



# Examiner's report

## FA/FFA Financial Accounting

### Key themes from examiner reports 2015 - 2018

The examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for future candidates.

#### General Comments

Section A consists of 35 objective test (OT) questions (two marks each) and covers a broad range of syllabus topics. The OT questions can take the form of multiple choice, multiple response, number entry or multiple response matching. Students should ensure they use the practice tests available on the ACCA website so they are familiar with all the different styles of OT questions. You are not asked to insert text but may be asked to identify the correct text.

Section B has two multi-task 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.

#### Comments about Section A performance

This section tests a wide range of the syllabus and the majority of candidates usually attempt all of the questions. Candidates are therefore advised to have a thorough knowledge of the entire syllabus and to practice objective test (OT) questions. It is important to read the questions carefully and calculate any figures required before choosing a response. The following six questions have been chosen to help future candidates understand some of the questions that candidates have found challenging. Carefully review how each of the correct answers are derived.

#### Sample questions for discussion

##### Example 1 – Number entry

At 30 September 20X9, 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 20X9. At 1 October 20X8, 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 20X9?**

\$

Solution:

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

	\$
Balance	644,000
Less: Irrecoverable 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.

Using the information in note (3) requires an allowance for receivables to be made based on 2% of trade receivables at 30 September 20X9. 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:  $\$620,000 - \$12,400 = \$607,600$ .

The correct answer is therefore **\$607,600**.

### Example 2 – Multiple choice

A company has prepared its bank reconciliation at 30 September 20X9 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 20X9?**

1. \$6,580 Dr
2. \$6,580 Cr
3. \$3,980 Dr
4. \$3,980 Cr

Solution:

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 20X9. 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 the cash book balance:

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

The correct answer is therefore **4**

### Example 3 – Number entry

Danya owns a small shop and the following information concerns the heat and light account for the year to 30 September 20X9:

	<b>Gas</b>		<b>Electricity</b>	
	\$		\$	
At 30 September 20X8	1,000	prepayment	500	accrual
At 30 September 20X9	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 30 September 20X9?**

\$

Solution:

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 30 September 20X9:

	\$
Gas prepayment 1 October 20X8	1,000
Electricity accrual 1 October 20X8	(500)
Gas paid during year	5,000
Electricity paid during year	7,800
Gas accrual 30 September 20X9	2,000
Electricity prepayment 30 September 20X9	(1,200)
Total expense	14,100

**Example 4 – Multiple response**

On 1 October 20X8, F Co revalued a property. As a result, the annual depreciation charge increased by \$20,000 as compared to depreciation based on historical cost. The company wishes to make the allowed transfer of excess depreciation between the revaluation surplus and retained earnings in accordance with IAS 16 Property, Plant and Equipment. Immediately before the transfer was made, retained earnings and the revaluation surplus were as follows:

Retained earnings	\$875,000
Revaluation surplus	\$200,000

Using the information above, which **TWO** of the following statements are true following the transfer?

1. The balance on the retained earnings is \$855,000
2. The balance on the retained earnings is \$895,000
3. The balance on the revaluation reserve is \$180,000
4. The balance on the revaluation reserve is \$220,000

Solution:

This question tests a candidates understanding of the treatment of depreciation on a revalued asset. When a property has been revalued, the charge for depreciation should be based on the revalued amount and the remaining useful life of the asset. The increase of the new depreciation charge over the old depreciation charge may be transferred from the revaluation surplus to retained earnings if an entity chooses to do so. F Co has decided to make this transfer which should be accounted for as follows:

Dr Revaluation surplus \$20,000

Cr Retained earnings \$20,000

Therefore:

Retained earnings =	\$895,000 (875,000+20,000)
Revaluation surplus =	\$180,000 (200,000-20,000)

The correct answer is therefore to select **2** and **3**.

**Example 5 – Multiple response**

The following cash transactions were recorded during the year ended 30 September 20X9:

- i. Payment of an annual insurance premium of \$12,000. This covered the period to 31 December 20X9.
- ii. Receipt of \$6,000 in respect of rent from a tenant covering the three month period to 30 November 20X9.

