

# Maintaining Financial Records (FA2) December 2011 to January 2013

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

## THE STRUCTURE OF THE SYLLABUS AND STUDY GUIDE

### Relational diagram with other papers

This diagram shows direct and indirect links between this paper and other papers preceding or following it. Some papers are directly underpinned by other papers. These links are shown as solid line arrows. The links between papers where there is only an indirect link and no required underpinning are shown as dotted line arrows. The relational diagram therefore indicates where you are expected to have underpinning knowledge and where it would be useful to review previous learning before undertaking study.

### Overall aim of the syllabus

This explains briefly the overall objective of the paper and indicates in the broadest sense the capabilities to be developed within the paper.

### Main capabilities

This paper's aim is broken down into several main capabilities which divide the syllabus and study guide into discrete sections.

### Relational diagram of main capabilities

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

### Syllabus rationale

This is a narrative explaining how the syllabus is structured and how the main capabilities are linked. The rationale also explains in further detail what the

examination intends to assess and why.

### Detailed syllabus

This shows the breakdown of the main capabilities (sections) of the syllabus into subject areas. This is the blueprint for the detailed study guide.

### Approach to examining the syllabus

This section briefly explains the structure of the examination and how it is assessed.

### Study Guide

This is the main document that students and learning and content providers should use as the basis of their studies, instruction and materials respectively.

Examinations will be based on the detail of the study guide which comprehensively identifies what could be assessed in any examination session. The study guide is a precise reflection and breakdown of the syllabus. It is divided into sections based on the main capabilities identified in the syllabus. These sections are divided into subject areas which relate to the sub-capabilities included in the detailed syllabus. Subject areas are broken down into sub-headings which describe the detailed outcomes that could be assessed in examinations. These outcomes are described using verbs indicating what exams may require students to demonstrate, and the broad intellectual level at which these may need to be demonstrated (\*see intellectual levels below).

### Learning Materials

ACCA's Approved Learning Partner - content (ALP-c) is the programme through which ACCA approves learning materials from high quality content providers designed to support study towards ACCA's qualifications.

ACCA has one Platinum Approved Learning Partner content which is BPP Learning Media. In addition, there are a number of Gold Approved Learning Partners - content.

For information about ACCA's Approved Learning Partners - content, please go ACCA's Content Provider Directory.

The Directory also lists materials by Subscribers,

these materials have not been quality assured by ACCA but may be helpful if used in conjunction with approved learning materials. You will also find details of Examiner suggested Additional Reading which may be a useful supplement to approved learning materials.

ACCA's Content Provider Directory can be found here – [http://www.accaglobal.com/learningproviders/alpc/content\\_provider\\_directory/search/](http://www.accaglobal.com/learningproviders/alpc/content_provider_directory/search/).

Relevant articles will also be published in Student Accountant.

## LEVEL OF ASSESSMENTS – INTELLECTUAL DEMAND

ACCA qualifications are designed to progressively broaden and deepen the knowledge and skills demonstrated by the student at a range of levels on their way through each qualification. These relate to intellectual levels as designated by the UK qualifications and credit framework (QCF) and other qualifications frameworks. As a benchmark, these levels progress from GCSE equivalent at the Introductory level of the Foundations in Accountancy (FIA) programme, to A level, or its equivalent, at the Intermediate level and to first year degree level at the Advanced level. The Advanced Diploma (the Skills module plus professional Ethics Module) within the ACCA Qualification is equivalent to undergraduate degree level and the Professional level is benchmarked at Masters level.

Throughout, the study guides assess both knowledge and skills. Therefore a clear distinction is drawn, within each subject area, between assessing knowledge and skills and in assessing their application within an accounting or business context. The assessment of knowledge is denoted by a superscript<sup>k</sup> and the assessment of skills is denoted by the superscript<sup>s</sup>.

