

AAT Professional Diploma in Accounting

Qualification Technical Information

Units in this qualification have been based on the following:

Financial Statements of Limited Companies

- The IFRS Blue Book 2020

Section A: IASB Conceptual Framework for Financial Reporting

Section B: International Accounting Standards

Section A

IASB Conceptual Framework for Financial Reporting (March 2018 version)

Chapter 1: The objective of general purpose financial reporting

- objective, usefulness and limitations of general purpose financial reporting (1.2 – 1.11)
- information about a reporting entity's economic resources, claims, and changes in resources and claims (1.12 – 1.13, 1.15 – 1.17, 1.20 – 1.21)

Chapter 2: The qualitative characteristics of useful financial information

- introduction (2.1)
- qualitative characteristics of useful financial information (2.4)
- fundamental qualitative characteristics (2.5 – 2.19)
- enhancing qualitative characteristics (2.23 – 2.36)

Chapter 3: Financial statements and the reporting entity

- objective and scope of financial statements (3.2 – 3.3)
- reporting period (3.4 – 3.5)

- going concern assumption (3.9)
- the reporting entity (3.10 – 3.11)
- consolidated and unconsolidated financial statements (3.15 – 3.17)

Chapter 4: The elements of financial statements

- introduction (4.1 – 4.2)
- definition of an asset (4.3 – 4.4, 4.6 (a(i), a(ii), b(i), 4.14, 4.2)
- definition of a liability (4.26, 4.28 – 4.29, 4.36 – 4.37, 4.42 – 4.43)
- definition of equity (4.63)
- definitions of income and expenses (4.68 – 4.69)

Chapter 5: Recognition and derecognition of the elements of financial statements

- recognition criteria (5.6 – 5.9)

Chapter 6: Measurement of the elements of financial statements

- historical cost (6.4 – 6.5)
- current value (6.10 – 6.13, 6.17, 6.19, 6.21 – 6.22)

Also, other users of financial statements – in addition to existing and potential investors, lenders and other creditors – their information needs and for what purpose they would use financial statements.

Section B

International Accounting Standards

(Note - The numbers in brackets after each item of text identify the paragraph numbers in the IFRS Blue Book to which the text relates).

International Financial Reporting Standards (IFRSs)

IFRS 3 - Business Combinations

- definitions of acquire, acquirer, acquisition date, business, business combination, fair value, goodwill, identifiable, non-controlling interest (Appendix A)
- identifying a business combination (3 and Appendix B5)
- the acquisition method (4 and 5), identifying the acquirer (6 and 7), determining the acquisition date (8 and 9), recognition and measurement of assets, liabilities and non-controlling interest (10-12)
- measurement principle (18 and 19) [Note that for the purposes of this assessment non-controlling interest will always be valued at their proportionate share of net assets]
- recognition and measurement of goodwill (32, 34, and 35).

IFRS 10 - Consolidated Financial Statements

- requirement to present consolidated financial statements (4) and definition of consolidated financial statements (Appendix A)
- assessment of whether an entity controls an investee (5-7)
- explanations of power (10), returns (15) and the link between power and returns (17)
- need to use uniform accounting policies in consolidation (19)
- consolidation procedures (B86)
- presentation of non-controlling interests (22).

IFRS 15 - Revenue from Contracts with Customers

- key definitions: Customer, income, and revenue (Appendix A)
- the core principle of IFRS 15 and the five-step model framework (IN7)
- step 1: Identifying the contract (9)
- step 2: Identifying performance obligations (22)
- step 3: Determining the transaction price (47)
- methods used to estimate the amount of variable consideration (53)
- step 4: Allocating the transaction price to performance obligations (73)
- allocation of a discount (81)
- step 5: Satisfaction of performance obligations (31)
- performance obligations satisfied over time (35, B14, B15 and B18)
- performance obligations satisfied at a point in time (38)

IFRS 16 – Leases

- Definition of a lease (Appendix A)
- Recognition at the commencement date (22)
- Definition of a right-of-use asset (Appendix A)
- Recognition exemptions (5,6 and 8)
- Definition of a short term lease (Appendix A)
- Leases for which the asset is of low value (B3,B4 and B8)
- Initial measurement of the right-of-use asset (23,24(a and b))
- Initial measurement of the lease liability (26)
- Definitions of the interest rate implicit in the lease and the lessee's incremental borrowing rate (both Appendix A)
- Subsequent measurement of the right-of-use asset (29,30(a) and 35)
- Depreciation and impairment of the right of use asset (31,32 and 33)
- Subsequent measurement of the lease liability (36(a and b), 37 and 38(a))

International Accounting Standards (IASs)

