

Detailed competency map:

Knowledge requirements

(AAT examination)

Fields of competency

The items listed are shown with an indicator of the minimum acceptable level of competency, based on a three-point scale as follows:

1. Awareness

The candidate demonstrates familiarity with the concept in question; can define it in overview terms and can relate the importance or relevance of the concept to the activities of an accounting technician.

2. Knowledge

This builds upon awareness. The candidate is able to explain the concept; describe and discriminate between its component parts and describe their inter-relationships; recognize instances of the concept; and describe processes, theories and judgement issues; without necessarily being able to perform in those areas with professional skill.

3. Application

This builds upon knowledge. The candidate is able to execute or implement knowledge; apply the knowledge to real world problems in real world situations. In so doing, the candidate displays to a satisfactory degree of the level of competence reasonably to be expected of an accounting technician at career entrance level.

Paper 7: Financial accounting

Aim: This paper aims to develop and assess the understanding and application of the principles and mechanics of financial accounting

Content

Unit of competency	Activity required to demonstrate competence (Performance indicators)	Level of competence required
Understanding of the need for and function of financial reporting standards	<ul style="list-style-type: none"> ▪ Describe the structure of the financial regulatory system and its relationship to financial statements 	1
	<ul style="list-style-type: none"> ▪ Identify the nature and role of organizations that set accounting standards and guidelines 	1
	<ul style="list-style-type: none"> ▪ Describe the Hong Kong Financial Reporting Standards and their application to external financial reports 	1
	<ul style="list-style-type: none"> ▪ Explain the need for generally accepted accounting principles (GAAP) 	1
Understanding of the disclosure and presentation requirements of financial statements	<ul style="list-style-type: none"> ▪ Explain the requirements of relevant accounting standards and legislation relating to the disclosures required in financial statements 	2
	<ul style="list-style-type: none"> ▪ Demonstrate the disclosures required in various financial statements: <ul style="list-style-type: none"> ○ income statement ○ statement of changes in equity ○ balance sheet ○ cash flow statement ○ statement of significant accounting policies ○ other notes to the financial statements 	3
Understanding of the treatment and disclosure of changes in accounting policies and accounting estimates and errors	<ul style="list-style-type: none"> ▪ Define accounting policies, accounting estimates and prior period errors 	2
	<ul style="list-style-type: none"> ▪ Explain the principles of the selection and consistent application of an appropriate accounting policy 	2
	<ul style="list-style-type: none"> ▪ Explain the accounting treatments and disclosures of changes in accounting estimates 	2
	<ul style="list-style-type: none"> ▪ Explain the accounting treatments and disclosures of prior period errors 	2
Understanding of the significance of events after the balance sheet date on an entity's profit and loss for a period and financial position at the year end	<ul style="list-style-type: none"> ▪ Define events after the balance sheet date 	2
	<ul style="list-style-type: none"> ▪ Define and identify adjusting and non-adjusting events after the balance sheet date 	2

Understanding of the nature of related parties	▪ Explain the significance of disclosing related party transactions	2
	▪ Define a related party and identify the key elements in determining related party relationships and transactions	2
Understanding of the accounting treatment for property, plant and equipment	▪ Define an item of property, plant and equipment	2
	▪ Discuss the recognition and derecognition criteria for property, plant and equipment	2
	▪ Describe the cost elements and the initial measurement of property, plant and equipment	2
	▪ Describe the requirements of the subsequent measurement of property, plant and equipment: <ul style="list-style-type: none"> ○ the cost model and revaluation model of determining the carrying value ○ the depreciation charges ○ the impairment losses 	3
	▪ Describe the presentation and disclosure requirements of an item of property, plant and equipment	2
Understanding of the accounting treatment for investment properties	▪ Define an investment property and its distinction with an item of property, plant and equipment	2
	▪ Discuss the recognition and derecognition criteria for an investment property	2
	▪ Describe the cost elements and the initial measurement of an investment property	2
	▪ Describe the requirements of the subsequent measurement of an investment property, including the cost model and fair value model of determining the carrying value	3
	▪ Describe the presentation and disclosure requirements of investment properties	2
Understanding of the accounting treatment for leases	▪ Demonstrate awareness of the accounting issues concerned with finance lease and operating lease	2
	▪ Explain the nature and classification of leases	2
	▪ Apply the required accounting treatments to operating leases and finance leases in the financial statements of the lessee and lessor	3
	▪ Describe the disclosure requirements for both lessees and lessors	2
Understanding of the accounting treatment for intangible assets	▪ Describe intangible assets	2
	▪ Outline on the problems relating to accounting for intangible assets	2
	▪ Describe the necessary disclosures for intangible assets	2
	▪ Define research and development	2
	▪ Describe the necessary disclosures for research and development expenditure	2

