

# Elements and Components of Financial Statements & Adjustments for Financial Statements

**AAT Level II**

**AFC - Advanced Financial Accounting & Costing**

<b>Level II</b>	<b>Section A – 25 marks (OTQs)</b> 8 – 15 Objective Test Questions (OTQs) (1,2,3 or 4 marks)
	<b>Section B – 50 Marks</b> 5 compulsory questions each worth 10 marks. Short scenario may be given
	<b>Section C – 25 Marks</b> One compulsory question with 25 marks. Mid -sized scenario may be given

**Note 01**

All the question papers are of three-hours duration and additional reading time of 15 minutes is given for Level II and Level III question papers. The structure of the Business Communication paper is similar to that of Level II question papers

**Note 02**

Students can apply for courses of Level I and courses of Level II together and Level III can be applied only after the completion of Level I and Level II courses.

**Note 03**

students can apply for the Business Communication course after the completion of Level I courses.

**Note 04**

Pass mark per course is 50.

<b>LEVEL - II</b>				
<b>201 Advanced Financial Accounting and Costing (AFC)</b>	<b>Unit</b>	<b>Key Topics</b>	<b>Weightage %</b>	<b>Notional Hours</b>
This is an advanced course which is developed on the foundation of financial accounting in Level I to enhance the application of skills to prepare financial statements of a partnership, limited liability company and not for profit organization. This course would further provide the knowledge in basic cost accounting concepts and techniques.	01	Elements and Components of Financial Statements and Adjustments for Financial Statements	15	30
	02	Financial Statements for a Limited Liability Company	20	40
	03	Financial Statements for a Partnership	15	30
	04	Financial Statements using Incomplete Records and Financial Statements for Not for Profit Organizations	20	40
	05	Cost Accounting	30	60
	<b>Total</b>			<b>100</b>

<b>201 - DETAILED CONTENT - ADVANCED FINANCIAL ACCOUNTING AND COSTING (AFC)</b>	
<b>Unit</b>	<b>Detailed Content</b>
<b>Elements and Components of Financial Statements and Adjustments for Financial Statements – 15%</b>	
<b>01</b>	1.1 Elements of Financial Statements
	1.2 Components of Financial Statements
	1.3 Alternative bases for measuring the elements of Financial Statements (Historical Cost, Current Cost, Realizable Cost and Present Value)
	1.4 Adjustments for Accruals, Prepayments, and Allowance for Trade Receivables
	1.5 Inventory Valuation & accounting for Stocks as per LKAS 02
	1.6 Accounting for Acquisitions, Disposal and Exchange of Property, Plant & Equipment
	1.7 Basic accounting for Value Added Tax (VAT) and Withholding Tax (WHT)
	1.8 Basic understanding of Accounting Policies, Changes in Accounting Estimates and Errors as per LKAS 8
	1.9 Adjustments for the Events After the Reporting Period as per LKAS 10
	1.10 Basic understanding of Provision, Contingent Assets and Contingent Liabilities as per LKAS 37
	1.11 Adjustments for Salaries including EPF, ETF, and PAYE
	1.12 Adjustments for Income Tax for a Company
<b>Financial Statements for a Limited Liability Company – 20%</b>	
<b>02</b>	2.1 Various sources of funds
	2.2 Accounting for shares / debentures issues
	2.3 Redemption of shares and debentures
	2.4 Capitalization of reserves and right issue
	2.5 Preparation of Financial Statements for a limited liability company for the purpose of internal use
<b>Financial Statements for a Partnership – 15%</b>	
<b>03</b>	3.1 Provisions in the Partnership Ordinance and other laws in relation to partnership Accounting
	3.2 Partner's Capital & Current Accounts
	3.3 Income Statement of a partnership
	3.4 Appropriation of Partnership Profits and Losses
	3.5 Statement of Financial Position of a partnership
	3.6 Adjustments under changes in ownership (at the beginning or end of the financial period)
	3.7 Accounting for goodwill through partner's capital accounts under ownership changes (calculation of Goodwill will not be tested)
<b>Financial Statements using Incomplete Records and Financial Statements for Not for Profit Organizations – 20%</b>	
<b>04</b>	4.1 Financial statements based on incomplete records & information
	4.2 Nature of a not for profit organization and reasons for preparing financial statements for not for profit organization
	4.3 Accounting treatments for Not for Profit Organizations (NPOs)
	4.4 Income and Expenditure Account for Not for Profit Organizations
	4.5 Statement of Financial Position for Not for Profit Organization

