Paper F2
Financial Management

Syllabus Overview

Paper F2 extends the scope of Paper F1 Financial Operations to more advanced topics in financial accounting (preparation of full consolidated financial statements and issues of principle in accounting standards dealing with more complex areas) and to developments in external reporting. With the advanced level of financial accounting and reporting achieved in this paper, the analysis and interpretation of accounts becomes more meaningful and this constitutes a substantial element.

Syllabus Structure

The syllabus comprises the following topics and study weightings:

A	Group Financial Statements	35%
B	Issues in Recognition and Measurement	20%
C	Analysis and Interpretation of Financial Accounts	35%
D	Developments in External Reporting	10%

Assessment Strategy

There will be a written examination paper of 3 hours, plus 20 minutes of pre-examination question paper reading time. The examination paper will have the following sections:

Section A – 50 marks
Five compulsory medium answer questions, each worth 10 marks. Short scenarios may be given, to which some or all questions relate.

Section B – 50 marks
One or two compulsory questions. Short scenarios may be given, to which questions relate.

Learning Outcomes and Indicative Syllabus Content

F2 – A. Group Financial Statements (35%)

Learning Outcomes On completion of their studies students should be able to:		
Lead	**Component**	**Indicative Syllabus Content**
1. Prepare the full consolidated statements of a single company and the consolidated statements of financial position and comprehensive income for a group (in relatively complex circumstances). (3)	(a) prepare a complete set of consolidated financial statements, as specified in IAS 1(revised), in a form suitable for publication for a group of companies; (b) identify and demonstrate the impact on group financial statements where: there is a minority interest; the interest in a subsidiary or associate is acquired or disposed of part way through an accounting period (to include the effective date of acquisition and dividends out of pre-acquisition profits); shareholdings, or control, are acquired in stages; intra-group trading and other transactions occur; the value of goodwill is impaired; (c) explain and apply the concept of a joint venture and how their various types are accounted for.	• Relationships between investors and investees, meaning of control and circumstances in which a subsidiary is excluded from consolidation. (A) • The preparation of consolidated financial statements (including the group cash flow statement and statement of changes in equity) involving one or more subsidiaries, sub-subsidiaries and associates (IAS 1(revised), 7 & 27, IFRS 3). (A) • The treatment in consolidated financial statements of minority interests, pre- and post-acquisition reserves, goodwill (including its impairment), fair value adjustments, intra-group transactions and dividends, piece-meal and mid-year acquisitions, and disposals to include sub-subsidiaries and mixed g roups. (A, B) • The accounting treatment of associates and joint ventures (IAS 28 & 31) using the equity method and proportional consolidation method. (A, C)
2. Explain the principles of accounting for capital schemes and foreign exchange rate changes.	(a) explain the principles of accounting for a capital reconstruction scheme or a demerger; (b) explain foreign currency translation principles, including the difference between the closing rate/net investment method and the historical rate method; (c) explain the correct treatment for foreign loans financing foreign equity investments.	• Accounting for reorganisations and capital reconstruction schemes. (A) • Foreign currency translation (IAS 21), to include overseas transactions and investments in overseas subsidiaries. (B, C)

F2 – B. Issues in Recognition and Measurement (20%)

Learning Outcomes On completion of their studies students should be able to: Lead	Component	Indicative Syllabus Content
1. Discuss accounting principles and their relevance to accounting issues of contemporary interest. (4)	(a) discuss the problems of profit measurement and alternative approaches to asset valuations; (b) discuss measures to reduce distortion in financial statements when price levels change; (c) discuss the principle of substance over form applied to a range of transactions; (d) discuss the possible treatments of financial instruments in the issuer's accounts (i.e. liabilities versus equity, and the implications for finance costs); (e) identify discuss circumstances in which amortised cost, fair value and hedge accounting are appropriate for financial instruments, explain the principles of these accounting methods and discuss considerations in the determination of fair value; (f) discuss the recognition and valuation issues concerned with pension schemes (including the treatment of actuarial deficits and surpluses) and share-based payments.	• The problems of profit measurement and the effect of alternative approaches to asset valuation; current cost and current purchasing power bases and the real terms system; Financial Reporting in Hyperinflationary Economies (IAS 29). (A, B) • The principle of substance over form and its influence in dealing with transactions such as sale and repurchase agreements, consignment stock, debt factoring, securitised assets, loan transfers and public and private sector financial collaboration. (C) • Financial instruments classified as liabilities or shareholders funds and the allocation of finance costs over the term of the borrowing (IAS 32 & 39). (D, E) • The measurement, including methods of determining fair value, and disclosure of financial instruments (IAS 32 & 39, IFRS 7). (D, E) • Retirement benefits, including pension schemes – defined benefit schemes and defined contribution schemes, actuarial deficits and surpluses (IAS 19). (F) • Share-based payments (IFRS 2): types of transactions, measurement bases and accounting; determination of fair value. (F)

