

Overview

Financial and Management Accounting provides a general introduction to the basic techniques of financial analysis, including familiarity with working capital management, business planning and budgeting. It provides underlying knowledge and techniques that are the foundation of advanced and applied financial analysis, which is developed further in the Corporate Finance and Funding manual.

Chapter 1 – The background to accounts

Chapter one will provide a working knowledge of the purpose of accounts and the regulatory context in which they are based. It will also provide an introduction to basic accounting terminology necessary to understand the main financial statements. It also looks at the role of the auditor and the topical issue of corporate governance.

Chapter 2 – The framework of company accounting

Chapter two will provide a working knowledge of how a set of accounts are constructed including the basic accounting concepts that are applied when recording the transactions in the accounting records. This should allow you to understand the more detailed accounting requirements applied in subsequent chapters.

Chapter 3 – The main financial statements

Chapter three will provide a working knowledge of the structure and information that is included in a company's financial statements. It looks at a number of accounting standards that influence the form and content of the financial statements as well as statutory requirements.

Chapter 4 – Group financial statements

Chapter four will provide an understanding of the basic mechanics of consolidating balance sheets and income statements of group companies in order to prepare group financial statements. This will aid your understanding in analysing a set of accounts.

Chapter 5 – Reporting standards for financial statements

Chapter five will provide a working knowledge of how to account for straightforward financial instruments in accordance with IAS 32 and 39, and the general concepts relating to leases in line with IAS 17. You will also learn how to account for changes in foreign exchange rates in accordance with IAS 21. This does not include dealing with interests in foreign subsidiaries.

Chapter 6 – The management of working capital

Chapter six provides knowledge of the components of working capital and the procedures and calculations involved in managing working capital.

Chapter 7 – Planning, budgeting and control

Chapter seven will provide knowledge of the procedures involved in management planning, and an understanding of cost behaviour for the use of budgeting and control.

Chapter 8 – Financial Analysis

The final chapter will provide a working knowledge of, and basic practical ability in, financial ratios.

Chapter 1 – The background to accounts

1.1 The purpose of accounts

- Income statement
- Balance Sheet
- Cashflow statement

1.2 Financial and management accounts

1.3 The balance sheet, income statement and cashflow statement

- Balance sheet
- Income statement
- Cashflow statements

1.4 Statutory and regulatory requirements

- Companies Acts 2006
- Stock Exchange requirements
- International Accounting Standards Committee (IASC) Foundation
- Generally Accepted Accounting Principles (GAAP)

1.5 The role of auditing

- Introduction
- Limited company
- Companies Act 2006
- Auditors' duties and powers
- Rights of access
- Appointment and remuneration of auditors
- Removal of auditors
- Resignation
- Qualifications and regulation of auditors
- Auditing standards
- Qualifications in audit reports

1.6 Corporate governance

- Introduction
- What is 'corporate governance'?
- The Higgs Report and The Smith Report
- US legislation

Chapter 2 – The framework of company accounting

2.1 The structure of accounts

- Introduction
- Entity

Periodicity
Quantitative
Going concern
Measurement
Realisation
Accruals

2.2 The accounting life cycle

Introduction
Working capital
Accounting records

2.3 Receipts and payments

2.4 Double entry book-keeping

Dual aspect
The accounting equation
Double entry book-keeping
Debits and credits

2.5 The accruals concept

Introduction
Accruals
Prepayments

Chapter 3 – The main financial statements

3.1 IASB framework

Objective of financial statements
Qualitative characteristics of financial statements
The elements of the finance statements

3.2 True and fair view

True and fair override

3.3 Form and content of financial statements

Balance sheet
The income statement
General content of financial statements
Presentation requirements
Prescribed formats

3.4 Income statement disclosure requirements

Statement of charges in equity
IAS 8 accounting policies, changes in accounting estimates and errors
IFRS 5 discontinued operations

3.5 IAS 7 cashflow statements

Introduction and definitions
Format of cashflow statement

3.6 IAS 37 provisions, contingent liabilities and contingent assets

Introduction
Accounting for provisions
Specific examples in IAS 37

Contingent liabilities
Contingent assets

3.7 IAS 10 events after the balance sheet date

Definition
Adjusting events
Non-adjusting events
Determining non-adjusting events

3.8 Comparison UK GAAP, US GAAP and IAS

Chapter 4 – Group financial statements

4.1 Investment in other companies

Investments giving control or influence
Group accounts
Accounting for investments in other companies

4.2 Consolidated balance sheet – acquisition of a subsidiary

Step 1 – Aggregation
Step 2 – Goodwill

4.3 Goodwill on consolidation

IFRS 3 Business Combinations
Step 3 – Impairment
Negative goodwill
Summary – Consolidated balance sheet – acquisition of subsidiary

4.4 Consolidation in years after acquisition

4.5 Consolidation of subsidiaries not wholly owned

4.6 Acquisition accounting – consolidated income statement

4.7 Consolidated income statement – partly owned subsidiary

4.8 Equity method of accounting – associates

4.9 Equity method of accounting – income statement

4.10 Accounting for joint ventures

4.11 Intra-group transactions

Internal indebtedness
Internal dividends

4.12 Accounting standards and group financial statements

Definitions of subsidiary and associate
Specific requirements and disclosure
Exclusion of subsidiaries from consolidation
Accounting for associates
Accounting for joint ventures
IFRS 3 – Fair values in acquisition accounting
Goodwill
Merger accounting

Chapter 5 – Reporting standards for financial instruments

5.1 Foreign currency translation

- Definitions
- General requirements
- Recording foreign currency transactions
- Non-monetary assets
- Monetary items

5.2 Financial instruments

- Introduction
- Definitions
- IAS 32 presentation of financial instruments
- Categories of financial instruments
- Recognition
- Measurement
- Subsequent remeasurement
- Reporting gains and losses
- Impairment
- Derecognition
- Disclosure
- Hedge accounting

5.3 Accounting for leases and hire purchase contracts

- Types of lease
- Classification
- Accounting treatment
- Actuarial method
- Sum of digits method
- Straight line method
- Hire purchase contracts
- Disclosure
- Sales and leaseback

Chapter 6 – The management of working capital

6.1 Main principles

6.2 Stock

- Influences on stock management
- Managing stock levels
- Just-in-time stock management
- Supply chain management
- Changes to stock levels

6.3 Trade debtors

- Management of trade debtors
- Changes to debtor levels

6.4 Trade creditors

6.5 Cash

- Cashflow forecasting

- Investment of surplus cash
- 6.6 The effects of poor working capital management**

Chapter 7 – Planning, budgeting and control

- 7.1 Management planning**
Long-term planning
Short-term planning
- 7.2 Purpose of budgets**
- 7.3 Types of budgets**
Departmental budget
Capital budget
Cash budget
- 7.4 Key steps in the preparation of budgets**
Statement of basic assumptions
Identification of limiting factors
Preparation of sales and other departmental budgets
Negotiation and acceptance of final budgets
- 7.5 Practical problems in the budgeting process**
- 7.6 Zero based budgeting**
- 7.7 Cost behaviour**
Fixed and variable costs
Semi-variable and semi-fixed costs
- 7.8 Management accounting**
Break-even analysis
Margin of safety
- 7.9 Flexible budgeting**

Chapter 8 – Financial analysis

- 8.1 Accounting ratios**
Profitability ratios
Liquidity ratios (solvency)
Activity ratios (management efficiency)
Gearing ratios (risk)
Centre for Inter-firm Comparisons
- 8.2 Limitations of ratio analysis**
Dangers of inter-firm comparisons