



Financial Reporting and Financial Statements Analysis

Effective from 11 July 2024

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Institute of Chartered Accountants in England and Wales

Objective of the Examination

The aim of the unit is to provide candidates with an understanding of financial reporting and financial statements from a corporate finance perspective. This unit will cover:

- The Income Statement
- The Statement of Financial Position
- The Cash Flow Statement and Free Cash Flows
- Group Accounting
- Financial Analysis

Assessment Structure

The unit will be assessed by a 50 minute examination of 40 multiple choice questions drawn from across the syllabus.

Candidates sitting the exam by Computer Based Testing may have, in addition, up to 10% additional questions as trial questions that are not separately identified and do not contribute to the result. Candidates will be given proportionately more time to complete the test.

Syllabus Structure

The unit is divided into **elements**. These are broken down into a series of **learning objectives**.

Each learning objective begins with one of the following prefixes: **know**, **understand**, **be able to calculate**, or **be able to apply**. These words indicate the different levels of skill to be tested. Learning objectives prefixed:

- **know** requires the candidate to recall information such as facts, rules and principles
- **understand** requires the candidate to demonstrate comprehension of an issue, fact, rule or principle
- **be able to calculate** requires the candidate to be able to use formulae to perform calculations
- **be able to apply** requires the candidate to be able to use their knowledge in a given set of circumstances to present a clear and detailed explanation of a situation, rule or principle

Candidate Update

Candidates are reminded to check the 'Candidate Update' area of the Institute's website (cisi.org/candidateupdate) on a regular basis for updates that could affect their examination as a result of industry changes.

Examination Specification

Each examination paper is constructed from a specification that determines the weightings that will be given to each element. The specification is given below.

It is important to note that the numbers quoted may vary slightly from examination to examination as there is some flexibility to ensure that each examination has a consistent level of difficulty. However, the number of questions tested in each element and / or case study should not change by more than two.

Financial Reporting and Financial Statement Analysis		
Element 1	The Income Statement	12
Element 2	The Statement of Financial Position	7
Element 3	The Cash Flow Statement and Free Cash Flows	7
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TOTAL		40 Questions

Summary Syllabus

Element 1 The Income Statement

- 1.1 Overview
- 1.2 Accounting for Revenue
- 1.3 Accounting for Expenses
- 1.4 Accounting for Taxation
- 1.5 Non-Recurring Items
- 1.6 Earnings Per Share (EPS)

Element 2 The Statement of Financial Position

- 2.1 Overview
- 2.2 Assets
- 2.3 Liabilities
- 2.4 Equity

Element 3 The Cash Flow Statement and Free Cash Flows

- 3.1 Overview
- 3.2 Classification of Cash Flows
- 3.3 Free Cash Flows

Element 4 Group Accounting

- 4.1 Subsidiaries
- 4.2 Associates

Element 5 Financial Analysis

- 5.1 Ratios
- 5.2 Analysis Considerations

Element 1 The Income Statement

1.1 Overview

On completion, the candidate should:

1.1.1 understand the purpose, format and main contents of the Income Statement

1.2 Accounting for Revenue

On completion, the candidate should:

1.2.1 understand the principles of revenue recognition (IFRS15):

- Identification of contracts
- Identification of performance obligations
- Determination of transaction price
- Allocation of the price to performance obligations
- Recognition of revenue when/as performance obligations are satisfied

1.2.2 know the criteria for recognising revenue where performance obligations are met over a period of time

1.2.3 know the characteristics of the following types of transaction:

- Principal versus agent
- Repurchase agreements
- Bill and hold arrangements
- Consignment arrangements

1.2.4 understand the nature of reporting deferred and accrued income and the differences between the two

1.2.5 understand the differences between income from ordinary activities and other items included in the income statement

1.3 Accounting for Expenses

On completion, the candidate should:

- 1.3.1 understand the matching concept
- 1.3.2 understand the general principles for recognising expenses and the distinction between capital and revenue expenditure
- 1.3.3 understand the nature of non-cash expenses such as depreciation and amortisation
- 1.3.4 be able to calculate straight-line depreciation

1.4 Accounting for Taxation

On completion, the candidate should:

- 1.4.1 understand the difference between accounting profits and taxable profits and the meaning of tax-deductible expenses
- 1.4.2 understand the meaning of temporary and permanent differences between accounting profits and taxable profits
- 1.4.3 be able to calculate and account for current and deferred tax amounts

1.5 Non-Recurring Items

On completion, the candidate should:

- 1.5.1 know the criteria for a disposal to be classified as discontinued operations
- 1.5.2 understand the accounting treatment and presentation of discontinued operations
- 1.5.3 know the accounting treatment and presentation of unusual or infrequent items

1.6 Earnings Per Share (EPS)

On completion, the candidate should:

- 1.6.1 know the requirements for presenting EPS as per IAS 33 and the importance of EPS to investors
- 1.6.2 understand the difference between basic and diluted EPS
- 1.6.3 be able to calculate basic EPS including cases in which the company:
 - Repurchases shares
 - Issues additional shares
 - Makes a bonus issue
 - Engages in a stock split (or consolidation)
- 1.6.4 be able to calculate diluted EPS if a company has any of the following:
 - Convertible preference shares
 - Convertible bonds
 - Outstanding options or warrants

