



Examiner's report

F3/FFA Financial Accounting

For CBE and Paper exams covering January to June 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 uses 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 practice multiple choice questions. 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 have found more difficult in this session. Carefully review how each of the correct answers are derived.

Example Questions

Example 1

Danya owns a small shop and the following information concerns the heat and light account for the year to 31 March 2017:

	Gas	Electricity
	\$	\$
At 31 March 2016	1,000 prepayment	500 accrual
At 31 March 2017	2,000 accrual	1,200 prepayment

During the year, Danya made payments of \$5,000 for gas and \$7,800 for electricity.

What is the total heat and light expense for the year ended 31 March 2017?

- A \$14,100
- B \$13,100
- C \$12,500
- D \$11,500

This question is designed to test whether candidates understand prepayments and accruals. The best way to approach the question is to prepare a simple working for the heat and light expenses. Prepayment are those expenses that have already been paid but relate to a future accounting periods and accruals are expenses that relate to the current accounting period but have not yet been paid for. Using all the information available in the question, the working would look like:

Heat and light expense for the year ended 31 March 2017

	\$	
Gas prepayment 1 April 2016	1,000	
Electricity accrual 1 April 2016	(500)	
Gas paid during year	5,000	
Electricity paid during year	7,800	
Gas accrual 1 April 2017	2,000	
Electricity prepayment 1 April 2017	(1,200)	
	14,100	
Total expense	14,100	

Therefore, the correct answer is **A**.

Example 2

On 31 March 2016, Yellow, a limited liability company, has issued share capital of \$50,000 (25c ordinary shares). The company also has investment of 50,000 50c shares in Blue, a limited liability company.

The following is an extract from Yellow's ledger accounts:

Dividend		
		\$
	30 September 2016 Bank	5,000

Which of the following statements is correct?

- A Yellow has paid an interim dividend of 5c per share
- B Yellow has received a 20% interim dividend
- C Yellow has received a 10% interim dividend
- D Yellow has paid a 10% interim dividend

From the information given we can see that Yellow has a credit against Dividends of \$5,000 and a debit against Bank, which means that the company has received dividend income. The options for the correct answer are therefore narrowed down to B or C. We can now calculate the return from the investment in Blue as follows:

$$\frac{\$5,000 \text{ Dividend}}{50,000 \text{ Shares}} = 10\text{c Dividend per share}$$

$$\frac{10\text{c Dividend}}{50\text{c Share}} = 20\% \text{ return}$$

Therefore, the correct answer is **B**.

Example 3

The accountant of F Co is preparing the statement of cash flows using the direct method for reporting cash flows from operating activities. The following information is available at 31 March 2017.

	\$
Sales	750,000
Purchases	400,000
Receivables at 31 March 2017	184,000
Receivables at 1 April 2016	163,000
Payables at 31 March 2017	102,000
Payables at 1 April 2016	111,000

What will be disclosed as cash receipts from customers in the statement of cash flows for the year ended 31 March 2017?

- A \$320,000
- B \$771,000
- C \$750,000
- D \$729,000

This question is focussed around the cash actually received during the financial year ended 31 March 2017. Therefore, we need to consider (i) the amount owed to the company at the beginning of the year that will be paid during the financial year i.e. the receivables at 1 April 2016 (ii) the sales during the year and (iii) the amounts owed to the company at the end of the year i.e. receivables at 31 March 2017.

The calculation can be summarised as follows:

	\$
Receivables at 1 April 2016	163,000
Sales during the year	<u>750,000</u>
Total	913,000
Less, receivables at 31 March 2017	<u>184,000</u>
	<u>729,000</u>

Therefore the answer is **D**.

Section B

In this section candidates are required to prepare detailed answers which test their understanding and ability to draft financial statements. During the last examination period the standard of answers in section B were good with most candidates attempting both questions.

Candidates must always use the correct format to present their answers. Neat and logical workings should always be presented so that, even if the final answer is wrong, marks can be awarded for method. If there is a multiple choice question in this section, ensure that you clearly state the question number alongside your answer choice.

The following comments explain how candidates might be able to improve their performance in future when producing two types of financial statement:

(1) Preparing a Statement of Cash Flows

- Carefully read through the information provided and use the method required by the question.
- Use the correct format as per IAS 7, there is usually one mark available for presentation.
- Use the appropriate headings; for example “Cashflow from operating activities”.
- State clearly whether the movement in cash is an “increase” or “decrease” using brackets as appropriate.
- Know how to calculate the tax paid during the year.
- Remember to adjust the profit before tax for depreciation and any profit on the disposal of an asset.
- Always ensure you show workings and reference them to the figures in the statement.

(2) Preparing a consolidated statement of profit or loss

- Carefully read through the information provided in the question
- Give the statement its correct title i.e. “Consolidated statement of profit or loss for the year ended (*year-end date*)”.
- Use the correct format for a consolidated statement of profit or loss, there is usually one mark available for presentation.
- Eliminate inter-company sales and purchases.
- Eliminate unrealised profit held in closing inventory relating to intercompany trading.
- Calculate the profit attributable to the controlling and the non-controlling interests in the company.
- Always show your workings and reference them to the figures in the statement.

Conclusions

Both F3 and FFA examinations require candidates to demonstrate a thorough understanding of financial accounting techniques and the capability of preparing financial statements. Therefore, candidates are advised to practise preparing all of the financial statements and to know their format. In addition, candidates need to have a good examination technique to ensure that all of the questions are completed in the time available.