## VALUE OF ASSESSMENTS – GUIDED LEARNING HOURS

For this syllabus the approximate number of standard learning hours that a candidate needs to commit to each examination is based on the credit value of the Qualifications and Credit Framework (QCF) UK, units which make up the syllabus. For FA2, Maintaining Financial Records, the total learning hours or credit value of the syllabus is 19

credits or 190 hours which includes direct tuition time, self study, revision and assessment time.

For QCF registered learners in England, Wales and Northern Ireland, passing the exam related to the above syllabus gives credit for the following QCF units:

- Principles of accounts preparation
- Extending the trial balance using accounting adjustments
- Accounting for fixed assets
- Prepare final accounts for sole traders
- Preparing accounts for partnerships

## GUIDE TO EXAM STRUCTURE

The structure of examinations varies within and between modules and levels.

The FIA examinations contain 100% compulsory questions to encourage candidates to study across the breadth of each syllabus.

All FIA examinations are assessed by two-hour paper based and computer based examinations.

The pass mark for all FIA examination papers is 50%.

## GUIDE TO EXAMINATION ASSESSMENT

ACCA reserves the right to examine anything contained within any study guide at any examination session. This includes knowledge, techniques, principles, theories, and concepts as specified.

For the financial accounting, audit and tax papers, except where indicated otherwise, ACCA will publish *examinable documents* once a year to indicate exactly what regulations and legislation could potentially be assessed within identified examination sessions.

Examinations regulation **issued** or legislation **passed** on or before 30<sup>th</sup> September annually, will be assessed from June 1<sup>st</sup> of the following year to May 31<sup>st</sup> of the year after. Please refer to the examinable documents for the paper (where relevant) for further information.

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

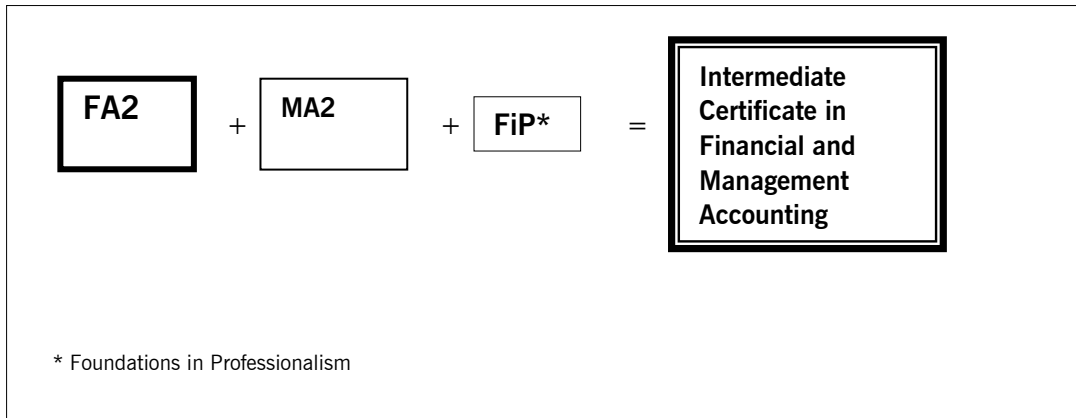
future. The term issued or passed relates to when regulation or legislation has been formally approved.

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

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

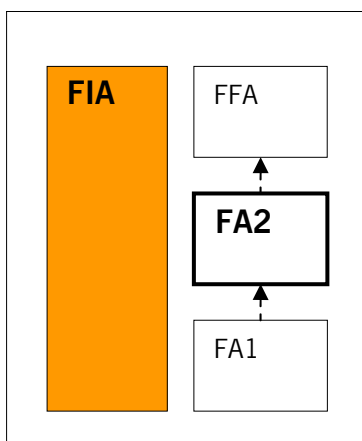
# Qualification structure

The qualification structure requires candidates who wish to be awarded the Intermediate Certificate in Financial and Management Accounting to pass both the FA2 and MA2 examinations and successfully complete the Foundations in Professionalism module.



# Syllabus structure

The FIA suite of qualifications is designed so that a student can progress through three discrete levels; Introductory, Intermediate and Advanced, However, entry is possible at any point. Students are recommended to enter FIA at the level which is most appropriate to their needs and abilities and to take examinations in order, but this is not a requirement.



