

STUDY SKILLS

At this level of your studies, financial accounting gets a lot more complex.

Basic financial accounting covered by level 1 studies usually focuses on the “how” of accounting, in other words the preparation of basic financial statements. This usually requires students to learn standard formats of these statements and complete these from financial accounting information presented in a similar manner from question-to-question. There will be a “right” answer. With a certain amount of rote learning, students can perform very well in assessments of this nature.

Level 1 studies may also include some details of underpinning concepts and principles, often to explain the financial accounting methods that are performed – for example, accruals to explain the inclusion of accrued and prepaid expenses and depreciation – and some interpretation principally based on financial ratios. These areas are often covered at a fairly basic level and require you to demonstrate that you know them, and have some understanding of them.

At the level of financial accounting and reporting covered by this textbook, gone is the rote learning of pro-formas in order to answer standard questions. The focus is on **understanding** and **application**. Many **different** and **detailed** techniques set out in financial reporting standards have to be mastered and be able to be applied to many different items and areas of financial reporting. Scenarios presented are all different – what may apply in one case won't necessarily apply in another. This only reflects real business life!

You won't be asked to prepare full sets of financial statements (except consolidated financial statements), but instead have to know how the accounting for a particular scenario will affect these financial statements. Gone is your security check of finding out whether the financial statements balance or not! This may involve working through the accounting using double-entry.

You will also have to appreciate that there may be no “right” answer to financial accounting and reporting in practice, and this will be mirrored by some of the scenarios and questions you will now meet. This doesn't mean that financial accounting is a free-for-all; boundaries, recommendations and sometimes alternative methods are provided by financial reporting standards and should be applied. However you may have to decide whether a particular accounting technique is applicable or appropriate – for example, does the information provided about development expenditure incurred by a company mean that the expenditure should be capitalised as an intangible asset or not. You will have to weigh up the evidence presented, form a judgement and, importantly, be able to justify why you have taken your approach.

Level 2 studies will probably include quite a lot of theory covering financial reporting systems and frameworks and the underpinning conceptual framework to financial reporting standards. It is worth getting to grips with these as they provide the context and basis for the detailed accounting standards material. For example, the IASB's *Conceptual Framework* sets out definitions of the elements of financial statements (assets, liabilities,

equity, income and expenses) and provides principles for when these should be recognised and how they should be measured. Each financial reporting standard then follows this approach by defining the particular asset / liability / etc. that is the topic of the standard and then discussing when they are recognised and how they are measured. Disclosure requirements are also always included.

Why the accounting for an item or transaction is done in the way that is, will stem from the principles outlined in the *Conceptual Framework*. Thus a full understanding of the detailed techniques can only really be gained by knowing what these principles are. This is a bit more complicated at the moment, as the IASB has spent the past 8 years revising its *Conceptual Framework*. It published an Exposure Draft (ED) in May 2015, the contents of which have been used in the textbook to outline the underpinning principles. The final version is expected to be published in 2018.

Financial reporting is ultimately about providing useful information to those who want to use it, and thus the final main aspect of your study of financial reporting at this level is being able to demonstrate you understand how the detailed accounting techniques may affect the users of the financial statements. For example, how do the disclosures of discontinued operations affect a potential investor's interpretation of the financial performance, or, if a company selects the revaluation model for its properties, what impact will this have on financial ratios? The focus of interpretation is often the investor, as this is considered by the IASB to be the principal user of financial statements, so you will need to be able to demonstrate a full understanding of the techniques this user will use and what the results of these techniques mean for him/her.

So, in order to be successful at your financial accounting and reporting studies at this level, you have to:

- **Be able to picture in your mind what the statements of comprehensive income, financial position and cash flows look like**
 - You need to know what line items or areas will be affected by the scenario you are concerned with
 - You need to know the simple accounting adjustments you learned at level 1 – for example, depreciation, disposals of non-current assets, accruals and prepayments, allowances for receivables – without really thinking about them
 - You will also need to have a good grasp of double-entry bookkeeping
- **Have a thorough grasp of a lot of detailed accounting techniques**
 - Your tutor and the textbook have included the main ones from the relevant international financial reporting standards for each topic
 - Read the relevant parts of the accounting standards for further details – they are reasonably easy to read – you will also see that lots of examples are given
 - Use the *Key issues checklists* at the start of each chapter to ensure you have covered all the main areas in your learning
- **Practice lots of different questions in each area**
 - This should enable you to see how the accounting techniques applied for a particular issue, for example, impairment of non-current assets or non-controlling

interest in consolidated financial statements, are the same, although the scenarios may be different

- This should also give you practice in identifying the particular accounting issue relevant to a scenario, which may not always be given
 - You will also gain practice in dealing with situations which require you to form your own judgement
 - Ensure you can deal with the simpler questions first (the *Worked examples* included in the chapters and the end-of-chapter *Quick tests*) before you move onto questions which take the material further
- **Be able to explain why the accounting techniques are what they are**
 - This will be in relation to underpinning concepts and principles
 - It will also be in relation to the information that will be important for users to have
 - Know what the IASB's *Conceptual Framework* (2015 ED) covers
 - Know the structure of a typical financial reporting standard
 - **Be able to conduct a full interpretation of a set of financial statements for an investor**
 - Know different interpretation techniques
 - Know which are particularly relevant for an investor and for the nature of the company / companies provided
 - Be able to adapt interpretation techniques for the particular scenario / information given
 - Be able to explain what the figures resulting from the interpretation techniques mean, including being able to bring out the inter-relationships of financial ratios and other techniques
 - Be able to write a coherent and well-structured report
 - Practice writing out your interpretation
 - **Have an understanding of other aspects of financial reporting**
 - The key players in the financial reporting chain
 - What is required from the financial reporting framework to ensure that financial statements are high quality
 - The relevance of corporate governance and how this impacts financial reporting
 - The growing significance of corporate sustainability
 - Ethics as an underpinning to much of financial reporting, corporate governance and sustainability
 - Read the narrative parts of companies' annual reports to gain an understanding of what companies report on in these areas
 - Questions in this area will relate to a specific issue – you will need to identify what particular aspect you need to write on, and target your answer appropriately