Unit	Detailed Content	
	<b>Cost Accounting – 30%</b>	
<b>05</b>	5.1	Scope and objectives of Cost Accounting
	5.2	Role(s) of a cost accountant in an organization
	5.3	Difference between Financial Accounting and Cost Accounting
	5.4	Cost Concepts and Classifications
	5.5	Importance of material control and documents used in material cost control
	5.6	Control of Stock Levels and costs related to inventory
	5.7	Stock Control Systems (including; ROL system, constant order cycle system, two bin system & JIT system)
	5.8	Remuneration methods (including; time based, piece rate incentive schemes, group bonus schemes)
	5.9	Documents used in control of labor costs (including; attendance records, clock cards, time sheets, job cards, piece work tickets and idle time records) and computation of labour cost
	5.10	Labor turnover and associated costs
	5.11	Different classifications of overheads
	5.12	Overheads absorption process using absorption costing principles
	5.13	Preparation of a statement how the overheads are allotted and apportioned
	5.14	Treatment of overheads under Activity-Based Costing (ABC) principles
	5.15	Computation of the cost of a product or job or batch or service and price to be charged
	5.16	Features of Integrated and Non Integrated Accounting Systems
	5.17	Profit Reconciliation between Cost Accounts and Financial Accounts
	5.18	Accounting entries (only Raw material, wages and production overheads control accounts, WIP control Account and Finished goods Control Account)



## ELEMENTS AND COMPONENTS OF FINANCIAL STATEMENTS AND ADJUSTMENTS FOR FINANCIAL STATEMENTS

### FINANCIAL REPORTING FRAMEWORK

#### STRUCTURE

1. The objective of general-purpose financial reporting
2. The underlying assumption
3. The qualitative characteristics of useful financial information
4. The elements of the financial statements
5. Components of financial statements
6. The recognition and measurement of the elements of financial statements

