



Examiner's report

F3 & FFA papers

For CBE and Paper exams covering July to December 2017

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 covers 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 it was pleasing that majority of candidates attempted all of the questions. Candidates preparing for FFA/F3 are advised to have a thorough knowledge of the entire syllabus and to practice as many objective test questions as possible. The following three 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

At 30 September 2017, the balance on the receivables control account is \$644,000. The accountant is preparing draft financial statements and must make the following adjustments:

- (1) Write off debts totalling \$24,000
- (2) Record a receipt of \$12,000 in respect of a balance which had previously been written off as irrecoverable
- (3) Make an allowance for receivables equivalent to 2% of trade receivables at 30 September 2017. At 1 October 2016, the allowance for receivables was \$9,600

What amount should be recognised in current assets in respect of receivables in the statement of financial position at 30 September 2017?

- A** \$619,360
- B** \$607,600
- C** \$598,192
- D** \$631,120

Using the information provided in (1) the balance on the receivables control account needs to be adjusted as follows:

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Balance	644,000
Less: Debt write-off	<u>(24,000)</u>
Revised balance	<u>620,000</u>

No adjustment is required to the receivable control account for item (2) a receipt of \$12,000.

(3) requires an allowance for receivables to be made based on 2% of trade receivables at 30 September 2017. This can be calculated as follows: $\$620,000 \times 2\% = \$12,400$

The amount to be recognised in the current assets in respect of receivables can now be calculated as follows: $\$620,000 - \$12,400 = \$607,600$

Therefore, the correct answer is **B**

Example 2

U Co is being sued by a customer and legal proceedings are ongoing at 30 September 2017.

In which of the following circumstances would U Co disclose a contingent liability in the notes to the financial statements for the year ended 30 September 2017?

- (1) Legal advice indicates that there is a 45% chance that the customer's claim will be successful and that damages will amount to \$250,000
- (2) Legal advice indicates that it is probable that the customer's claim will be successful and that damages will amount to \$200,000
- (3) Legal advice indicates that there is an 80% chance that the customer's claim will be successful but the amount of the claim cannot be assessed reliably at 30 September 2017

- A** 1 and 2 only
- B** 1 and 3 only
- C** 2 and 3 only
- D** 1, 2 and 3

Contingent liabilities are made for liabilities which are uncertain in timing or amount and are included in the notes to the financial statements.

Reviewing the circumstances described in the question above:

- 1 The claim is less than probable - therefore it is a contingent liability.
- 2 The claim is probable and the amount is known - therefore it is not a contingent liability.
- 3 There is uncertainty about the amount of the claim – therefore it is a contingent liability.

Therefore, the correct answer is 1 and 3 only i.e. **B**

Example 3

A company has prepared its bank reconciliation at 30 September 2017 taking the following information into account:

	\$
Outstanding lodgements	12,000
Unpresented cheques	14,700
Dishonoured cheque not entered in the cash book	2,600

The bank statement shows that the company has an overdrawn balance of \$1,280.

What should be the adjusted cash book balance per the bank reconciliation at 30 September 2017?

- A** \$6,580 Dr
- B** \$6,580 Cr
- C** \$3,980 Dr
- D** \$3,980 Cr

The cash book should be exactly the same as the bank statement. Any differences can be accounted for by timing differences and bank interest/charges. When answering this type of question the other important thing to remember is that the ledger maintained by the bank is recorded the opposite way around to the cash book. Therefore, a company with an overdraft would be shown as a credit in the cash book and a debit on the bank statement.

To correctly answer this question, candidates need to use the relevant information given about the bank reconciliation at 30 September 2017. The dishonoured cheque for \$2,600, as it was not entered into the cash book can be ignored for the purpose of this reconciliation.

Reconciliation back to a cash book balance:

	\$
Overdrawn balance on bank statement	1,280 cr
Add: Outstanding lodgements	12,000 dr
Less: Unpresented cheques	<u>14,700 cr</u>
Adjusted cash book balance	<u>3,980 cr</u>

The correct answer is therefore **D**

Section B

In this section candidates are required to prepare detailed answers which test their understanding and ability to draft financial statements.

Candidates must ensure 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 marks can be awarded for method, even if the final answer is wrong.

The following comments explain how candidates might be able to improve their performance in future, for two types of financial statements:

Preparing a consolidated statement of financial position

- Carefully read through the information provided.
- Always ensure you show workings and reference them to the figures in the financial statement.
- Give the financial statement its correct title i.e. “Consolidated statement of financial position at *(date)*”.
- Use the correct format for a consolidated statement of financial position as 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 parents 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 consolidation.
- 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.

- Any dividends paid by the subsidiary to the parent should be adjusted, as the net effect to the group is zero.
- Adjust for any unrealised profits on sales of inventory between the parent and the subsidiary.

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 of profit or loss provided in 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.
- Know how to deal with any sales returns and discounts received.
- Always show your workings and reference them to the figures in the statement of profit or loss.
- Give the financial statement its correct title i.e. “Statement of profit or loss for the year ended (date)”.

Conclusions

Candidates need to have a thorough understanding of the syllabus and know how to prepare the key financial statements in their correct format. Candidates also need to adopt a good examination technique to ensure they complete all the questions in the time available.