

# Unveiling the Acca F7 Formula Key Terms: A Comprehensive Guide

The Association of Chartered Certified Accountants (ACCA) is a prestigious global body that offers professional accounting qualifications. ACCA F7, Financial Reporting, is a crucial module in the ACCA program that focuses on the preparation of financial statements in accordance with International Financial Reporting Standards (IFRS). Understanding the key terms used in Acca F7 is paramount for students aspiring to succeed in this examination. This comprehensive guide will delve into the most important Acca F7 formula key terms, providing clear definitions, explanations, and examples to enhance your understanding.

## 1. Accounting Equation

**Formula: Assets = Liabilities + Equity**



### ACCA F7 1st Exam Solution (Full Book Formula's & Key Terms): ACCA F7 (Full Book Formula's & Key Terms)

★★★★☆ 4 out of 5

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The accounting equation is the foundation of accounting, representing the relationship between assets, liabilities, and equity at a specific point in time. Assets are resources controlled by a company, liabilities are its obligations, and equity represents the residual interest of owners. This equation is used to ensure that the balance sheet always balances.

## **2. Current Assets**

**Definition:** Assets that are expected to be converted into cash or used up within one accounting period.

**Examples:** Cash, accounts receivable, inventory

## **3. Non-Current Assets**

**Definition:** Assets that are not expected to be converted into cash or used up within one accounting period.

**Examples:** Property, plant, and equipment; investments

## **4. Current Liabilities**

**Definition:** Obligations that are due within one accounting period.

**Examples:** Accounts payable, short-term loans

## **5. Non-Current Liabilities**

**Definition:** Obligations that are not due within one accounting period.

**Examples:** Long-term loans, bonds

## **6. Equity**

**Definition:** The residual interest in the assets of a company after deducting its liabilities.

**Components:** Share capital, retained earnings

## 7. Revenue

**Definition:** The increase in economic resources resulting from the sale of goods or services.

**Recognition principle:** Revenue is recognized when it is earned, not when cash is received.

## 8. Expenses

**Definition:** The decrease in economic resources resulting from the consumption of goods or services.

**Matching principle:** Expenses are matched with the revenue they generate in the same accounting period.

## 9. Net Income

**Formula:** Revenue - Expenses

Net income represents the profit or loss of a company over an accounting period.

## 10. Gross Profit

**Formula:** Revenue - Cost of Goods Sold

Gross profit measures the profit earned from the sale of goods or services, before deducting other expenses.

## **11. Operating Profit**

**Formula: Gross Profit - Operating Expenses**

Operating profit measures the profit earned from the core operations of a company.

## **12. Profit Before Tax**

**Formula: Operating Profit + Other Income - Other Expenses**

Profit before tax is the profit earned before deducting taxes.

## **13. Net Profit Margin**

**Formula: (Net Income / Revenue) x 100%**

Net profit margin measures the percentage of revenue that is converted into net income.

## **14. Return on Equity (ROE)**

**Formula: (Net Income / Average Shareholder Equity) x 100%**

Return on equity measures the return generated for shareholders' investments.

## **15. Earnings Per Share (EPS)**

**Formula: Net Income / Number of Shares Outstanding**

Earnings per share measures the portion of net income attributed to each outstanding share of stock.

## **16. Statement of Cash Flows**

**Definition:** A financial statement that reports the sources and uses of cash over an accounting period.

## **17. Operating Activities**

**Definition:** Activities that are related to the core operations of a company.

**Examples:** Sales, purchases, expenses

## **18. Investing Activities**

**Definition:** Activities that involve the acquisition and disposal of long-term assets.

**Examples:** Purchase of property, sale of investments

## **19. Financing Activities**

**Definition:** Activities that involve raising and repaying capital.

**Examples:** Issuance of shares, repayment of loans

## **20. Depreciation**

**Definition:** The systematic allocation of the cost of a non-current asset to expense over its useful life.

**Methods:** Straight-line, reducing balance

## **21. Amortization**

**Definition:** The systematic allocation of the cost of an intangible asset to expense over its useful life.

## **22. Revaluation**

**Definition:** The process of adjusting the carrying value of an asset to its fair value.

## **23. Consolidation**

**Definition:** The process of combining the financial statements of two or more companies under common control.

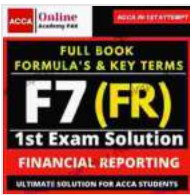
## **24. Equity Method**

**Definition:** A method of accounting for investment in an associate company where the investor has significant influence but not control.

## **25. Minority Interest**

**Definition:** The portion of a subsidiary's net assets attributable to minority shareholders.

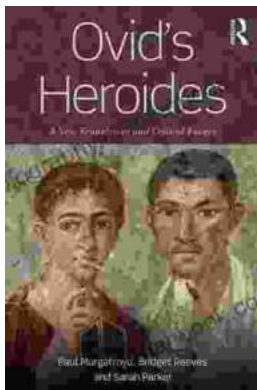
Understanding the key terms used in Acca F7 is essential for success in this module. This guide has provided a comprehensive list of the most important formula key terms, along with clear definitions, explanations, and examples. By familiarizing yourself with these terms, you will gain a solid foundation for tackling the challenges of Acca F7 and ultimately achieving your professional goals in accounting.



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