Element 2 The Statement of Financial Position

2.1 Overview

On completion, the candidate should:

- 2.1.1 understand the purpose, format and main contents of the Statement of Financial Position

2.2 Assets

On completion, the candidate should:

- 2.2.1 understand the distinction between current and non-current assets
- 2.2.2 know the different types of current assets and how they rank in terms of liquidity of asset type

2.2.3 know the different types of non-current assets and the measurement bases for initial recognition and subsequent valuation of the following non-current assets:

- Property, plant and equipment (PP&E)
- Investment property
- Financial assets
- Intangible assets
- Deferred tax assets

2.2.4 know the impact of stranded assets on the statement of financial position and income statement

2.3 Liabilities

On completion, the candidate should:

2.3.1 understand the difference between current and non-current liabilities

2.3.2 know the different types of current liabilities

2.3.3 know the different types of non-current liabilities and the measurement bases for initial recognition and subsequent valuation of the following non-current liabilities:

- Bonds
- Leases
- Deferred tax liabilities

2.4 Equity

On completion, the candidate should:

2.4.1 know the components of shareholders' equity

2.4.2 understand the differences between issued share capital, capital reserves and retained earnings

Element 3 The Cash Flow Statement and Free Cash Flows

3.1 Overview

On completion, the candidate should:

- 3.1.1 understand the purpose, format and main contents of the Statement of Cash flows

3.2 Classification of Cash Flows

On completion, the candidate should:

- 3.2.1 know the difference between cash transactions from non-cash transactions
- 3.2.2 be able to apply the following cash flow classifications:
 - Cash flow from operating activities (CFO)
 - Cash flow from investing activities (CFI)
 - Cash flow from financing activities (CFF)
- 3.2.3 understand the significance of cash flow from operating activities (CFO) using the indirect method
- 3.2.4 be able to calculate cash flow from operating activities (CFO) using the indirect method
- 3.2.5 understand the significance of cash flow from investing activities (CFI) including the acquisition or sale of property, plant and equipment (PP&E) and long-term investments
- 3.2.6 be able to calculate cash flow from investing activities (CFI) including the acquisition or sale of property, plant and equipment (PP&E) and long-term investments
- 3.2.7 understand the significance of cash flow from financing activities (CFF) including the issuance or repurchase of ordinary shares, preference shares, debt and the payment of dividends
- 3.2.8 be able to calculate cash flow from financing activities (CFF) including the issuance or repurchase of ordinary shares, preference shares, debt and the payment of dividends

3.3 Free Cash Flows

On completion, the candidate should:

- 3.3.1 know the difference between cash flow from operating activities (CFO) (as seen in the cash flow statement) and free cash flow to the firm (FCFF) and free cash flow to equity (FCFE) that are computed outside of the cash flow statement
- 3.3.2 be able to calculate free cash flow to the firm (FCFF) and free cash flow to equity (FCFE) and reconcile the difference between the two

Element 4 Group Accounting

4.1 Subsidiaries

On completion, the candidate should:

- 4.1.1 know the difference between group accounts and company accounts
- 4.1.2 understand the meaning of the following in the context of a company group structure:
 - Parent
 - Subsidiary
 - Control
 - Consolidated accounts
 - Non-controlling interest (NCI)
- 4.1.3 understand the treatment of the following in the preparation of a consolidated statement of financial position at acquisition:
 - Fair value adjustments for property, plant and equipment (PP&E)
 - Fair value of cash and shares used as consideration for the acquisition
 - Intra-group trading balances and unrealised profit from intra-group trading
 - Acquisition of subsidiaries part way through the year

- 4.1.4 be able to calculate the value of non-controlling interest (NCI)
- 4.1.5 be able to calculate goodwill arising on consolidation
- 4.1.6 know the requirements for reviewing goodwill under IFRS 3
- 4.1.7 understand the treatment of the following in the preparation of a consolidated income statement at acquisition:
 - Intra-group trading balances and unrealised profit from intra-group trading
 - Acquisition of subsidiaries part way through the year

4.2 Associates

On completion, the candidate should:

- 4.2.1 understand the meaning of significant influence and joint control
- 4.2.2 know the characteristics of a parent-associate relationship
- 4.2.3 understand the equity method of accounting for associates

Element 5 Financial Analysis

5.1 Ratios

On completion, the candidate should:

- 5.1.1 be able to calculate activity ratios
- 5.1.2 be able to calculate liquidity ratios
- 5.1.3 be able to calculate solvency ratios
- 5.1.4 be able to calculate profitability ratios
- 5.1.5 be able to calculate valuation ratios
- 5.1.6 understand the limitations of ratios and reliance on historical data for financial analysis

5.2 Analysis Considerations

On completion, the candidate should:

- 5.2.1 know other sources of information that may be relevant in assessing an entity's performance and financial position
- 5.2.2 understand other tools for analysis including:
 - Trend statements
 - Common size statements
 - Multivariate analysis
- 5.2.3 understand the use of prior year financial statements, forecasts, financial statements of competitors and industry averages in assessing an entity's performance and financial position