



# Examiner's report

## F7 Financial Reporting

### June 2017

#### General comments

The F7 Financial Reporting exam is offered in both computer-based (CBE) and paper formats. The structure is the same in both formats but our model of delivery for the CBE exam means that candidates do not all receive the same set of questions. In this report, 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.

- Section A objective test questions – we focus on two specific questions that caused difficulty in this sitting of the exam
- Section B objective test case questions – here we look at the key challenge areas for this section in the exam
- Section C constructed response questions - here we provide commentary around some of the main themes that have affected candidates' performance in this section of the exam, identifying common knowledge gaps and offering guidance on where exam technique could be improved, including in the use of the CBE functionality in answering these questions.

#### Section A : sample objective test questions for review

The following two questions are reviewed with the aim of providing future candidates with an indication of the types of questions asked, guidance on how to answer them and a technical analysis of the topics tested.

#### Example 1:

**Which of the following should be accounted for as subsidiaries in the consolidated financial statements of Preece Co?**

- (1) Gilber Co Preece Co currently owns 40% of the share capital of Gilber Co and holds options to purchase another 20% which it can exercise immediately
- (2) Grovez Co Preece Co owns 60% of Grovez Co and has appointed the majority of the board of directors
- (3) Roge Co Preece Co owns 80% of Roge Co. Roge Co is loss-making and Preece Co is considering selling it in the near future

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

#### *What does this test?*

This tests a candidates understanding of the definition of a subsidiary. The candidate is expected to apply that knowledge in three simple scenarios.

#### *What is the correct answer?*

The correct answer is D because the options are exercisable immediately in (1), control is established in (2) because of Preece Co's ability to appoint the board and in (3), Preece Co still has control even though it is

considering the sale of the subsidiary. Most candidates ignored the options even though they were exercisable immediately.

**Example 2:**

A 60% owned subsidiary sold goods to its parent for \$150,000 at a mark-up of 25% on cost during the year ended 30 June 20X5. One fifth of these goods remained unsold as at 30 June 20X5.

**What is the debit adjustment to be made to group retained earnings to reflect the unrealised profit in inventory at 30 June 20X5?**

- A \$6,000
- B \$3,600
- C \$2,400
- D \$4,500

*What does this test?*

This tests the effect of intra-group trading in the consolidated financial statements.

*What is the correct answer?*

The correct answer is B:

$$150,000/125 \times 15 = 30,000$$

$$30,000/5 \times 60\% = \$3,600$$

*Why the correct answer is none of the other options?*

Option A does not take account of the 40% NCI adjustment

Option C uses a 60% NCI adjustment

Option D uses a margin as opposed to a cost-plus approach

Most candidates did not take account of the 40% NCI adjustment. Candidates need to be able to think about these consolidation adjustments in isolation ie not necessarily as part of a full set of consolidated financial statements.

**Section B**

Section B has three case-based scenarios, each of which has five (two mark) objective test questions. The cases in the June 2017 paper-based exam were based on IAS 38 *Intangible assets* and IAS 36 *Impairment of assets*; IAS 8 *Accounting policies, changes in accounting estimates and errors* and IFRS 5 *Non-current assets held for sale and discontinued operations* and IFRS 15 *Revenue from contracts with customers*. These questions are written to test the candidates' depth of knowledge on a particular topic and their ability to apply that knowledge to a particular set of circumstances. Each case will therefore contain a balance of knowledge and application-based questions that use both computation and narrative type questions. Performance in case-based questions was encouraging. Candidates should be prepared for the knowledge based questions will draw from all areas in the syllabus. To perform well in the application-based questions, candidates should practice these case questions in materials provided by Approved Content Providers, specimen exams and past exams.

**Section C**

Candidates were presented with the following question types:

- Single entity accounts preparation
- Analysis of consolidated financial statements
- Preparation of consolidated financial statements

- Analysis of single entity financial statement

### **Single entity accounts preparation**

This area of the syllabus requires candidates to prepare a set of financial statements for a single entity. This is a fundamental skill for an accountant, and has been a large part of the F7 syllabus for many years. Performances in this area were generally good, with this often being the area students performed best on across the exam.

As in previous diets, candidates were required to produce financial statements from a trial balance and set of adjustments. This tests the candidates' knowledge of the presentation of financial statements, their ability to identify the correct elements accordingly and also tests knowledge of a variety of accounting standards.

