is computed (32 & 33)
- Rules on frequency of revaluations (34)
- Rule that all assets belonging to a class must be revalued if one item in that class is revalued (36) and examples of different classes (37)
- Treatment of revaluation surpluses or decreases (39 & 40)
- Requirement to depreciate each part of an item of property, plant and equipment separately (43)
- Depreciation charge for each period to be recognised in the profit and loss account (48)
- Depreciable amount to be allocated on a systematic basis over the asset's useful life (50)
- Requirement to review the residual value at least at the year-end and any change to be accounted for as a change in accounting estimate (51)
- Rule that depreciation required even if fair value exceeds carrying amount as long as the residual value does not exceed its carrying amount, in which case depreciation is zero, and not negated by repair and maintenance (52)
- Depreciable amount determined after deducting residual value (53)
- Factors determining useful life of an asset (56)
- Land not depreciated (58)
- Rule for determining depreciation method (60) with examples of methods (62) and need for review at least at the year-end (61)
- Derecognition rule (67)
- Treatment of gain and loss (68) and how computed (71)
- Disclosure relating to each class of property, plant and equipment (73), depreciation method and useful life or depreciation rates, depreciation and accumulated depreciation (75)

IAS 17 Leases

- Classification of leases as finance and operating leases (8) and examples of situations in which a lease would be classified as a finance lease (10 & 11)
- application of distinction between operating and finance leases to leasing of land and buildings (14 & 15)
- Initial recognition of finance leases of lessees (20) including related definitions of fair value, minimum lease payments, interest rate implicit in lease & incremental borrowing rate (4)
- Subsequent measurement of finance leases of lessees (25)
- Requirement to depreciate assets on finance leases of lessees (27) including definition of useful life (4)
- Accounting requirements for operating leases of lessors (33)
- Initial recognition of finance leases as assets and liabilities in balance sheets of lessors (36)
- Subsequent measurement of finance leases of lessors (39)
- Requirements relating to recording assets on operating leases in the balance sheet of lessors (49)
- Recognition of income from operating leases of lessors (50)
- Depreciation requirements for assets leased on operating leases for lessors (53)

[There will be no computational questions relating to the accounting for leases.]

IAS 18 Revenue

- Scope of Standard (1)
- Definitions of revenue and fair value (7)
- Measurement of revenue (9)
- Conditions for recognising revenue from the sale of goods (14), rendering of services (20) and dividends (29 & 30)

IAS 19 Employee Benefits

- Not assessable.

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

- Not assessable.

IAS 21 The Effects of Changes in Foreign Exchange Rates

- Not assessable.

IAS 23 Borrowing Costs

- Definitions of borrowing costs and qualifying assets (4)
- Recognition of borrowing costs for benchmark treatment (7) and allowed alternative treatment (10 & 11)
- Rules for determining the amount of borrowing costs (15 & 17)
- Commencement and cessation of capitalisation of borrowing costs (20 & 25)

IAS 24 Related Party Disclosures

- Not assessable.

IAS 26 Accounting and Reporting by Retirement Benefit Plans

- Not assessable.

IAS 27 Consolidated and Separate Financial Statements

- Scope of Standard (1 & 3)
- Definitions of terms used in Standard (4)
- Requirement to prepare consolidated financial statements (9)
- Requirement to include all subsidiaries of the parent (12) and explanation of when control is presumed
- Consolidation procedures (22)
- Requirement to eliminate intragroup balances, transactions, income and expenses (24 & 25)
- Need to use uniform accounting policies in consolidation (28)
- Presentation of minority interests (33)
- Requirement to include investment in subsidiaries and associates at cost or fair value in accordance with IAS 39 when preparing separate financial statements (37)

[Assessment of the ability to account for business combinations is restricted to preparing simple consolidated balance sheets and profit and loss accounts taking into account pre- and post-acquisition profits, minority interest, fair value adjustments, calculation of goodwill and elimination of inter-company profit.]

IAS 28 Investments in Associates

- Definitions of terms used in Standard (2)
- Criteria for significant influence (6 & 7)
- Requirement to account for associates using the equity method (13) and description of that method (11)
- Need to use uniform accounting policies in applying the equity method (26 & 27)

IAS 29 Financial Reporting in Hyperinflationary Economies

- Not assessable.

IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions

- Not assessable.

IAS 31 Interests in Joint Ventures

- Not assessable.

IAS 32 Financial Instruments: Disclosure and Presentation

- Not assessable.

IAS 33 Earnings per Share

- Scope of Standard (2 & 3)
- Definition of ordinary share (5)
- Measurement of basic earnings per share (9 & 10)
- Explanation of amounts attributable to ordinary equity holders of the parent entity (12 & 13)
- Need to use weighted average number of ordinary shares in calculating basic earnings per share (19 & 20)
- Presentation of basic earnings per share (66)

IAS 34 Interim Financial Reporting

- Not assessable.