# Syllabus

## AIM

To develop knowledge and understanding of the underlying principles and concepts relating to Maintaining Financial Records and technical proficiency in the use of double-entry accounting techniques including the preparation of basic financial statements

## RATIONALE

The syllabus for Paper FA2, *Maintaining Financial Records*, introduces the candidate to the fundamentals of Maintaining Financial Records, explaining its context and purpose with reference to accounts preparation. The syllabus then concentrates in depth on the double-entry system and on recording, processing, and reporting business transactions and events, including the specific accounting for fixed assets. The syllabus then covers the use of the extended trial balance and how to identify and correct errors, including the reconciliation of the control accounts, and the posting of period end adjustments. The syllabus also

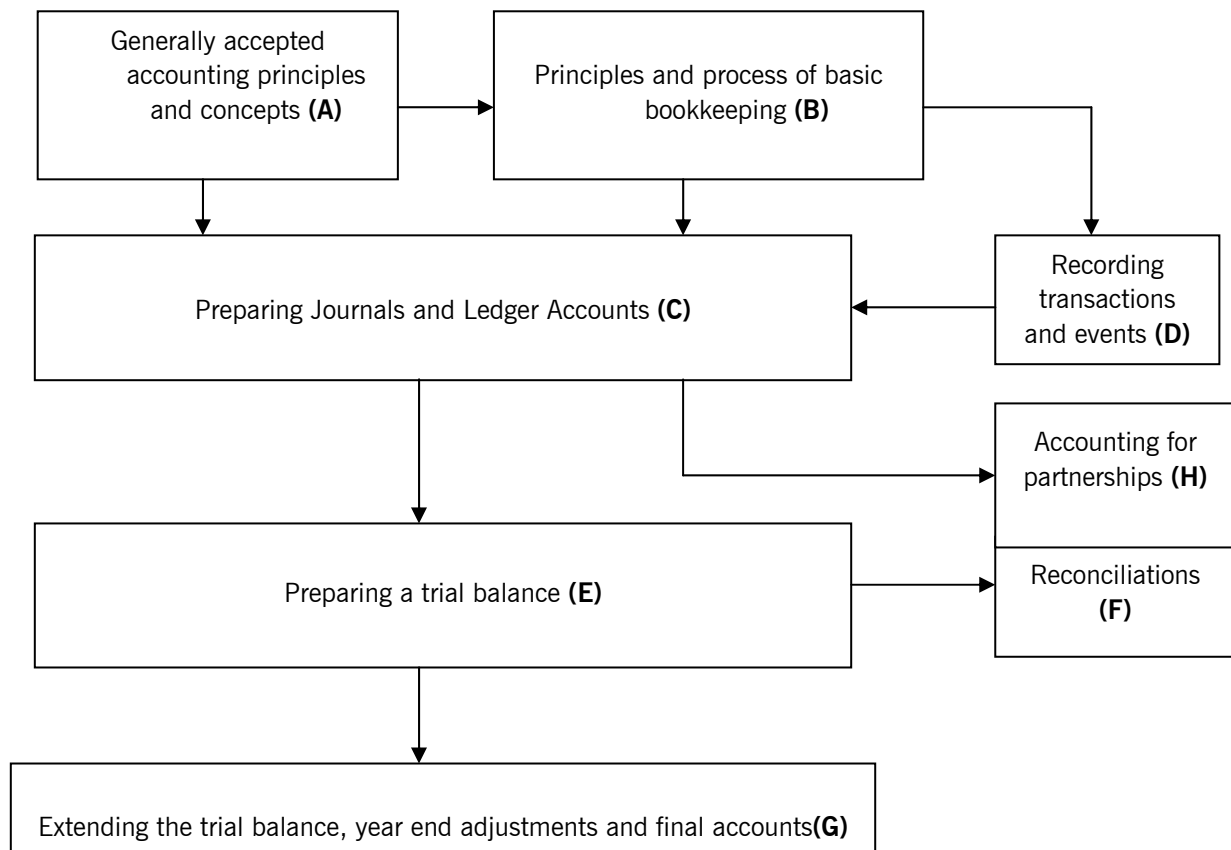
covers the preparation of final accounts for sole traders and for partnerships.