**What is the impact on the profit and net assets of making the year-end adjustments for prepaid income and expenditure at 30 September 20X9?**

1. Profit decreases by \$1,000
2. Profit decreases by \$7,000
3. Net assets decrease by \$7,000
4. Net assets decrease by \$1,000

Solution:

This question is designed to test a candidates understanding of prepaid expenses and prepaid income and their impact on the statement of profit or loss and the statement of financial position.

A prepayment occurs when the following years expenses have been paid in the current year. In these situations it is necessary to remove the part of the expense which does not relate to the current year.

In this question the prepaid insurance can be calculated as \$3,000 (i.e. \$12,000 x 3/12). A prepayment will increase profit in the statement of profit or loss and create a current asset in the statement of financial position.

The impact of the prepaid rental income which can be calculated as \$4,000 (i.e. \$6000 x 2/3) is to reduce income in the statement of profit or loss and hence reduce profit. It also creates a current liability in the statement of financial position.

The net impact of the two adjustments in this question is to reduce profit and net assets by \$1,000 (i.e. \$3,000 less \$4,000).

The correct answer is therefore **1** and **4**.

### Example 6 – Multiple response matching

On 31 October 20X8, Yellow, a limited liability company, has issued share capital of \$50,000 (25c ordinary shares). The company also has an investment of 50,000 50c shares in Blue, a limited liability company.

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

Dividend		
\$		\$
	1 April 20X9 Bank	5,000

Which of the following statements are true/false?

	True	False
Yellow has paid an interim dividend of 5c per share	<input type="radio"/>	<input type="radio"/>
Yellow has received a 20% interim dividend	<input type="radio"/>	<input type="radio"/>
Yellow has received a 10% interim dividend	<input type="radio"/>	<input type="radio"/>
Yellow has paid a 10% interim dividend	<input type="radio"/>	<input type="radio"/>

Solution:

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 the dividends received options. We can now calculate the return from the investment in Blue as follows:

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

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

The correct answer is therefore:

	True	False
Yellow has paid an interim dividend of 5c per share	<input type="radio"/>	<input checked="" type="radio"/>
Yellow has received a 20% interim dividend	<input checked="" type="radio"/>	<input type="radio"/>
Yellow has received a 10% interim dividend	<input type="radio"/>	<input checked="" type="radio"/>
Yellow has paid a 10% interim dividend	<input type="radio"/>	<input checked="" type="radio"/>

Many candidates achieve reasonable marks in Section A suggesting that the majority of candidates prepare well for the examination and are familiar with the different styles of OT's. Since Section A is OT question based, there are no issues or problems identified with examination technique. It can be seen that candidates make use of the computer based exam functionality to flag questions they wish to return to and give the appropriate time to questions that require calculations. Candidates should be aware that section A gives the Examiner the opportunity to assess all areas of the syllabus and they should not concentrate their studies purely on the more calculation based learning outcomes to the exclusion of the more narrative areas of the syllabus. For example, the context and purpose of financial reporting and the qualitative characteristics of financial information are equally as examinable.

## Section B

In this section candidates are required to provide answers which test their understanding and ability to draft financial statements. Candidates may be required to prepare financial statements for a single entity or for a group of companies. There may also be some element of ratio calculation/interpretation. You may not always be required to prepare the full financial statement and may instead be asked to complete a partial statement. In this situation there will be additional elements to the question.

Candidates will be required to prepare the financial statements using a variety of number entry, pull down menus and multiple response matching. It is vital that candidates familiarise themselves with the computer based exam format for section B using the specimen paper (and extra multi-task questions) and practice tests that are available via the ACCA website.

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

## Single entity financial statements

It is advised that you become familiar with the presentation of the financial statements as per IAS 1 *Presentation of Financial Statements*. You will not be asked to insert text to construct a statement of profit or loss or statement of financial position but you may be required to determine the correct position of a ledger balance within the financial statements or maybe identify the correct titles of the financial statements. For example, a statement of profit or loss is 'for the year ended' and not 'as at' a point in time.

