



Examiner's report

F3 Financial Accounting

For CBE and Paper exams covering January to June 2014

General Comments

There were two sections to the examination paper and all of the questions were compulsory. Section A consisted of 35 multiple choice questions (two marks each) which covered a broad range of syllabus topics. Section B had two longer questions (15 marks each) testing the candidates' understanding and application of financial accounting skills in more depth. This is the first examiner's report since the introduction of the new exam format and question types.

The following paragraphs report on each section and focus on some of the key learning points.

Section A

It was pleasing to see that the majority of candidates attempted all of the questions. Candidates preparing for the next examination of FFA/F3 are advised to work through the sample questions discussed here and to carefully review how each of the correct answers were derived. The following two questions are reviewed with the aim of giving future candidates an indication of the types of questions asked, guidance on dealing with exam questions and to provide a technical debrief on the topics covered by the specific questions selected.

Sample Questions for Discussion

Example 1

A company has prepared its bank reconciliation at 31 March 2014 taking the following information into account:

Outstanding lodgements	\$	5,000
Unpresented cheques		2,800
Bank charges shown in the bank statement but not recorded in the cash book		125

The adjusted cash book balance per the bank reconciliation was a debit balance of \$1,060

What was the balance as shown on the bank statement at 31 March 2014?

- A \$1,140 debit
- B \$1,140 credit
- C \$1,265 debit
- D \$1,265 credit

To correctly answer this question, candidates need to start with the adjusted cash book balance and reconcile it to the bank statement. Unfortunately, there are no shortcuts to this type of question and so candidates are advised to attempt a full answer before looking at the multiple choice options available.

The cash book balance of \$1,060 debit per the bank reconciliation process already takes into account the bank charges of \$125. The outstanding lodgements are amounts that have been sent to the bank but have not been recorded on the bank statements yet. The unpresented cheques are those cheques paid to suppliers but have not been banked yet.

Correct answer is **A** calculated as follows:



	\$
Adjusted cash book balance per bank reconciliation	1,060
Outstanding lodgements	(5,000)
Unpresented cheques	<u>2,800</u>
Balance overdrawn at the bank	(1,140)

In the books of the bank and on the bank statement, an overdraft will appear as a *debit* balance.

Example 2

Candidates also need to formulate an organised approach to questions by carefully considering all of the information they have been given and where it fits in their approach to the solution. This example, provided candidates with a scenario that relates to receivables and required them to calculate the receivables expense: On 31 March 2014, the balance on the receivables control account of P Company is \$425,700. The bookkeeper has identified that the following adjustments for receivables are required:

Irrecoverable debt recovered \$2,000
Specific allowance \$2,400

It was decided that a further allowance for receivables of 2% should be made based on past events. The allowance for receivables on 1 April 2013 was \$1,900.

What was the receivables expense for the year ended 31 March 2014?

- A \$6,966
- B \$8,866
- C \$8,966
- D \$10,866

The following step by step approach might help candidates to organise themselves and improve their exam technique (step by step approaches can be used to answer questions on many different topics in the syllabus):

Step 1: Adjust the receivables control account for the specific allowance

	\$
Balance on the receivables control account:	425,700
Less the specific allowance already made	<u>(2,400)</u>
Adjusted receivables control account balance	<u>423,300</u>

Step 2: Use the adjusted receivables control account balance to calculate the further allowance for receivables, using the given rate of 2%.

$$\$423,300 \times 2\% = \$8,466$$

Step 3: Calculate the total allowance for receivables: $\$2,400 + \$8,466 = \$10,866$



Step 4: The question states that the allowance for receivables at the 1 April 2013 was \$1,900. The receivables expense for the year ended 31 March 2014 is therefore: \$10,866 less \$ 1,900 (the prior year end allowance) less the \$2,000 irrecoverable debt that was recovered.

The correct answer is \$6,966 i.e. **A**

Section B

Section B type questions will test the preparation of basic financial statements (including Statements of cash flows) for single entities (single companies or sole traders) and or simple consolidated financial statements. The standard of answers in section B was generally good and the majority of candidates attempted both questions. The following comments explain how candidates might be able to improve their performance and are categorised into those comments that relate to paper exams, CBE exams and both.

Comments relating to both CBE and paper exams:

Single entity questions.

Candidates should ensure that they have a good understanding of double entry book-keeping and how an adjustment made in the statement of profit or loss might impact elsewhere (for example in the statement of financial position).

Basic consolidation questions

A thorough understanding of consolidation techniques is also required, including the calculation of key figures such as goodwill, non-controlling interests and retained earnings. Common errors included:

- In valuing the goodwill, deducting the fair value of the non-controlling interest from the consideration instead of adding it on.
- Not adjusting for intra-group balances. Amounts owed between the parent and subsidiary should be eliminated from receivables and payables in the consolidated statement of financial position.
- Not adjusting for intra-group transactions. Intra-group sales should be eliminated from revenue and cost of sales in the consolidated statement of profit or loss.
- Incorrectly adding together the equity share capital of the parent and subsidiary. The share capital in the consolidated statement of financial position should be only that of the parent.
- Incorrect treatment of bank balances presented in a trial balance. Where the balance included in the trial balance is a credit, this represents a bank overdraft and this should be included in current liabilities.
- Errors in calculating reducing balance method depreciation, forgetting to adjust for the accumulated depreciation.

Comments relating to CBE exams:

Candidates should read the question carefully and follow the instructions contained therein. For example, some questions will tell you to use \$'000 or \$m. Others will give you instructions to ignore brackets or signs when entering negative numbers. Note also that where a pro-forma answer shows headings such as "Less: cost of sales", that no minus sign or brackets should be put round the figure as the heading already indicates that the figure is negative. In questions requiring the preparation of statements of cash flows, all figures should be entered as positive and there are drop down lists for candidates to indicate whether the figure is positive or negative.

Comments relating to paper exams:

Candidates' answers often lacked clear logical workings. Therefore, candidates are reminded that, if they show their workings and get the answer wrong they can still gain some marks. However, when the answer is wrong and there are no workings then no credit can be given for the method applied. Candidates should also ensure that they are familiar with the layout of the key financial statements. Please ensure that your writing is legible.

Conclusion

Overall, performance was encouraging but many candidates might still be able to improve their marks by focusing on their exam technique.