## MAIN CAPABILITIES

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

- A. Explain generally accepted accounting principles and concepts
- B. Outline the principles and process of basic bookkeeping
- C. Preparing journals and ledger accounts
- D. Record transactions and events
- E. Prepare a trial balance (including identifying and correcting errors)
- F. Reconcile the control accounts and cashbook
- G. Extending the trial balance, year end adjustments and final accounts
- H. Account for partnerships.

## RELATIONAL DIAGRAM OF MAIN CAPABILITIES



## **DETAILED SYLLABUS**

### **A Generally accepted accounting principles and concepts**

1. The key accounting principles and characteristics
2. Maintaining Financial Records
3. The regulatory framework

### **B The principles and process of basic bookkeeping**

1. The elements of the financial statements
2. The books of prime entry and flow of accounting information in the production of financial statements

### **C The preparation of journals and ledger accounts**

1. Preparation of journals from the books of prime entry
2. Preparation of ledger accounts

### **D Recording transactions and events**

1. Sales and purchases
2. Cash
3. Inventory
4. Tangible non-current assets and depreciation
5. Accruals and prepayments
6. Receivables, payables and provisions
7. Capital and finance costs

### **E Preparing a trial balance and errors**

1. Trial balance
2. Correction of errors

### **F Reconciliations**

1. Control account reconciliations
2. Bank reconciliation

### **G Extending the trial balance**

1. Preparation of the extended trial balance
2. Preparation of the final accounts

### **H Partnerships**

1. Partnership agreement
2. Partnership financial statements and accounting records
3. Change in partnership

## **APPROACH TO EXAMINING THE SYLLABUS**

### **THE SYLLABUS IS ASSESSED BY A TWO HOUR PAPER-BASED OR COMPUTER-BASED EXAMINATION.**

The syllabus is assessed by a two hour paper-based or computer-based examination. Questions will assess all parts of the syllabus and will include both computational and non-computational elements. The examination will consist of 50 two mark questions

# Study Guide

## **A GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND CONCEPTS**

### **1. The key accounting principles and characteristics**

- a) Explain the principles of accounting.<sup>[K]</sup>
  - (i) Going concern
  - (ii) Accruals
  - (iii) Consistency
  - (iv) Double entry
  - (v) Business/reporting entity
  - (vi) Prudence
  - (viii) Historical cost
- b) Explain the accounting qualitative characteristics relating to.<sup>[K]</sup>
  - (i) Relevance
  - (ii) Faithful representation
  - (iii) Materiality
  - (iv) Comparability
  - (v) Understandability
  - (vi) Timeliness
  - (vii) Verifiability

### **2. Maintaining financial records**

- a) Explain the importance of maintaining financial records for internal and external use.<sup>[K]</sup>
- b) Describe the type of accounting records that a business should maintain and the main uses of each.<sup>[K]</sup>

### **3. The regulatory framework**

- a) Describe the main requirements of accounting standards in relation to syllabus area D.<sup>[K]</sup>

## **B THE PRINCIPLES AND PROCESS OF BASIC BOOKKEEPING**

### **1. The elements of the financial statements**

- a) Explain the meaning of the accounting equation.<sup>[K]</sup>
- b) Describe the meaning of assets, liabilities and capital in an accounting context.<sup>[K]</sup>

- c) Describe the components of a set of final accounts for a sole trader.<sup>[K]</sup>

### **2. The books of prime entry and the flow of accounting information in the production of financial statements**

- a) Explain the purpose and use of books of prime entry and ledger accounts.<sup>[K]</sup>
- b) Identify reasons for closing off accounts and producing a trial balance.<sup>[K]</sup>
- c) Explain the process of preparing a set of final accounts from a trial balance.<sup>[K]</sup>

