



Examiner's report

F3/FFA papers

For CBE and Paper exams covering July to December 2015

General Comments

Section A consists of 35 multiple choice questions (two marks each) and 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.

This report comments on each section of the examination and focuses on some key learning points by using illustrative examples to demonstrate the type of questions that 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 preparing for the next examination of FFA/F3 are advised to have a thorough knowledge of the entire syllabus and to practice the multiple choice questions provided by Approved Learning Partners. The following three questions from the December 2015 exam are reviewed with the aim of giving future candidates an indication of the types of questions asked, to provide guidance on approaching exam questions and to give a technical debrief on the topics selected.

Sample Questions for Discussion

Example 1

D Co's transactions for the month of September 2015 were as follows:

| | \$ |
|---------------------------------|---------|
| Sales (including sales tax) | 600,000 |
| Purchases (excluding sales tax) | 450,000 |

D Co is registered for sales tax at 20%. On 1 September 2015 the sales tax account showed sales tax recoverable by D Co of £2,000.

What was the balance on the sales tax account on 30 September 2015.

- A \$8,000 Dr
- B \$8,000 Cr
- C \$12,000 Dr
- D \$12,000 Cr

This question tests the candidate's knowledge of sales tax accounting. A business that is registered for sales tax collects tax on behalf of the tax authorities and will usually pay an amount that is equivalent to the sales tax it has calculated on its sales less the sales tax it can recover on its purchases. As a business acts as a collector of sales tax it does not incur a sales tax expense nor does it earn a sales tax income.

To correctly answer questions of this type, candidates are advised to prepare workings, usually in the form of a t-account. The amount of tax included in the sales and paid on purchases needs to be calculated. The question states that sales tax is levied at 20%, see calculations in the t-account below. The sales tax recoverable by D Co of \$2,000 is a debit balance on the Sales Tax account.



| | | Sales Tax | |
|---|----------------|--------------------------|----------------|
| | \$ | | \$ |
| Balance b/f (the recoverable sales tax) | 2,000 | Sales (600,000 x 20/120) | 100,000 |
| Purchases (450,000 x 20%) | 90,000 | | |
| Balance c/f | 8,000 | | |
| | <u>100,000</u> | | <u>100,000</u> |
| | | Balance b/f | 8,000 |

The correct answer to this question is therefore **B**: \$8,000 Cr.

Example 2

P Co makes a 1 for 5 bonus issue using the share premium account to the extent that it is possible. Immediately before the bonus issue, P Co had the following equity balances:

| | \$ |
|----------------------------|---------|
| Share capital (\$1 shares) | 100,000 |
| Share premium account | 15,000 |
| Retained earnings | 460,000 |

What is the balance on the retained earnings account after the bonus issue has been recorded?

- A \$460,000
- B \$465,000
- C \$440,000
- D \$455,000

A bonus issue is where new shares are issued to existing shareholders in proportion to their existing shareholding. There is no cash received by the company from a bonus issue, usually the share premium account and/or retained earnings are used to account for the debit side of the transaction.

The steps to answering this question are as follows:

1. Calculate the nominal value of the bonus issue. Share capital is \$100,000 therefore the 1 for 5 bonus issue is valued at \$20,000 ($\$100,000/5$). The P Co would credit the share capital account \$20,000.
2. The question states that the share premium account should be used to the extent to which it is possible. Therefore the share premium account is debited \$15,000 (the total available).
3. The balance of \$5,000 is therefore debited to retained earnings. Retained earnings is now \$455,000 ($\$460,000 - \$5,000$)

The correct answer to this question is D: \$455,000



Example 3

V Co's balance on the payables control account at 30 September 2015 of \$147,000 does not agree to the total of the list of payables ledger balances. The following errors have been found:

- (1) A credit note from a supplier for \$250 has been omitted from the purchase day book
- (2) An invoice for \$75 has been posted twice to the supplier's account on the payables ledger
- (3) Cash paid to suppliers of \$32,000 has been posted to the payables control account as \$23,000

What is the total on the payables control account after all errors have been corrected?

- A \$146,925
- B \$137,750
- C \$137,675
- D \$137,825

This question tests the candidates understanding of reconciling payables control accounts. The best way to approach this question is to consider each of the errors listed and ask yourself to what extent do they affect the payables control ledger.

- 1 An omitted credit note from a supplier in the purchase day book, will also be missing from the payables ledger, therefore both the payables control account and the payables ledger balance need to be reduced by \$250.
- 2 An invoice which has been posted twice to the suppliers on the payables ledger will require an amendment to be made to the list of balances. However, no amendment is required to the payables control account.
- 3 The transposition in the posting of \$32,000 to \$23,000 will affect the balance on the payables control account and therefore it needs to be reduced by \$9,000

The correct answer is B: \$137,750 (\$147,000 – \$250 – \$9,000)

Section B

In this section candidates are usually 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 the method used, even if the final answer is wrong.

The first question in section B of the December 2015 exam required students to prepare a consolidated statement of profit or loss. The second question required the preparation of a statement of financial position for a single entity. The following comments explain how candidates might be able to improve their future performance in these types of questions:

Preparing a consolidated statement of profit or loss



In the paper version of the exam, give the statement its correct title i.e. “Consolidated statement of profit or loss for the year ended (*year-end date*)” and 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.

Preparing a statement of financial position from a trial balance

- Carefully read through the information provided in the trial balance and decide what should be included in the statement of financial position.
- Consider any notes provided and calculate any adjustments that are required e.g. prepayments or accruals, irrecoverable debts and allowances for doubtful debts.
- Typically you will need to calculate the depreciation on some of the assets, perhaps using two different depreciation methods.

In the paper version of the exam, give the statement its correct title i.e. “Statement of financial position at (year-end date)” and use the correct format for a statement of financial position, there is usually one mark available for presentation.

- Where necessary, ensure you show workings and reference them to the figures in the statement.

Conclusions

Candidates who want to do well in this examination need to have a thorough understanding of the syllabus and know the format of the key financial statements. Candidates also need to adopt a good examination technique which ensures that they complete all the questions in the time available.