IAS 1 - Presentation of Financial Statements

- purpose of financial statements (9)
- complete set of financial statements (10, 10A and 11)
- requirement for financial statements to present fairly the financial position, financial performance and cash flows of an entity (15)
- requirement to make a statement in respect of compliance with IFRSs (16)
- requirement to assess going concern (25)
- requirement for accrual accounting (27)
- requirement to present each material class of similar items separately (29)
- prohibition of offsetting elements (32)
- requirement to present a complete set of financial statements at least annually (36)
- requirement for comparative information (38)
- requirement for consistency of presentation and classification (45)
- requirement to identify clearly the financial statements (49), each financial statement and the notes (51)
- requirement to display certain information prominently (51)
- information to be presented on the face of the statement of financial position (54 and 55)
- requirement to separate current and non-current assets and liabilities (60)
- criteria for current assets (66) and current liabilities (69)
- sub-classifications in the statement of financial position or in the notes (77 and 78) and disclosure of other items in the statement of financial position or the statement of changes in equity or in the notes (79 (a) (i) - (iii))
- information to be presented in the statement of profit or loss and other comprehensive income (81A, 81B (a), 82 (a-d), 82A and 85)
- prohibition of extraordinary items (87)
- separate disclosure of material items of income and expense (97)
- requirement to present an analysis of expenses based on either their nature or their function within the entity (99) and criteria of choice (99, 105) with examples of analysis (102-103). [Only the form of analysis based upon functionality will be assessed in this unit]
- information to be shown in the statement of changes of equity (106 (d))
- requirement to present a statement of changes in equity and information to be shown in the statement of changes of equity (106)
- the treatment of dividends (107)
- general requirements for notes (112), cross referencing (113), disclosure of accounting policies (117) and disclosure of dividends proposed (137).

IAS 2 - Inventories

- definitions of inventories and net realisable value (6)
- measurement of inventories (9)
- costs included in the cost of inventories (10, 11, 12) and costs excluded (16)
- cost of inventories of items that are not ordinarily interchangeable (23)
- formulas that are to be used to determine the cost of inventories of items that are ordinarily interchangeable (25) and explanations of the FIFO formula and the weighted average cost formula (27)
- examples of situations that could affect the ability of an entity to recover the cost of inventories (28) and the basis by which inventories are to be written down to net realisable value (29)
- recognition as an expense when inventories are sold (34).

IAS 7 - Statement of Cash Flows

- requirement for an entity to prepare a statement of cash flows in accordance with this standard (1)
- benefits of cash flow information (4,5)
- 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).
- determination of the net cash flow from operating activities in accordance with the indirect method (20)
- 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)
- disclosure of components of cash and cash equivalents and the reconciliation of the amounts in the statement of cash flows with the equivalent items reported in the statement of financial position (45).

IAS 10 - Events after the Reporting Period

- definitions of events after the reporting period and adjusting and non-adjusting events (3)
- requirement to adjust financial statements for adjusting events (8) with examples (9)
- prohibition of adjustments to financial statements for non-adjusting events (10) with examples (11)
- prohibition of the recognition of dividends declared after the reporting period as a liability (12)
- prohibition of preparing financial statements on a going concern basis if there is an intention to liquidate or cease trading (14)

- requirement to disclose the date when financial statements are authorised for issue (17)
- requirement to disclose material non-adjusting events (21) with examples (22).

IAS 12 – Income Taxes

IAS 16 - Property, Plant and Equipment

- definitions of terms used in the standard (6) (not bearer plant)
- recognition rule for items of property, plant and equipment (7)
- prohibition of the recognition of day-to-day servicing costs in the carrying amount of an item of property, plant and equipment (12)
- recognition rules for subsequent expenditure (12, 13 and 14)
- measurement rule at recognition (15) and of elements of cost (16, 17 and 19)
- measurement rules after recognition (29) including explanation of cost model (30) and revaluation model (31)
- 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 and 40)
- transfers from revaluation surplus to retained earnings (41)
- requirement to depreciate each part of an item of property, plant and equipment separately (43)
- depreciation charge for each period to be recognised in profit or loss (48)
- depreciable amount to be allocated on a systematic basis over the asset's useful life (50)
- requirement to review the residual value and the useful life of an asset at least at the year-end and any change to be accounted for as a change in an accounting estimate (51)
- rule that depreciation must be recognised even if the fair value of the asset exceeds its carrying amount, as long as the residual value does not exceed its carrying amount (in which case depreciation will be zero (54)), and that repair and maintenance do not negate the need to depreciate an asset (52)
- factors determining the 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).
- disclosure required for each class of property, plant and equipment (73)
- disclosure in respect of items of property, plant and equipment stated at revalued amounts (77)

IAS 36 - Impairment of Assets

- definitions of carrying amount, recoverable amount, fair value, value in use and impairment loss (6)
- an asset is impaired when its carrying amount exceeds its recoverable amount (8)
- requirement to assess whether there is any indication that an asset may be impaired and requirement to estimate the recoverable amount when such an indication exists (9)
- requirement to assess intangible assets with an indefinite useful life and goodwill annually (10)
- indications of impairment (12, 13 and 14)
- recognising and measuring an impairment loss for individual assets other than goodwill (59, 60 and 61) and revision of depreciation charge (63)
- disclosure of impairment loss recognised in profit or loss and in other comprehensive income (126 (a) and (c)).