## **C THE PREPARATION OF JOURNALS AND LEDGER ACCOUNTS**

### **1. Preparation of journals from the books of prime entry**

- a) Explain and illustrate the dual aspect convention.<sup>[S]</sup>
- b) Prepare journals to record transactions in an appropriate format.<sup>[S]</sup>

### **2. Preparation of ledger accounts**

- a) Explain the purpose and use of ledger accounts.<sup>[K]</sup>
- b) Post journals and other entries into the appropriate ledger account.<sup>[S]</sup>
- c) Balance the ledger accounts carrying down and bringing down balances as appropriate.<sup>[S]</sup>

## **D RECORDING TRANSACTIONS AND EVENTS**

### **1. Sales and purchases**

- a) Record sale and purchase transactions in ledger accounts.<sup>[S]</sup>
- b) Record sales and purchase returns.<sup>[S]</sup>
- c) Account for discounts allowed and discounts received.<sup>[S]</sup>
- d) Identify sources of information on sales tax and explain the relationship between the

organisation and the relevant government agency. <sup>[K]</sup>

- e) Understand the general principles of the operation of a sales tax including: <sup>[K]</sup>
  - (i) requirements for registration
  - (ii) main information to be included on business documentation,
  - (iii) types of taxable supplies and their classification for sales tax
  - (iv) accounting and payment of sales tax
  - (v) penalties for late returns or late payment of sales tax.
- f) Explain the different methods of accounting and reporting for sales tax. <sup>[K]</sup>
- g) Identify and obtain sales tax data from the accounting system. <sup>[S]</sup>
- h) calculate sales tax on inputs and outputs. <sup>[S]</sup>
- i) Record the consequent accounting entries and calculate the sales tax due to/from the business. <sup>[S]</sup>
- j) Compute the main components of a sales tax return. <sup>[S]</sup>
- k) Communicate effectively with the relevant tax authority about sales tax matters including potential adjustments, errors or omissions. <sup>[S]</sup>
- l) Calculate the cash flow impact on the business of the payment of sales tax and the potential impact on the business of any changes in legislation for sales tax. <sup>[S]</sup>

## 2. Cash and bank

- a) Record cash and bank transactions in ledger accounts. <sup>[S]</sup>
- b) Report cash and bank balances in the final accounts. <sup>[S]</sup>

## 3. Inventory

- a) Recognise the need for adjustments for inventory in preparing financial statements. <sup>[K]</sup>
- b) Record opening and closing inventory. <sup>[S]</sup>

- c) Identify and apply the alternative methods of valuing inventory. <sup>[K]</sup>
- d) Understand and apply the IASB requirements for valuing inventories. <sup>[S]</sup>
- e) Recognise which costs should be included in valuing inventories. <sup>[K]</sup>
- f) Understand the use of continuous and period end inventory records. <sup>[K]</sup>
- g) Calculate the value of closing inventory using FIFO (first in, first out) and AVCO (average cost) both periodic weighted average and continuous weighted average. <sup>[S]</sup>
- h) Identify the impact of inventory valuation methods on profit and on assets including: <sup>[S]</sup>
  - (i) periodic weighted average
  - (ii) continuous weighted average
  - (iii) FIFO
- i) Report inventory in the final accounts. <sup>[S]</sup>

## 4. Tangible non-current assets and depreciation

- a) Define non-current assets. <sup>[K]</sup>
- b) Recognise the difference between current and non-current assets. <sup>[K]</sup>
- c) Explain the difference between capital and revenue items. <sup>[K]</sup>
- d) Classify expenditure as capital or revenue expenditure. <sup>[S]</sup>
- e) explain the impact of misclassification of capital expenditure as revenue expenditure and vice versa on the income statement and the statement of financial position
- f) Prepare journal and ledger entries to record the acquisition and disposal of non-current assets (including part exchange). <sup>[S]</sup>
- g) Calculate and record profits or losses on disposal of non-current assets in the income statement including part exchange transactions and scrapping of assets. <sup>[S]</sup>
- h) Understand and explain the purpose of depreciation. <sup>[K]</sup>

