

# Examiner's report

## F3 Financial Accounting December 2010



### General Comments

The following three questions have been taken from the International variant of the paper and were the three questions with the lowest pass rates on the paper. 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

#### Example 1

1. The following extract is from the financial statements of Pompeii, a limited liability company at 31 October:

	2010 \$000	2009 \$000
Equity and liabilities		
Share capital	120	80
Share premium	60	40
Retained earnings	85	68
	<hr/>	<hr/>
	265	188
Non current liabilities		
Bank loan	100	150
	<hr/>	<hr/>
	365	338
	<hr/>	<hr/>

**What is the cash flow from financing activities to be disclosed in the statement of cash flows for the year ended 31 October 2010?**

- A** \$60,000 inflow
- B** \$10,000 inflow
- C** \$110,000 inflow
- D** \$27,000 inflow

**(2 marks)**

The correct answer is B. Only 32% of candidates answered this correctly. In terms of difficulty this question was not particularly complicated, but statements of cash flows have been consistently answered badly in each sitting of the paper. In this question, the answer can be derived as follows:

Cash flows from financing:	\$000
Issue of share capital (120+60)-(80+40)	60
Repayment of bank loan (100-150)	<u>(50)</u>
Net cash inflow from financing	<u>10</u>

The most common answer selected was D which included retained earnings in the calculation which is incorrect. Candidates need to spend more time learning the format and technique for answering questions on this topic.



### Example 2

Smith and Jones commenced in partnership on 1 December 2009 sharing profits equally. Smith paid cash of \$40,000 into the partnership. Jones paid in cash of \$25,000 and brought in a motor vehicle, computer and furniture worth \$15,000. The partners maintain both capital and current accounts.

The partnership pays interest on capital at 4% per annum.

**What should the balance be on the capital accounts of Smith and Jones at 30 November 2010?**

	Smith	Jones
A	\$41,600	\$41,600
B	\$40,000	\$40,000
C	\$40,000	\$25,000
D	\$41,600	\$26,000

**(2 marks)**

The correct answer is B. Only 33% of candidates selected B, with the majority selecting option A. Partnership accounts is another area that seems to consistently show poor performance. It is a large part of the F3 syllabus so it is surprising that candidates perform so badly. This question required knowledge of what should be included in the capital accounts of a partnership. There were no complicated calculations to perform, so this shouldn't have caused any problems. The correct answer of B shows both partners contributing an equal amount of capital – the only difference being that Jones has paid cash and other assets into the partnership. Most candidates selected A which meant that they correctly identified the capital balance, but then added on the interest on capital, which should be included in the current account balance.

### Example 3

The statement of financial position of Cartwright, a limited liability company, shows closing retained earnings of \$320,568. The income statement showed profit of \$79,285. Cartwright paid last year's final dividend of \$12,200 during the current year and proposed a dividend of \$13,500 at the year end. This had not been approved by the shareholders at the end of the year.

**What is the opening retained earnings balance?**

A	\$241,283
B	\$387,653
C	\$254,783
D	\$253,483

**(2 marks)**

The correct answer is D and almost 36% of candidates selected this option. This question required knowledge of how dividends are treated in the financial statements and then working backwards to obtain the opening retained earnings balance. The solution is calculated as follows:

Opening retained earnings + profit – prior year final dividend = closing retained earnings

Opening retained earnings = \$79,285 – \$12,200 – \$320,568

Opening retained earnings = \$253,483



The most frequently selected incorrect answer was B. This distracter took closing retained earnings as the opening balance and then added profit less the final dividend ( $\$320,568 + \$79,285 - \$12,200$ ). This is a careless error from not reading the question carefully enough.

### **Conclusion**

It has been surprising that these questions were the worst answered on the paper at this sitting. They cover key exam topics and all are relatively straightforward. Partnerships and statements of cash flows are consistently amongst the worst answered questions in the paper, which seems to highlight that candidates are not preparing sufficiently in these areas. At the risk of repeating the conclusion of previous reports, candidates must focus on the breadth of the syllabus as this exam will examine the whole range of the study guide and candidates need to be prepared for this.