Always carefully read through the information in the question and answer what is being asked. For example, on the specimen paper, question 37, task 1 has the following question:

*Do each of the following items belong on the statement of financial position (SFP) as at 31 October 20X7?*

To answer this task you are given a trial balance and have the option of selecting Yes or No from a drop down list. Buildings at cost would require you to select yes, whereas Buildings accumulated depreciation at 1 November 20X6 would require you to select no as this is the opening accumulated depreciation and not the accumulated amount at 31 October 20X7.

Remember, not everything given in a trial balance will be needed and you will need to be familiar with the relevant double entries for transactions as this may be a specific requirement within the question. Typically you will need to calculate the depreciation on some of the assets, perhaps using two different depreciation methods.

This question style really focusses on your understanding of accounts preparation and the double entry system so numerous practice questions are essential.

## Statement of Cash flows

You may be required to prepare a statement of cash flow using both number entry and drop down lists. It is important that you know the format of a statement of cash flow as you may be required to select appropriate headings. For each cash flow identified you may be required to identify if you need to 'add' or 'subtract' the amount calculated so ensure you have sufficiently practiced for this.

Below are some important areas of cash flow preparation to remember:

- Do not get the cash flows 'back to front' – make sure you identify the years and then the movements between this year and the previous year correctly.
- Know how to calculate the tax and dividends paid during the year (dividends are not always given in the question so you may need to look at the movement on retained earnings).
- Be careful with the impact of a profit (or loss) on disposal of non-current assets. Profits/(losses) on disposal are non-cash and need to be adjusted in operating activities. The cash received on disposal should be shown as a cash inflow in investing activities (generally, one asset disposal will have 2 effects in the statement of cash flow). The carrying amount of the disposed asset must be removed from property, plant and equipment if you are then asked to calculate property, plant and equipment additions, which will be separately shown as a cash outflow under investing activities.

## Consolidated financial statements

When preparing the consolidated financial statements you may also be required to identify the appropriate heading for the relevant financial statement from a drop down list. Just like the preparation of single entity financial statements, candidates may not be required to prepare the entire statement. In addition there may

be aspects of this question that require you to demonstrate your knowledge of groups from the relevant International Financial Reporting Standards (IFRS), for example the definition of control.

If you are dealing with a consolidation you may be asked to calculate goodwill and then complete certain aspects of the statement of financial position or the statement of profit or loss. This may be in the form of calculating a relevant balance, or by selecting the appropriate formula from a drop down list that would enable a balance to be determined.

Below are some important areas of consolidation statement of financial position preparation to remember:

- The assets and the liabilities of the parent and the subsidiary are added together in full on a line-by-line basis (do not use proportional consolidation)
- The investment in the subsidiary (shown in the statement of financial position of the holding company) is replaced with the goodwill figure e.g. investments are nil (unless any other, external investments exist).
- 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.
- Non-controlling interest (NCI) is calculated as the fair value plus the NCI's share of post-acquisition retained earnings and other reserves.. You may be given the fair value or need to use a share price to calculate the NCI.

Below are some important areas of consolidation statement of profit or loss preparation to remember:

- The revenue and expenses are added together on a line by line basis in full (with the subsidiary results being time apportioned if control was acquired mid-year).
- Eliminate intra-group sales and purchases
- Eliminate unrealised profit held in closing inventory relating to intra-group trading
- Ensure you know how to calculate the profit attributable to the controlling and the non-controlling interests in the company.

## Conclusion

It is imperative that candidates study and prepare well for all topics in the syllabus and not just select a few. Candidates must bear in mind that questions in the examination will include questions from all topics of the syllabus. Equipping themselves with adequate knowledge of all topics will certainly maximise and improve the performance of candidates in future examinations. Thus, candidates are advised to plan their revision timetable so that they have sufficient time to revise all the topics in the syllabus. Candidates are also reminded to try and attempt all questions.