

Think Ahead

ACCA

F7
Financial
Reporting

Exam format

- Section A – 15 x two-mark objective test questions (OT)
- Section B – three OT Cases, each consisting of 5 x two-mark OTs, based around a common scenario
- Section C – two 20-mark constructed response (CR) questions, one on the preparation of financial statements, the other on interpretation

Exam format

- Sections A and B marked automatically
- Section C manually marked by experienced team of markers

The marking of section C in both the CBE and paper versions of the exam use marking processes that has been in place for many years. The F7 team has a wealth of experience, many of whom are long-term members.

Sections A and B

Section A continues to examine the whole breadth of the syllabus

- Questions can be narrative or computational, knowledge-based or application
- Ensures candidates cover the entire syllabus

Section B will have questions based around one or two areas

- All 5 questions in each case will be standalone questions
- Mix of narrative and computational, knowledge-based or application

I would like to emphasise the need for both knowledge and application in the OT questions in sections A and B. Also, with the new exam format, candidates are no longer able to question spot and need to appreciate that questions in section A and B can come from any part of the syllabus. Candidates require both depth and breadth of knowledge and the ability to apply that knowledge in a range of different contexts.

Section C – preparation of financial statements

Single entity financial statements

- Question could ask for an adjustment to profit or extracts rather than full statements
- Cash flow element could be included

Consolidated financial statements

- Question asking for full detailed SPL and SFP together unlikely (though might be summarised)
- Could include discussion element

In contrast to past exams, it is now unlikely that candidates will be asked to produce a full set of financial statements for a single entity i.e. a statement of profit or loss and a statement of changes in equity and a statement of financial position. However, candidates may now be expected to prepare a selection of these financial statements; for example, to adjust a draft profit figure and prepare a statement of financial position or prepare a statement of profit or loss and a statement of changes in equity. The same is true of questions that test the preparation of consolidated financial statements, although it is possible that a detailed statement of profit or loss might be required alongside a summarised statement of financial position (or vice versa).

Section C – interpretation

Single entity financial statements

- Question could ask for redrafting figures before calculating ratios
- Generic statements unlikely to be awarded many marks

Consolidated financial statements

- Analysis more focused on group-related issues
- May involve production of some consolidated figures

Candidates should be aware that very few marks will be awarded for comments made about the increase/decrease of a ratio and whether that is good/bad. Rather, marks are allocated where candidates are able to explain why these increases/decreases have occurred and the implications that these changes might have for the company.

The analysis of consolidated financial statements is still fairly new in this syllabus so students need to be aware of the importance of discussing group issues here. For example, where there has been an acquisition/disposal of a subsidiary, how this impacts on the comparability of these financial statements. Candidates should also expect to calculate some group numbers; for instance goodwill, gain/loss on the disposal of a subsidiary, non-controlling interests; retained earnings etc.

Recent performance

Embracing change. Shaping futures. Together.

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Recent performance

- Correlation between results on all three sections
- Higher levels of question completion than historically

It has been very pleasing to see that the results have been broadly in line across the three sections of the exam in recent sessions. Also, it is encouraging to see that, in recent diets, very few of the section A and B questions have been left blank.

Problem areas

- Sections A and B often contain 'distracters', so students must take their time
- Candidates struggle when asked for adjustments to draft profit
- Time apportionment of consolidated SFP with mid-year acquisition

Here are some other common problem candidates have in the exam.

Encourage your students to take time and not rush through the OT questions in sections A and B. These questions may contain very plausible distracters, so they must always read the questions very carefully.

In accounts preparation questions, requirements that ask for adjustments, rather than a full set of financial statements, seem to cause more difficulty. Make sure that your students practice a wide range of styles of questions.

In the preparation of consolidated financial statements, we see some fundamental errors, such as time apportioning in the statement of financial position when there is a mid-year acquisition.

Problem areas - interpretation

- 'Textbook' answers worth very little
- Candidates failing to use the information provided
- Lack of workings in ratio calculations

Too many candidates produce the kind of statements that will score very few marks, simply stating which items have increased or decreased without any attempt to explain this in the context of the information provided in the question. The application of knowledge to the scenario is key.

Where ratios are calculated, credit can be given if candidates have worked out a different one to that given in the suggested solution, providing the marker can see workings and that the ratio is valid.

Problem areas – consolidated interpretations

- Answers can often ignore consolidated aspect
- Discussion must focus on group aspects:
 - Mid-year acquisitions/disposals
 - Fair value adjustments
 - Intra-group items
 - Fair value adjustments
 - Unrealised profits

Too many students answer this without considering the group element.

Candidates knowledge of group accounting will be tested in these questions – all of the same aspects that they will have learned in the context of preparation of consolidated financial statements can appear here and markers want to see answers that demonstrate an understanding of how these affect the group in the question.

CBE focus

- Workings must still be shown – either separate calculation, or in the cell
- Visiting the specimen and CR workspace is crucial
- Recommend students familiarise themselves with CBE functionality in the CR workspace

Looking ahead – September 17

- IAS 17 Leases replaced with IFRS 16 Leases
- Removal of operating/finance distinction
- Calculations on lease liabilities largely similar in F7
- Exemption for low-value or short-term leases examinable

From September 2017, the new standard on leases will be examinable. All of the Approved Content Providers texts have been reviewed for these changes, and it's essential that tutors understand the new standard before classes begin for September 17.

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Questions