F2 – C. Analysis and Interpretation of Financial Accounts (35%)

Learning Outcomes On completion of their studies students should be able to:		
Lead	**Component**	**Indicative Syllabus Content**
1. Produce a ratio analysis from financial statements and supporting information, and explain its limitations. (4)	(a) calculate and interpret a full range of accounting ratios; (b) explain and discuss the limitations of accounting ratio analysis and analysis based on financial statements.	• Ratios in the areas of performance, profitability, financial adaptability, liquidity, activity, shareholder investment and financing, and their interpretation. (A) • Calculation of Earnings per Share under IAS 33, to include the effect of bonus issues, rights issues and convertible stock. (A) • The impact of financing structure, including use of leasing and short-term debt, on ratios, particularly gearing. (A) • Limitations of ratio analysis (e.g. comparability of businesses and accounting policies). (B)
2. Analyse and evaluate performance and position, and discuss the results. (4)	(a) analyse financial statements in the context of information provided in the accounts and corporate report; (b) evaluate performance and position based on analysis of financial statements; (c) prepare and discuss segmental analysis, with inter-firm and international comparisons taking account of possible aggressive or unusual accounting policies and pressures on ethical behaviour; (d) discuss the results of an analysis of financial statements and its limitations in a concise report.	• Interpretation of financial statements via the analysis of the accounts and corporate reports. (A, B) • The identification of information required to assess financial performance and the extent to which financial statements fail to provide such information. (A, B, D) • Interpretation of financial obligations included in financial accounts (e.g. redeemable debt, earn-out arrangements, contingent liabilities). (A, B, D) • Segment analysis: inter-firm and international comparison (IFRS 8). (C) • The need to be aware of aggressive or unusual accounting policies ('creative accounting'), e.g. in the areas of cost capitalisation and revenue recognition, and threats to the ethics of accountants from pressure to report 'good results'. (C) • Reporting the results of analysis. (D)

F2 – D. Developments in External Reporting (10%)

Learning Outcomes On completion of their studies students should be able to:		
Lead	**Component**	**Indicative Syllabus Content**
1. Explain and discuss contemporary developments in financial and non-financial reporting. (4)	(a) discuss pressures for extending the scope and quality of external reports to include prospective and non-financial matters, and narrative reporting generally; (b) explain how information concerning the interaction of a business with society and the natural environment can be communicated in the published accounts; (c) identify and discuss social and environmental issues which are likely to be most important to stakeholders in an organisation; (d) explain the process of measuring, recording and disclosing the effect of exchanges between a business and society – human resource accounting; (e) identify and discuss major differences between IFRS and US GAAP, and the measures designed to contribute towards their convergence.	• Increasing stakeholder demands for information that goes beyond historical financial information and frameworks for such reporting, including, as an example of national requirements and guidelines, the UK's Business Review and the Accounting Standard Board's best practice standard, RS1, and the Global Reporting Initiative. (A, B) • Environmental and social accounting issues, differentiating between externalities and costs internalised through, for example, capitalisation of environmental expenditure, recognition of future environmental costs by means of provisions, taxation and the costs of emissions permit trading schemes. (B, C) • Non-financial measures of social and environmental impact. (B, C) • Human resource accounting. (D) • Major differences between IFRS and US GAAP, and progress towards convergence. (E)