



Examiner's report

F3/FFA Financial Accounting

For CBE and Paper exams covering July to December 2016

General Comments

There are two sections to the examination paper and all of the questions are compulsory. Section A consists of 35 multiple choice questions (two marks each) which cover a broad range of syllabus topics. Section B has two longer questions (15 marks each) testing the candidates' understanding and application of financial accounting skills in more depth.

The following paragraphs report on each section of the examination and use some illustrative examples to demonstrate the type of questions candidates are expected to be able to answer.

Section A

This section tests a wide range of the syllabus and the majority of candidates usually attempt all of the questions. Candidates must have a thorough knowledge of the entire syllabus and are advised to practice as many multiple choice questions as possible prior to the exam. It is important to read the questions carefully and calculate any figures required before choosing a response. The following three questions have been chosen to help future candidates understand some of the questions that candidates found difficult. Carefully review how each of the correct answers are derived.

Example Questions

Example 1

On 1 October 2011, X Co purchased a property for \$400,000. The property had a useful life of 40 years and was depreciated on a straight-line basis. On 1 October 2015, the property was revalued to \$432,000. The remaining useful life at that date was 36 years. The company wishes to make the allowed transfer of excess depreciation between the revaluation surplus and retained earnings.

Which of the following correctly records the transfer at 30 September 2016?

	Debit	Credit
A	Retained earnings \$2,000	Revaluation surplus \$2,000
B	Revaluation surplus \$2,000	Retained earnings \$2,000
C	Retained earnings \$12,000	Revaluation surplus \$12,000
D	Revaluation surplus \$12,000	Retained earnings \$12,000

In this question the consequence of the revaluation to \$432,000 is a higher annual depreciation charge. The difference between the new depreciation charge based on the revalued carrying amount and the old depreciation charge based on \$400,000 original cost is known as the excess depreciation.

IAS16 allows entities to transfer an amount equal to the excess depreciation from the revaluation surplus to retained earnings in the equity section of the statement of financial position. As X Co wishes to make the transfer, the calculations are as follows:

Old depreciation = \$400,000/40 years = \$10,000
New depreciation = \$432,000/36 years = \$12,000

Excess depreciation = \$12,000 - \$10,000 = \$2,000

An amount of \$2,000 which represents the excess depreciation can be transferred each year from the revaluation surplus to retained earnings.

The correct accounting entries would be:

Debit Revaluation surplus \$2,000
 Credit Retained earnings \$2,000

The correct answer to this question is therefore **B**.

Example 2

Paula Co is reconciling its receivables control account and has discovered the following items:

- (1) An invoice for \$110 had been recorded in the receivables ledger as \$1,100
- (2) A cash sale of \$100 to a customer had been posted to the receivables ledger

Where should each of the corrections be recorded?

	Item 1	Item 2
A	Control account	Receivables ledger
B	Receivables ledger	Control account
C	Control account	Control account
D	Receivables ledger	Receivables ledger

This question tests whether candidates understand the nature of the errors and where the corrections need to be recorded.

Item 1 – there has been a transposition error recorded in the individual ledger, therefore the adjustment must be made in the receivables ledger.

Item 2 - This transaction is a cash sale, therefore it should not have been posted to individual receivables ledger and needs to be removed.

The correct answer to this question is therefore **D**.

Example 3

A company has a suspense account balance in its trial balance of \$560 credit.

It was discovered that discounts allowed of \$700 have been debited to, instead of credited to, the receivables control account.

What is the remaining balance on the suspense account after this error has been adjusted for?

- A \$140 debit
- B \$840 debit
- C \$1,260 credit
- D \$1,960 credit

The initial step in correcting the error of commission would be to make a credit entry of \$1,400 in the suspense account as follows:

Dr Suspense account \$1,400
 Cr Receivables control \$1,400



The receivables control account and the suspense account would appear as follows:

RECEIVABLES CONTROL ACCOUNT

	\$		\$
Discounts allowed incorrectly debited	700	Suspense A/c Error corrected	1,400
Balance c/d	<u>700</u>		
	<u>1,400</u>		<u>1,400</u>

SUSPENSE ACCOUNT

	\$		\$
Receivables Con A/c Error corrected	1,400	Balance b/f	560
	<u>1,400</u>	(Remaining) Balance c/d	840
			<u>1,400</u>

The remaining balance on the suspense account is \$840. Therefore, the answer to this question is **B**.

Section B

In this section candidates are required to prepare detailed answers which test their understanding and ability to draft financial statements. The standard of Section B answers in the current session was generally good and the majority of candidates attempted both questions.

Candidates must ensure that they use the correct format to present their answers and know how to apply various accounting techniques. Neat and logical workings should always be presented so that, even if the final answer is wrong, marks can be awarded for the correct method used.

If there is a multiple choice question in this section, ensure that you clearly state the answer.

The following comments explain how candidates might be able to improve their future performance when answering questions that test (1) the preparation of a consolidated statement of financial position and (2) the statement of profit or loss for a single entity:

(1) Preparing a consolidated statement of financial position

- Carefully read through the information provided.
- Always ensure that you show your workings and reference them to the figures in the consolidated financial statements.
- Give the consolidated financial statements their correct titles i.e. "Consolidated statement of financial position at *(date)*".

- Use the correct format for a consolidated statement of financial position, there is usually one mark available for presentation.
- The assets and liabilities of the parent and the subsidiary are added together on a line-by-line basis.
- Calculate the goodwill and clearly show the workings.
- The investment in the subsidiary (shown in the parent's SoFP) is replaced with the goodwill figure.
- The share capital and share premium balances are not added together; only the balances related to the parent are used in the consolidated statement of financial position.
- The group share of the subsidiary's profit is calculated and added to the groups retained earnings. Clearly show workings for the calculation of retained earnings.
- If there is intra-group trading, then adjust the receivables and payables that cancel each other out.
- Adjust for any unrealised profits on sales of inventory between the parent and the subsidiary.

(2) Preparing a statement of profit or loss for a single entity

- Carefully read through the information provided in the question and decide what should be included in the statement of profit and loss. Remember not everything given in a trial balance will be needed.
- Consider any notes provided and decide what adjustments or calculations are required e.g. prepayments or accruals.
- Use the correct format for the statement i.e. IAS 1. Summarise expenses under distribution costs and administrative expenses. There is usually one mark available for the format/presentation.
- Exam questions typically require a depreciation figure to be calculated using a stated method. Ensure you know how to apply the different depreciation methods.
- Always show your workings and reference them to the figures in the financial statements.
- Always use the correct titles for the financial statements i.e. "Statement of profit or loss for the year ended (date)".

Conclusions

Both F3 and FFA examinations require candidates to demonstrate a thorough understanding of financial accounting techniques and the capability of preparing financial statements.

In addition, candidates need to have a good examination technique to ensure that all the questions are completed in the time available.