- i) Calculate the charge for depreciation using straight line and reducing balance methods. <sup>[S]</sup>
- j) Identify the circumstances where different methods of calculating depreciation would be appropriate. <sup>[K]</sup>
- k) Illustrate how depreciation expense and accumulated depreciation are recorded in ledger accounts. <sup>[S]</sup>
- l) Explain the purpose and function of an asset register. <sup>[K]</sup>
- m) Prepare the non-current asset register accounting for all or part of the following: <sup>[S]</sup>
  - (i) Acquisition including authorisation
  - (ii) Part exchange and cash non-current asset purchases
  - (iii) Depreciation
- n) Identify and resolve any discrepancies relating to the accounting records for non-current assets. <sup>[S]</sup>
- o) Report non-current assets and depreciation in the final accounts. <sup>[S]</sup>

## 5. Accruals and prepayments

- a) Understand how the matching concept applies to accruals and prepayments. <sup>[K]</sup>
- b) Identify and calculate the adjustments needed for accruals and prepayments in preparing financial statements. <sup>[S]</sup>
- c) Illustrate the process of adjusting for accruals and prepayments in preparing final accounts. <sup>[S]</sup>
- d) Prepare the journal entries and ledger entries for the creation of an accrual or prepayment. <sup>[S]</sup>
- e) Understand and identify the impact on profit and net assets of accruals and prepayments. <sup>[K]</sup>
- f) Report accruals and prepayments in the final accounts. <sup>[S]</sup>

## 6. Receivables, payables and provisions

- a) Explain and identify examples of receivables and payables. <sup>[K]</sup>

- b) Prepare the bookkeeping entries to write off an irrecoverable debt. <sup>[S]</sup>
- c) Record an irrecoverable debt recovered. <sup>[S]</sup>
- d) Identify the impact of irrecoverable debts on the income statement and on the statement of financial position. <sup>[S]</sup>
- e) Calculate the movement in the allowance for receivables and the closing balance
- f) Prepare the bookkeeping entries to create and adjust an allowance for receivables. <sup>[S]</sup>
- g) Illustrate how to include movements in the allowance for receivables in the income statement and how the closing balance of the allowance should appear in the statement of financial position. <sup>[S]</sup>
- h) Account for contras between trade receivables and payables. <sup>[S]</sup>
- i) Explain the nature of provisions and liabilities. <sup>[K]</sup>
- j) Distinguish between a provision and liability. <sup>[S]</sup>
- k) Account for provisions and liabilities. <sup>[S]</sup>
- l) Report provisions and liabilities in the final accounts. <sup>[S]</sup>

## 7. Capital and finance costs

- a) Distinguish between capital injected by the business owner(s) and third parties for an unincorporated business. <sup>[K]</sup>
- b) Understand and be able to manipulate the accounting equation including the impact of changes in capital. <sup>[K]</sup>
- c) Prepare the capital ledger account for an unincorporated business. <sup>[S]</sup>

## E PREPARING A TRIAL BALANCE AND ERRORS

### 1. Trial balance

- a) Explain the purpose of the trial balance. <sup>[K]</sup>

- b) Distinguish between errors which will be detected by extracting a trial balance and those which will not.<sup>[S]</sup>
- c) Calculate and explain the impact of errors on the income statement and the statement of financial position
- d) Identify the limitations of the trial balance.<sup>[K]</sup>
- e) Prepare the initial trial balance.<sup>[S]</sup>

## 2. Correction of errors

- a) Explain the purpose of and reasons for creating a suspense account
- b) Provide reasons for imbalances and the purpose of the suspense account.<sup>[K]</sup>
- c) Identify different types of bookkeeping error including those that result in suspense accounts.<sup>[K]</sup>
- d) Identify and explain the action required to correct errors including clearing any suspense accounts.<sup>[K]</sup>
- e) Prepare correcting journal entries.<sup>[S]</sup>
- f) Record correcting entries in the ledgers.<sup>[S]</sup>
- g) Demonstrate how the final accounts are affected by the correction of errors.<sup>[S]</sup>

