

# ATD

**ACCOUNTING TECHNICIAN DIPLOMA**

**LEVEL II**

**FINANCIAL ACCOUNTING**

**STUDY TEXT**

**KASNEB JULY 2018 SYLLABUS**

**Revised on: January 2019**

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## SYLLABUS

### PAPER NO 5: FINANCIAL ACCOUNTING

#### GENERAL OBJECTIVE

This paper is intended to equip the candidate with knowledge, skills and attitudes that will enable him/her to account for various basic financial transactions, prepare and analyse financial statements

#### LEARNING OUTCOMES

A candidate who passes this paper should be able to:

- Prepare books of original entry and basic ledger accounts under double entry system
- Prepare basic financial statements of sole traders, partnerships, companies and manufacturing entities and not for profit organisations
- Comply with the regulatory framework in the accounting field
- Account for assets and liabilities
- Analyse financial statements by use of ratios and statement of cash flows

#### CONTENT

##### 1. Introduction to Accounting

- The accounting framework
- Sources of regulations of National and global levels; the law (Companies Act), professional bodies, global regulational bodies
- Accounting standards (IAS/IFRS), (Importance and limitations)
- Professional ethics

##### 2. Accounting for assets and liabilities

###### 2.1 Assets

- Property, plant and equipment — recognition, capital and revenue expenditure, measurement (depreciation and revaluation), disposal and disclosures — property, plant and equipment schedule
- Intangible assets — recognition, measurement (amortisation, impairment and revaluation), disposals and disclosures
- Financial Assets – examples and categories

###### 2.2 Liabilities

- Loans - accounting treatment of repayment of principal and interest

##### 3. Financial statements of a sole trader

- Income statement
- Statement of financial position

**4. Financial statements of a partnership**

- Income statement
- Statement of financial position
- Changes in partnership – Admission of a new partner, retirement and change in profit sharing ratio

**5. Financial statements of a company**

- Financial statements - Income statement and statement of financial position
- Published financial statements (describe a complete set of published financial statements but not preparation)

**6. Financial statements of a manufacturing entity**

- Features of a manufacturing entity
- Classification and apportioning costs between manufacturing and selling and administration
- Financial statements - manufacturing account, income statement and statement of financial position

**7. Accounts from incomplete records**

- Features
- Types of incomplete records (Pure single entry, simple single entry, quasi single entry)
- Ascertaining of profit by capital comparison
- Preparation of statement of affairs and profit determination
- Techniques of obtaining complete accounting information

**8. Financial statements of a not-for-profit making organisation**

- Features
- Types of funds and their accounting treatment
- Income and expenditure account
- Statement of financial position

**8. Analysing financial statements**

- Statement of cash flows (categories of cash, methods of preparing statement of cash flows and the importance)
- Financial ratios — definition, categories, analysis and interpretation, application and limitations

**9. Introduction to public sector Accounting**

- Features of public sector entities (as compared to private sector)
- Structure of the public sector (National and county governments: state corporations and other agencies)
- Regulatory structures and oversight [IPSASB, PSASB (establishment, mandate and functions), Director of Accounting Services, National Treasury, Parliamentary Committees. Accounting Officers at national and county levels]
- Objectives of public sector financial statements
- Objectives of IFSAS

- Accounting techniques in public sector (budgeting, cash, accrual: commitment and fund)  
(Preparation of financial statements should be excluded)

## 10. Emerging issues and trends

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# TOPIC 1

## INTRODUCTION TO ACCOUNTING

### INTRODUCTION

Financial accounting is a system that accumulates, processes and reports information about an entity's performance (i.e. profit or loss), its financial position (i.e. assets, liabilities and shareholders' equity) and changes in financial position.

Every entity, whether for-profit or not-for-profit, aims at creating maximum value for its stakeholders. The goal of maximum value addition is best achieved when there is a mechanism to monitor the management and the board of directors. Financial accounting helps in such monitoring by providing relevant, reliable and timely information to the stakeholders.

Inputs to a financial accounting system include business transactions which are supported by source documents, such as invoices, board resolutions, management memos, etc. These inputs are processed using generally accepted accounting principles (GAAP). The processed information is reported through standardized financial statements.

### Users of the Financial Statements

The most basic objective of financial accounting is preparation of general purpose financial statements, which are financial statements meant for use by stakeholders external to the entity, who do not have any other means of getting such information, i.e. people other than the management. These stakeholders include:

- **Investors and Financial Analysts:** Investors need the information to estimate the intrinsic value of the entity and to decide whether to buy, hold or sell the entity's shares. Equity research analysts use financial statements to conduct their research on earnings expectations and price targets.
- **Employee groups:** Employees and their representative groups are interested in information about the solvency and profitability of their employers to decide about their careers, assess their bargaining power and set a target wage for themselves.
- **Lenders:** Lenders are interested in information that enables them to determine whether their loans and the interest earned on them will be paid when due.
- **Suppliers and other trade creditors:** Suppliers and other creditors are interested in information that enables them to determine whether amounts owing to them will be paid when due and whether the demand from the company is going to increase, decrease or stay constant.
- **Customers:** Customers want to know whether their supplier is going to continue as an entity, especially when they have a long-term involvement with that supplier. For example, Apple is interested in long-term viability of Intel because Apple uses Intel processors in its computers

and if Intel ceases operations at once, Apple will suffer difficulties in meeting its own demand and will lose revenue.

