

Think Ahead



F7

Financial  
Reporting

F7 Examiner

February 2015

## New format for F7 from December 2014

- Section A: 20 x two-mark MCQs, computer marked
- Section B: two 15-mark Qs, one 30-mark Q, expert marked
- Retains 'core' part of previous format

The 30 mark questions will predominantly be on the preparation of financial statements for a group or a single entity. The remaining questions will cover the rest of the syllabus.

Expert marked means that these questions are human marked.

## New format for F7

- MCQs in Section A and long form questions in Section B allow the examiner to test the full breadth of the syllabus
- The MCQs will contain a mix of both narrative and computational questions
- Only specific guidance is that the 30-mark question will be consolidation or preparation of single entity financial statements from trial balance

Narrative elements are likely to appear in interpretation questions and possibly for a few marks in the long (30-mark) question.

Elements of cash flows could be brought into a long single entity financial statements preparation.

## Candidate performance Dec 2014

- Pass rates in line with recent diets and long term average
- Most candidates answered all questions
- Good correlation between section A and B

Nearly all candidates answered all three section B questions.  
Also answered all MCQs (even if some were guesses).

## Problem areas – section A

- Candidates need to read MCQs very carefully, particularly the requirement
- Some evidence of poor time allocation
- Specific Questions:
  - Q3 - NCA historical cost versus current cost
  - Q19 – finance and operating lease

Candidates should take time to read the MCQs carefully. For example: if the requirement asks for the deferred tax liability (in the statement of financial position), a distracter could show the charge for deferred tax in the statement of profit or loss.

Q3 – this is an example of a topic that, although not tested frequently in the previous exam format, can easily be tested in a 2 mark MCQ. It demonstrates the examiner's willingness to examine the full breadth of the F7 syllabus.

Q19 – this is an example of a question that many candidates failed to read carefully and did not appreciate that the operating lease commenced only part-way through the year.

## Problem areas – section B

- Usual other exam technique issues: repetition, poor workings, not really 'interpreting' (ratios), illegible handwriting
- Q1: calculate ratios (adjusted for favourable trading) and interpret them
  - Elementary mistakes in the adjustments
  - Calculating additional ratios not asked for
  - Poor interpretation including not using adjusted ratios

Some candidates seemed to be short on time in Section B, probably due to spending too long on the MCQs.

Several candidates wasted time writing out the question (section B) before answering it.

Workings not referenced and sometimes just numbers with no related description/labelling. It is important to set out workings clearly to ensure that markers can give full credit for correct method, even where some errors have been made. It is a principle of ACCA's marking that each mistake is penalised only once, but to do this, the markers must be able to follow through the workings.

Q1 - The favourable trading element of this question was not testing the requirements of IAS 24 *Related parties*, however candidates were expected to appreciate the effect that this pricing strategy can have on the financial statements and the ratios. The requirements of IAS 24 are not included in the F7 syllabus.

Mistakes: adding the new directors remuneration to the old (rather than replacing the new with the old)

calculating ROCE rather than ROE

## Problem areas – section B

- Q2: single entity financial statements: (a) adjustments to retained earnings and (b) statement of financial position

Often no schedule of the adjustments  
(just workings)

statement of financial position was  
answered well

Lost easy marks: depreciation charges not put in to part (a) of question although the figures in the statement of financial position were correct. It is important in this style of question to follow through the double entry. Many candidates did not split deferred tax into the amount charged to the revaluation surplus and the amount charged to profit or loss.

## Review of Section B

- Q3: (a) consolidation of statement of comprehensive income and financial position, (b) recognition of intangibles
- (a) generally done well. Most common mistake was on determination of pre-acq profit
- (b) most thought in-process research should not be recognised; but 'list of customers' should also be recognised

There is a comprehensive list of the common errors made in this question in my examiner's report.



## Suggested improvements

Answering MCQs requires different techniques and preparation skills than conventional questions

- Avoid thinking they are 'easy'
- More critical to learn whole syllabus
- Marks are '2 or nil'; i.e. nothing for (partly correct) workings, explanations or assumptions
- There is only one correct answer – read each of the choices carefully
- Guess if you can't work it out
- MCQs should be answered on the MCQ answer sheet provided (not in the exam booklet)

Any comments on MCQs in the main answer book (e.g. stating an assumption a candidate has made) are not read or acted upon.

There is an FAQ-style article on the website to show candidates exactly how to use the MCQ answer sheet.

## New topics from September 2015

### IFRS 15 Revenue

- Replaces IAS 18 Revenue and IAS 11 Construction Contracts
- New terminology, but no real change to underlying treatment (construction contracts)
- F7 will not examine variable consideration
- Learning outcome B10 has been re-written in accordance with IFRS 15
- Look out for forthcoming IFRS 15 technical articles produced by the examining team

The syllabus update for September 2015 reflects changes in the examinable documents.

The examining teams have agreed that F7 will not examine the treatment of variable consideration. This will only be tested in P2 Corporate Reporting.

In F7, IFRS 15 may not change many of the treatments, but candidates will need to understand some of the main new terminology introduced.

Note some changes in the terminology:

Work certified: a measurement of progress towards satisfaction of the performance obligation (part of an output measure)

Progress payment: right to payment for performance completed to date

## New topics from September 2015

### New version of IFRS 9

- Business model and contractual cash flows approach to classification
- New classification for (some) debt
  - Fair value through other comprehensive income
- With the exception of an impairment on trade receivables, the calculation of impairment losses will not be examined. However, the accounting treatment of an impairment loss is examinable.

The final version of IFRS 9 has been issued and will be examinable from September 2015.

There is no intention to change the level of knowledge expected in F7 in respect of financial instruments.

The main implications of the new standard for the F7 exam are noted here.



Thank you  
Questions?