



Examiner's report

FA2 Maintaining Financial Records

For CBE and Paper exams covering January to June 2017

General Comments

The intention of this report is that, when considered in conjunction with previous reports, candidates at future sittings will have a resource which maximises their chance of success. The most effective way to use these reports is to consider both the technical content of each question, and the approach to answering the question – noting that different question types will require slightly different approaches.

In considering the technical content, candidates should make sure that they have a clear understanding of that content. While not every candidate will use exactly the same approach, it is important to ensure that a logical and sequential approach is applied, based on relevant technical knowledge.

Sample Questions

Example 1

Irma has the following information about her inventory at 31 October:

Item	Cost	Expected selling price	Expected selling costs
	\$	\$	\$
1	4,260	6,100	1,100
2	3,590	4,100	800
3	2,800	3,700	300

In accordance with IAS 2 *Inventories*, what is the value of Irma's inventory at 31 October?

- A \$10,650
- B \$10,360
- C \$11,700
- D \$8,450

This question tested candidates' ability to apply the key requirement of IAS 2 – that 'inventories should be measured at the lower of cost and net realisable value'. IAS2 goes on to provide definitions of both cost ('all costs incurred in bringing the inventories to their present location and condition') and net realisable value ('estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale').

The definitions in the standard could be simplified as follows:

Cost = all costs that have been incurred up to the date of the statement of financial position

NRV = selling price less cost that will be incurred after the date of the statement of financial position

Using the data in the question:

Item	Cost	Expected selling price	Expected selling costs	NRV
	\$	\$	\$	\$
1	4,260	6,100	1,100	5,000
2	3,590	4,100	800	3,300
3	2,800	3,700	300	3,400

Items 1 and 3 should be valued at their costs of \$4,260 and \$2,800 respectively, item 2 should be valued at its NRV of \$3,300. Therefore the correct answer is that Irma's inventory should be valued at \$10,360, so the answer is option B.

Candidates who selected A had valued everything at cost, answer C values everything at NRV and answer D deducts the selling costs from the original cost.

Example 2

Which of the following statements about depreciation is correct?

- A** The depreciation charge generates funds to replace non-current assets
- B** The value of each non-current asset should be written down to nil over its useful life
- C** Depreciation charges should ensure that non-current assets are reported at their anticipated sales value
- D** Only non-current assets which have a finite useful life should be depreciated

This question is testing the candidate's knowledge of depreciation and the purpose of the depreciation charge. IAS 16 requires depreciation to be charged to reflect the cost of the asset to the entity in the profit and loss account over its useful life.

The correct answer is D, only non-current assets with a finite useful life should be depreciated.

A is incorrect as the depreciation charge does not create any cash resources, it is a non-cash expense. Answer B is incorrect as the assets are not written down to nil over their useful lives, they should be written down to their residual values. Answer C is incorrect as the carrying value of the assets does not reflect their anticipated sales value in the statement of financial position.

Candidates who selected any of the incorrect choices appear to have misinterpreted some of the accounting standard and/or not thought carefully about what depreciation should represent in the financial statements.

Example 3

In accordance with the IASB's *Conceptual Framework for Financial Reporting*, which of the following is necessary for accounting information to be relevant?

- (1) It is free from bias
- (2) It is capable of influencing the economic decisions of users

- A** Both 1 and 2
- B** Neither 1 nor 2
- C** 1 only
- D** 2 only

This question required candidates to have a comprehensive knowledge of the IASB's Conceptual Framework for Financial Reporting. Both of the statements appear in the conceptual framework, however the candidates needed to recognise which related to the requirement for the information to be "relevant".

Statement 1 is incorrect, as the characteristic of being "free from bias" is not associated with information being relevant. It is associated with information being reliable.

Statement 2 is correct as information is deemed to be relevant if it is capable of influencing the economic decisions of users.

Candidates who selected the answers A, B or C, either did not read the question correctly or did not possess enough knowledge about the conceptual framework.

The correct answer is D.

Summary

Based on the performance of candidates in these questions, it can be observed that there were two major reasons for incorrect choices being made.

The first is that there was a lack of awareness/understanding of fundamental issues in the syllabus (e.g. valuation of inventory and the accounting equation). The second is that the questions were not read carefully enough, which led to confused thinking.

These are the two reasons which have been highlighted in reports for every previous sitting. Candidates preparing for future sittings are strongly encouraged to ensure that they have developed a clear understanding of the key points of each area of the syllabus and that they read carefully and think logically when attempting questions.