- **Governments and their agencies:** Governments and their agencies are interested in financial accounting information for a range of purposes. For example, the tax collecting authorities, such as IRS in USA, are interested in calculating taxable income of the tax-paying entities and finding their tax payable. Antitrust authorities, such as Federal Trade Commission, are interested in finding out whether an entity is engaged in monopolization. The governments themselves are interested in efficient allocation of resources and they need financial accounting information of different sectors and industries to decide on federal and state budget allocation, etc. The bureaus of statistics are interested in calculating national income, employment and other measures.
- **Public:** the public is interested in an entity's contribution towards the communities in which it operates, its corporate social responsibility updates, its environmental track record, etc

## THE ACCOUNTING FRAMEWORK

An accounting framework is a published set of criteria that is used to measure, recognize, present, and disclose the information appearing in an entity's financial statements. An organization's financial statements must have been constructed using a recognized framework, or else auditors will not issue a clean audit opinion for them.

The most commonly-used accounting frameworks are generally accepted accounting principles (GAAP) and international financial reporting standards (IFRS). GAAP is used by entities in the United States, while IFRS is used in most other parts of the world. These two frameworks are designed to be broad-based and therefore applicable to most types of businesses. There are other accounting frameworks that are designed for special situations, and which are known as other comprehensive bases of accounting (OCBOA).

## SOURCES OF REGULATIONS OF NATIONAL AND GLOBAL LEVELS; THE LAW (COMPANIES ACT), PROFESSIONAL BODIES, GLOBAL REGULATIONAL BODIES

### PROFESSIONAL BODIES

#### INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANT (ICPAK)

The Institute of Certified Public Accountants of Kenya (**ICPAK**) was established in 1978. The Institute is a member of the Pan-African Federation of Accountants (PAFA) and the International Federation of Accountants (IFAC), the global umbrella body for the accountancy profession. The Vision of the Institute is '*A world class professional accountancy institute*', while the Mission is '*To develop and promote internationally recognised accountancy profession that upholds public interest through effective regulation, research and innovation*'.

The Institute is guided by the following core values: **Credibility, Professionalism and Accountability**. The Institute draws its mandate from the **Accountants Act (no 15 of 2008)**.

Its mandate includes:

The Accountants Act No 15, 2008 prescribes the following as the functions of the Institute:

- To promote standards of professional competence and practice amongst members of the Institute
- To promote research into the subject of accountancy and finance and related matters, and the publication of books, periodicals, journals and articles in connection therewith;
- To promote the international recognition of the Institute.
- To advise the Examination Board on matters relating to examinations standards and policies;
- To advise the Minister on matters relating to financial accountability in all sectors of the economy;
- To carry out any other functions prescribed for it under any of the other provisions of this Act or any other written law and
- To do anything incidental or conducive to the performance of any of the preceding functions.

## **GLOBAL REGULATIONAL BODIES**

### **The International Federation of Accountants (IFAC)**

The International Federation of Accountants (IFAC) was founded on 7 October 1977, in Munich, Germany, at the 11th World Congress of Accountants. IFAC comprises 179 member and associate member organisations in 130 countries, representing more than 2.5 million accountants in public practice, education, government service, industry, and commerce.

IFAC has established the following boards. We maintain separate pages for each board, with a history of developments for each board:

<b>Body</b>	<b>Function</b>
<b>International Public Sector Accounting Standards Board (IPSASB)</b>	Sets International Public Sector Accounting Standards (IPSAS) for use by the public sector
<b>International Auditing and Assurance Standards Board (IAASB)</b>	Sets International Standards on Auditing, Assurance Engagements and Related Services
<b>International Accounting Education Standards Board (IAESB)</b>	Develops International Education Standards
<b>International Ethics Standards Board for Accountants (IESBA)</b>	Develops the international <i>Code of Ethics for Professional Accountants</i>
<b>Public Interest Oversight Board (PIOB)</b>	Oversees IFAC's standard-setting activities, particularly with respect to auditing, assurance, ethics, and independence. The PIOB also oversees IFAC's compliance activities.

IFAC also supports the IASB with respect to setting accounting standards.

### **The International Accounting Standards Board (IASB)**

The International Accounting Standards Board (IASB) is an independent, private-sector body that develops and approves International Financial Reporting Standards (IFRSs). The IASB operates under the oversight of the IFRS Foundation. The IASB was formed in 2001 to replace the International Accounting Standards Committee. Currently, the IASB has 14 members.

#### **The IASB's role**

Under the IFRS Foundation Constitution, the IASB has complete responsibility for all technical matters of the IFRS Foundation including:

- Full discretion in developing and pursuing its technical agenda, subject to certain consultation requirements with the Trustees and the public