

Examiner's report

F3 Financial Accounting

June 2010



General Comments

The Candidates' performance in the F3 examination for this diet has improved with an increase in the overall pass rate, which is a pleasing result.

The following questions have been taken from the International variant of the paper and were the three questions with the lowest pass rates. The aim of reviewing these questions is to give future candidates an indication of the types of questions asked and guidance on dealing with exam questions.

Sample Questions for Discussion

1. Amy and Andrew are in partnership sharing profits in the ratio 3:2. Their capital account balances are \$60,000 and \$75,000 respectively.

On 1 January 2010, they changed the profit sharing ratio to share profits equally.

Goodwill in the partnership was agreed to be \$25,000. It is not the partnership's policy to retain goodwill in the financial statements.

What is the balance on Amy's capital account after dealing with the goodwill arising from the change in profit share?

- A \$75,000
- B \$60,000
- C \$62,500
- D \$72,500

(2 marks)

The answer to this question is C. Of candidates that attempted this question, only 36% answered correctly. This question tests one of the more complicated aspects of partnerships, although the question itself is straightforward.

When partners' change the profit sharing ratio, the goodwill is recognised and allocated to each partner according to the existing profit share ratio and then is removed in the new profit sharing ratio. All this question is asking candidates to do is the allocation and then subsequent removal of goodwill. The answer only requires the goodwill for Amy, which is calculated as follows:

	\$
Amy: opening capital balance	60,000
Add goodwill in old PSR: $(25,000 \times 3/5)$	15,000
Remove goodwill in new PSR: $25,000 \times 1/2$	(12,500)
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Closing capital balance	62,500
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Surprisingly, the most commonly selected incorrect answer was D - the calculation for Andrew's account which was not required. This suggests that candidates did not read the question carefully enough rather than not having the necessary knowledge.

2. The following extract is from the income statement of Gearing Co for the year ended 30 April 2010:

	\$
Profit before tax	68,000
Tax	(32,000)



Profit for the year	36,000
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In addition to the profit above:

1 Gearing Co paid a dividend of \$21,000 during the year.

2 A gain on revaluation of land resulted in a surplus of \$18,000 in the revaluation reserve.

What total amount will be added to retained earnings at the end of the financial year?

- A \$36,000
- B \$33,000
- C \$47,000
- D \$15,000

(2 marks)

This question simply required candidates to determine from the figures given the amounts that are added or deducted to retained earnings for the period. It was alarming that this question was the worst answered on the whole paper with only 25% of candidates selecting the correct response. The answer is D which is calculated as follows:

	\$
Net profit for the year	36,000
Dividend	(21,000)

Added to retained earnings	15,000

Candidates needed to recognise that it is the profit for the period less any dividend paid that is added to the retained earnings balance. The most commonly selected incorrect answer was B, which added the surplus on revaluation of land to retained earnings. Candidates should know that the journal entry for the revaluation is to debit land and credit the revaluation reserve and this does not affect retained earnings at all.

3. Which of the following items is recorded in a partner's capital account?

- A Interest on the partner's capital balance
- B Loans from the partner to the partnership
- C Surplus on revaluation of assets of the partnership

(1 mark)

This partnership question required candidates to think about what items are posted to capital accounts. Candidates can answer this style of question by reading through each of the options and eliminating them as necessary. Item C is the correct response.

Item A is incorrect as interest on a capital balance is credited to the partners' current account. Item B is incorrect as when partners loan money to the partnership a separate loan account is set up and the amount is not included in the partners' capital. Only 33% of candidates answered this question correctly, most candidates thought that A was the correct answer.

Conclusion

It has been surprising that questions 2 and 3 were not answered very well by candidates as they are relatively straightforward. It may be that candidates focus on what they deem to be key areas which mean that there will



be some questions that they are unable to answer as they haven't covered the required work. Once again, candidates must focus on the breadth of the syllabus as a multiple-choice exam will examine the whole range of the syllabus and candidates must be prepared for this in order to achieve exam success.