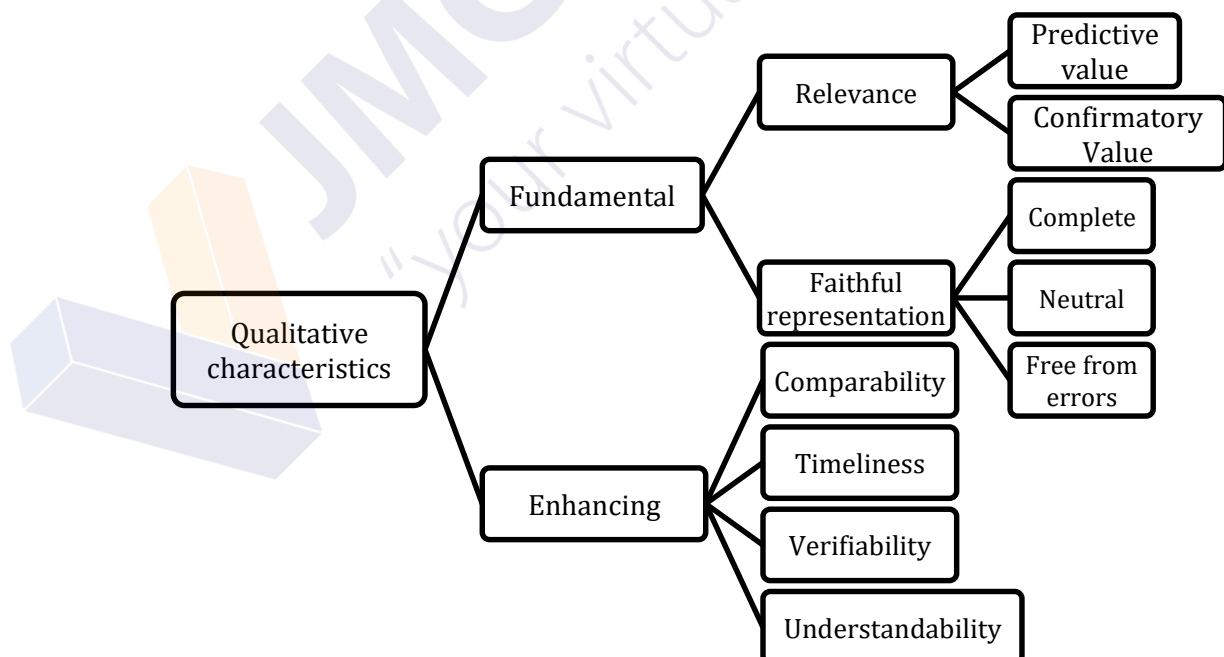
#### 1. THE OBJECTIVE OF GENERAL PURPOSE FINANCIAL REPORTING

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.

#### 2. THE UNDERLYING ASSUMPTION

Going Concern – Financial statements are prepared on the assumption that the entity will continue in operation for the foreseeable future.

#### 3. QUALITATIVE CHARACTERISTICS OF USEFUL FINANCIAL INFORMATION



#### 4. THE ELEMENTS OF THE FINANCIAL STATEMENTS

- **ASSETS**

A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

- Non-Current Assets - Land, Building, Motor vehicles, Machineries, Furniture and fittings, Equipment, Investments, Fixed Deposit, Treasury Bonds, Goodwill
- Current Assets - Inventories, Debtors, Treasury Bills, Income Receivables, Prepaid Expenses, Bills Receivable, Bank Balance, Cash in Hand

- **LIABILITY**

A present obligation of the entity arising from past events the settlement of which is expected in an outflow of the entity's resources.

- Non-Current Liabilities - Bank Loan, Mortgage Loan, Debentures
- Current Liabilities - Creditors, Income Received in Advance, Expenses Payable, Bills Payable, Bank Overdraft

- **EQUITY (CAPITAL / NET ASSETS)**

The proportion of Assets owned by the owners of a business

The amount which is derived after deducting the liabilities payable to outside parties from total assets.

- $\text{Equity} = \text{Total Assets} - \text{Total Liabilities}$
- $\text{Equity} = \text{Capital Invested} + \text{Profits} - \text{Drawings}$

- **INCOME**

Increase in economic benefits during the accounting period in the form of inflows of assets or decrease of liabilities that result in increase in equity.

- Sales Income – Cash Sales, Credit Sales
- Other Income – Rent Income, Dividend Income, Investment Income, Commission Income, Interest Income, Discount Received, Profits from disposal of Assets

- **EXPENSE**

Decrease in economic benefits during the accounting period in the form of outflows of assets or increase of liabilities that result in decrease in equity.

- Cost of Sales
- Administration Expenses – Rent, Insurance, Electricity, Rates, Salaries & Wages, Telephone, Stationery, Fixed Assets Depreciation, Professional Fee
- Selling & Distribution Expenses – Selling Commission, Advertising, Vehicle Expenses, Bad Debts, Discount Allowed, Doubtful Debts, Carriage Outwards, Sales Employee Salary
- Finance Expenses – Bank Charges, Cheque Book Charges, Bank Loan Interest, Bank Overdraft Interest
- Other Expenses – Loss on Stock Damages, Donations, Loss on Disposal of Assets

## 5. COMPONENTS OF FINANCIAL STATEMENTS

- Statement of Comprehensive Income (SOI)
- Statement of Financial Position (SFP)
- Statement of Changes in Equity (SOCIE)
- Statement of Cash Flow (SCF)
- Notes to the Financial Statements (Notes)

## 6. THE RECOGNITION AND MEASUREMENT OF THE ELEMENTS OF FINANCIAL STATEMENTS

1. It is probable that any future economic benefit associated with the item will flow to or from an entity.  
(The probability of future economic benefit)
2. The item has a cost or value that can be measured reliably.  
(Reliability of measurement)

## 7. MEASUREMENT BASES

1. Historical Cost
2. Current Cost
3. Realizable (Settlement) Value
4. Present Value