Understanding of the accounting treatment of revenue and costs associated with construction contracts	<ul style="list-style-type: none"> ▪ Define construction contracts and describe the criteria of combining and segmenting construction contracts 	2
	<ul style="list-style-type: none"> ▪ Discuss the appropriate accounting practice with respect to the recognition of measurement of revenue and costs of construction contracts 	2
	<ul style="list-style-type: none"> ▪ Explain how the profit or loss on a construction contract is recognized 	2
	<ul style="list-style-type: none"> ▪ Discuss the appropriate accounting practice of valuation of construction contracts and compute the value to be included in the periodic financial statements 	2
	<ul style="list-style-type: none"> ▪ Describe the requirements of the presentation and disclosure of information regarding construction contracts in financial statements 	2
Understanding of the accounting treatments and disclosures of provisions, contingent assets and liabilities	<ul style="list-style-type: none"> ▪ Define and identify provisions, contingent liabilities and contingent assets 	2
	<ul style="list-style-type: none"> ▪ Explain the recognition and measurement of a provision and changes in provisions 	3
	<ul style="list-style-type: none"> ▪ Describe the disclosure requirements of provisions, contingent assets and contingent liabilities 	2
Understanding of income measurement and revenue recognition	<ul style="list-style-type: none"> ▪ Demonstrate awareness of the issues in revenue recognition 	2
	<ul style="list-style-type: none"> ▪ Identify revenue transactions and determine the measurement of revenue 	2
	<ul style="list-style-type: none"> ▪ Discuss the revenue recognition and measurement criteria for: <ul style="list-style-type: none"> ○ sale of goods ○ rendering of services ○ interest, royalties and dividends 	2
	<ul style="list-style-type: none"> ▪ Describe the disclosure requirements of revenue transactions 	2
Understanding of the accounting treatment and disclosures for government grants	<ul style="list-style-type: none"> ▪ Definition of government grant and government assistance 	2
	<ul style="list-style-type: none"> ▪ Understand the recognition, presentation and disclosures requirements of government grant 	2
Understanding of the accounting treatment and disclosures for borrowing costs	<ul style="list-style-type: none"> ▪ Define borrowing costs and describe the criteria for capitalization of borrowing costs 	2
	<ul style="list-style-type: none"> ▪ Describe the disclosure requirements of borrowing costs 	2
Preparing financial statements for limited liability companies	<ul style="list-style-type: none"> ▪ Prepare financial statements in accordance with the requirements of the Hong Kong Companies Ordinance, accounting standards, and general accepted accounting principles incorporating the: <ul style="list-style-type: none"> ○ income statement (profit and loss account) ○ balance sheet ○ statement of changes in equity ○ cash flow statement 	3

	<ul style="list-style-type: none"> ○ notes to the financial statements 	
	<ul style="list-style-type: none"> ▪ Prepare a cash flow statement for a single company using the direct and indirect methods with supporting notes in the format as specified in the accounting standard 	3
Understanding of the regulatory framework of consolidated financial statements	<ul style="list-style-type: none"> ▪ Describe the requirements of the Hong Kong Companies Ordinance and relevant Hong Kong reporting standards in relation to the preparation and disclosures of consolidated financial statements 	1
	<ul style="list-style-type: none"> ▪ Define a parent, a subsidiary, a group, minority interests and consolidated financial statement 	1
Identifying the nature of an investment in an associate	<ul style="list-style-type: none"> ▪ Define an associate 	1
	<ul style="list-style-type: none"> ▪ Explain the meaning of significant influence 	1
Identify the nature of an interest in a joint venture	<ul style="list-style-type: none"> ▪ Define joint venture and differentiate between investments in a joint venture and other types of investments 	1
	<ul style="list-style-type: none"> ▪ Identify the major types of joint venture: <ul style="list-style-type: none"> ○ jointly controlled operations ○ jointly controlled assets ○ jointly controlled entities 	1
Analyzing and evaluating the cash flow of an entity	<ul style="list-style-type: none"> ▪ Evaluate the sources and application of the cash flows of an entity using cash flow statement 	3
	<ul style="list-style-type: none"> ▪ Evaluate the cash position of an entity using a cash flow statement 	3
Calculating and interpreting significant ratios for financial statement analysis	<ul style="list-style-type: none"> ▪ Explain the objectives of ratio analysis 	2
	<ul style="list-style-type: none"> ▪ Discuss the uses of financial ratios 	2
	<ul style="list-style-type: none"> ▪ Calculate and interpret the following categories of accounting ratios: <ul style="list-style-type: none"> ○ liquidity ratios ○ profitability ratios ○ management efficiency ratios ○ capital structure ratios ○ investment ratios 	3
	<ul style="list-style-type: none"> ▪ Discuss the limitations of ratio analysis 	2
	<ul style="list-style-type: none"> ▪ Apply financial ratios to appraise and communicate the position and prospects of a business 	3
	<ul style="list-style-type: none"> ▪ Apply ratios in cross-sectional comparison and trend analysis 	3