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets

- definitions (not onerous contracts or restructuring) (10)
- distinction between provisions and other liabilities (11), idea of being contingent in the standard (12) and distinction between provisions and contingent liabilities (13)
- requirement to recognise provisions and criteria (14)
- prohibition of the recognition of contingent liabilities (27) and contingent assets (31)
- measurement of a provision (36 and 37)
- requirement to review provisions at the end of each reporting period to reflect current best estimate (59)
- use of provisions (61)
- provisions are not to be recognised for future operating losses (63)
- disclosure of provisions (84-85)
- disclosure of contingent liabilities (86) and contingent assets (89).

IAS 38 - Intangible Assets

- definitions of an intangible asset, research and development (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 of the recognition of internally generated goodwill as an asset (48)
- rules in respect of the recognition of internally generated intangible assets. These consist of: the need to classify the generation of the asset into a research phase and a development phase (52 and 53); the accounting treatment of expenditure incurred in the research phase of a project (54) and examples of research activities (56); the accounting treatment of expenditure incurred in the development phase of a project (57) and examples of development activities (59)
- prohibition of the recognition of internally generated brands and similar items as intangible assets (63)
- need to determine whether the 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 the amortisation of an intangible asset which has an indefinite useful life (107) and requirement for an impairment review in accordance with IAS 36 (108) and review of useful life assessment (109).

Management Accounting: Budgeting

- No additional guidance

Management Accounting: Decision and Control

- No additional guidance

Accounting Systems and Controls

- No additional guidance

Business Tax

- Finance Act 2019

Personal Tax

- Finance Act 2019

Credit Management

- English contract law
- Contracts (Applicable Law) Act 1990
- Trade Descriptions Act 1972
- Unfair Contract Terms Act 1977
- Sale and Supply of Goods Act 1994
- Consumer Rights Act 2015
- Consumer Credit Act 2006
- Late Payment of Commercial Debts (interest) Act 1998
- Data Protection Act 2018

External auditing

Elements of International Standards on Auditing (ISAs)

ISA 200 Overall Objectives of the Independent Auditor of an Audit in Accordance with International Standards on Auditing

- objective of an audit of financial statements as set out in paragraphs 3 to 12

- definitions (a) to (n) as set out in paragraph 13

ISA 230 Audit Documentation

- the form and content of working papers as required by paragraphs 2 to 11

ISA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

- objective of an audit of financial statements as set out in paragraphs 4 to 8

ISA 265 Communicating Deficiencies in Internal Control to those Charged with Governance and Management.

- elements of a report on deficiencies in internal control that should be communicated to management as required by paragraphs 7 to 11

ISA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment

- definition of internal control and its components as set out in paragraph 4c and Appendix 1
- the assertions regarding the recognition, measurement, presentation and disclosures of the various elements of financial statements as set out in paragraph A124

ISA 320 Materiality in Planning and Performing an Audit

- the application of performance materiality and materiality for the financial statements as a whole as set out in paragraphs 10 to 14

ISA 450 Evaluation of Misstatements Identified During the Audit

- requirements relating to the determination of material versus immaterial items and the communication of such items as set out in paragraphs 5 to 15

ISA 500 Audit Evidence

- the procedures for obtaining sufficient appropriate audit evidence as set out in paragraphs A10 to A25

ISA 530 Audit Sampling

- the characteristics of the different methods used in selecting items for checking as set out in Appendices 1 and 4
- the factors that affect sample sizes as set out in Appendices 2 and 3

ISA 700 (Revised) Forming an Opinion and Reporting on Financial Statements

- elements of an auditor's report as required by paragraphs 21 to 38 (b) (iv)

ISA 705 (Revised) Modifications to the Opinion in the Independent Auditor's Report

- difference between "material" and "material and pervasive" as set out in paragraph 5

- the effect on the audit opinion of uncorrected material misstatements and inability to obtain sufficient audit evidence to conclude that the financial statements are free from material misstatement as set out in paragraphs 6 to 10

ISA 706 (Revised) Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

- when to draw users of the financial statements attention to matters appropriately presented or disclosed in the financial statements (Emphasis of Matter Paragraph) as set out in paragraphs 6 (a)
- definition of emphasis of matter as set out in paragraph 7 (a)

Cash and Treasury Management

- Money Laundering Regulations and the Bribery Act 2017
- Companies Act 2006
- IFRS 16 - Leases