## F RECONCILIATIONS

### 1. Control account reconciliations

- a) Explain the purpose of reconciliation of the receivables and payables ledger control accounts.<sup>[K]</sup>
- b) Identify errors in the ledger control accounts and list of balances.<sup>[S]</sup>
- c) Make correcting entries in the ledger control accounts.<sup>[S]</sup>
- d) Prepare a reconciliation between the list of balances and the corrected ledger control accounts.<sup>[S]</sup>

- e) Identify the control account balance to be reported in the final accounts.<sup>[K]</sup>
- f) Prepare a reconciliation between the supplier's statement and the supplier's account in the payables ledger

## 2. Bank reconciliation

- a) Explain the purpose of reconciliation of the bank ledger account to the corresponding bank statement.<sup>[K]</sup>
- b) Identify errors and omissions in the bank ledger account and bank statement.<sup>[K]</sup>
- c) Identify timing differences.<sup>[K]</sup>
- d) Make the correcting entries in the bank ledger account.<sup>[S]</sup>
- e) Prepare the reconciliation between the bank statement balance and the corrected bank ledger account.<sup>[S]</sup>
- f) Identify the bank balance to be reported in the final accounts.<sup>[K]</sup>

## G THE TRIAL BALANCE AND THE EXTENDED TRIAL BALANCE

### 1. Preparation of the trial balance/extended trial balance

- a) Explain the process of extending the trial balance.<sup>[K]</sup>
- b) Record the correction of errors on the extended trial balance.<sup>[S]</sup>
- c) Explain and record post trial balance adjustments on the extended trial balance:<sup>[S]</sup>
  - (i) Accruals and prepayments
  - (ii) Depreciation
  - (iii) Provisions
  - (iv) Closing inventory
  - (v) Allowance for receivables
  - (vi) Irrecoverable debts
  - (vii) Non current asset transactions

- d) Extend and complete the extended trial balance including calculating the final reported profit and loss. <sup>[S]</sup>
- e) Prepare the opening trial balance for the next accounting period. <sup>[S]</sup>

## 2. Preparation of the final accounts including incomplete records

- a) Explain the process of preparing a set of final accounts from a trial balance. <sup>[K]</sup>
- b) Explain the format and purpose of the income statement and statement of financial position for a sole trader. <sup>[K]</sup>
- c) Prepare the final accounts for a sole trader from: <sup>[S]</sup>
  - (i) The extended trial balance or
  - (ii) Directly from ledger accounts or
  - (iii) Trial balance
- d) Describe the circumstances which lead to incomplete records. <sup>[K]</sup>
- e) Describe the methods of constructing accounts from incomplete records. <sup>[K]</sup>
- f) Prepare the final accounts or elements thereof using incomplete record techniques such as: <sup>[S]</sup>
  - (i) Mark ups and margins
  - (ii) Ledger accounts to derive missing figures
  - (iii) Manipulation of the accounting equation

## H PARTNERSHIPS

### 1. Partnership agreement

- a) Define a partnership. <sup>[K]</sup>
- b) Explain the purpose and content of a partnership agreement. <sup>[K]</sup>
- c) Explain, calculate and account for appropriations of profit: <sup>[S]</sup>
  - (i) Salaries of partners
  - (ii) Interest on drawings
  - (iii) Interest on capital
  - (iv) Share of residual profit (the amount of profit available to be shared between the partners in the profit and loss sharing ratio, after all other appropriations have been made)

### 2. Partnership financial statements and accounting records

- a) Explain the difference between partners capital and current accounts. <sup>[K]</sup>
- b) Prepare the partners' capital and current accounts. <sup>[S]</sup>

### 3. Change in partnership

- a) Prepare the final accounts for a partnership
- b) Explain and account for the admission of a new partner including the treatment of any goodwill arising. <sup>[S]</sup>

Note: Candidates will not be expected to calculate the value of goodwill