IAS 36 Impairment of Assets

- Scope of Standard (2 & 4)
- Requirement to assess whether there are indications that assets may be impaired and requirement to estimate recoverable amount where there are such indications (9) and definition of carrying amount and recoverable amount (6)
- Requirement to asset intangible assets meeting certain criteria and goodwill annually (10)
- Indications of impairment (12, 13 & 14)
- Explanations of how to determine fair value less costs to sell (25, 26, 27 & 28)
- Explanations of how to determine value in use (30 & 31)
- Explanations of the discount rate to be used in determining value in use (55)
- Recognising and measuring an impairment loss for in individual assets other than goodwill (59 & 60) including definition (6) and revision of depreciation charge (63) including definition of depreciation, depreciable amount and useful life (6)
- Requirement to determine recoverable amount for individual assets if possible but for asset's cash-generating unit if not possible (66) along with definition of cash-generating unit (6)
- Requirement to test goodwill allocated to cash-generating unit for impairment annually (96) by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit (90)
- Requirement to allocate impairment loss first against goodwill and then against other assets of the unit (104)
- Disclosure of impairment loss in profit and loss account (126 (a))

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

- Definitions (10)
- Distinction of provisions from other liabilities (11), idea of being contingent in the Standard (12) and distinction of provisions from contingent liabilities
- Requirement to recognise provisions and criteria (14)
- Prohibition on recognising contingent liabilities (27) and contingent assets (31)
- Measurement of provision (36)
- Determination of amount of provision where the effect of the time value of money is material (45)
- Requirement to review provisions at each balance sheet date to reflect current best estimate (59)
- Use of provisions (61)
- Examples of events that amount to restructuring (70) and determination of constructive obligation to restructure (72) along with amounts to be included in restructuring provision (80)
- Disclosure of contingent liabilities (86) and contingent assets (89)

IAS 38 Intangible Assets

- Definition of an intangible asset (8)
- Identifiability criterion in definition of an intangible asset (12)
- Recognition criteria for intangible assets (21) including explanation of future economic benefits (17)
- Measurement rule for intangible assets (24)
- Prohibition on recognition of internally generated goodwill (48)
- Rules of recognition of internally generated intangible assets including the need to classify the generation of the asset into a research phase and a development phase (52) and the rules that prohibit

the recognition of intangible assets from the research stage (54) and the rules governing the recognition of intangible assets arising from the development stage (57)

- Prohibition of the recognition of internally generated brands and similar items (63)
- Examples of directly attributable costs for internally generated intangible assets (66) and prohibited costs (67)
- Rule on measurement after recognition (72) and explanation of cost model (74) and revaluation model (75) with related definitions (8)
- Treatment of revaluation gains (85) and losses (86)
- Need to determine whether useful life of an intangible asset is finite or indefinite (88)
- Rules for depreciation of intangible assets with finite useful lives (97), residual value (100) and review of amortisation period (104)
- Prohibition of amortisation for intangible assets with indefinite useful life (107) and requirement for impairment review in accord with IAS 36 (108) and review of useful life assessment (109)

IAS 39 Financial Instruments: Recognition and Measurement

- Not assessable.

IAS 40 Investment Property

- Definitions (5)
- Examples of investment property (8)
- Recognition rule (16)
- Measurement rule at recognition (20)
- Requirement to choose as its accounting policy either the fair value model or the cost model after recognition (30)
- Explanation of requirements of fair value model (33) and treatment of gains or losses in fair value (35)
- Explanation of the requirements of the cost model in accordance with IAS 16 (56)
- Rule for derecognition of investment property (66) and treatment of gains or losses from retirement or disposal (69)
- Disclosure of whether the fair value or cost model is used (75 (a))

IAS 41 Agriculture

- Not assessable.

OTHER PRONOUNCEMENTS

IASB's Framework for the Preparation and Presentation of Financial Statements

- Users and their information needs (9 &10)
- The objective of financial statements (12, 13 & 14)
- Underlying assumptions: accruals (22) and going concern (23)
- Qualitative characteristics of financial statements (24 – 42)
- True and fair/fair presentation (46)
- The elements of financial statements (47 – 81)
- Recognition principle (83)
- Measurement bases (99 –101)

LEGISLATION

Under Schedule 6 of the Companies Act the following information, which is required to be disclosed by way of notes to the accounts, should also be covered:

Directors' emoluments including Chairman's emoluments where necessary.

Under Sec. 390A of the Companies Act 1985 the following note should be covered:
Auditor's remuneration.