Candidates still find it difficult when not asked to complete a full set of financial statements, and are instead asked for calculations based on adjusting profit or retained earnings. The September 2016 question Triage Co is a good example to look at in terms of how questions of this type could be attempted and laid out.

Questions requiring the preparation of statements of changes in equity can also be an area candidates find difficult, and there was again evidence of a significant number of candidates omitting this statement from their answer. This is one of the primary financial statements, and candidates must ensure they are comfortable with the layout and contents of this. Candidates who produced statements of changes in equity often picked up the majority of the marks, but only a small minority were able to identify that a prior year error must be corrected through the opening retained earnings of an entity.

Candidates continue to show a solid understanding of the accounting around non-current assets, but struggled over accounting for financial instruments, particularly around those held at amortised cost where the effective interest rate differs from the coupon rate. Candidates must work to understand the principles of these instruments as these are likely to be examined in more detail at the professional level.

Students continued to layout the answers well, showing good workings, enabling them to score marks even when the final answer was not completely correct. Candidates who did not provide workings are likely to lose marks, as it is essential that markers can follow the work done on the question, rather than simply the final total.

There were a wide variety of layouts used by CBE candidates. CBE candidates should ensure that all workings are easy to link together, and writing the formula in the cell is completely acceptable. A small minority completed workings many rows beneath (or to the right) of their financial statements. This should be avoided, and workings should be done either next to or below the main answer.

### **Analysis of consolidated financial statements**

Candidates will be asked to analyse financial information in F7, and the analysis is constantly the weakest area of the exam for many candidates. In questions where the analysis is based on group issues, candidates may be asked for minor calculations, such as goodwill or the gain/loss on disposal of a subsidiary. These are core items that candidates should be able to produce.

Candidates continue to be able to score well on the calculation of ratios, but the calculation of net asset turnover is one which appears to be a significant weakness. It is crucial to show workings for the calculation of these ratios so that markers are able to see the figures used by the candidate. In recent sittings it has been noted that CBE candidates are significantly more likely to put the ratios without workings, possibly due to the answer being in a word processing format rather than a spreadsheet. It is good practice for students to show their workings behind each ratio, and the candidates that showed these, whether in a table or just over several lines, scored much higher than those simply writing the percentage figure calculated.

The analysis surrounding consolidated financial statements must involve comments on group-related issues. Some students answer this type of question without reference to any differing margins earned by the companies within the group or considering the elements of removing a subsidiary from a set of consolidated financial statements. Generic statements about whether expenses have been managed well will continue to score very few marks, as the question is looking for the candidate to bring in the information provided in the scenario, particularly focusing their answers on group-related topics.

Candidates should look at the September 2016 question Gregory Co as an example of how to incorporate knowledge of consolidations into an answer. Also, Tangier Co, one of the additional constructed response questions available [here](#) will show how this can be examined. This type of question is one which can often divide candidates. Those who are well prepared can often score good marks, but sadly far too many individuals are picking up either very limited marks or no marks at all for their discussion. A minority continue to attempt ratios with no attempt at discussion, which highlights that further question practice is required.

### **Preparation of consolidated financial statements**

The core principles of the preparation of consolidated financial statements remain an area that candidates perform well on. Candidates with clear workings often scored highly on this area. Again, it was noted that CBE students had less workings displayed, instead showing the total consolidated figure with no guidance to how that figure had been calculated.

Candidates demonstrated a good ability to remove intra-group adjustments from financial statements and continue to perform well in relation to fair value adjustments. It was slightly disappointing to see candidates being less able to deal with consideration for the acquisition of a subsidiary being in shares. This is a topic which has been frequently examined in the past and one which has traditionally been done quite well. Quite often the calculation as part of goodwill was correct, but only a minority of candidates considered the impact on the equity section of the statement of financial position, following the issue of new shares.

Very few candidates were able to identify that contingent liabilities need to be recognised in consolidated financial statements at fair value, either completely ignoring them or incorrectly stating that these should simply be a disclosure. This demonstrated that while candidates understand the principles of contingent liabilities consistent with IAS 37, they lacked the understanding that these need to be recognised within the process of producing consolidated financial statements.

### **Analysis of single entity financial statements**

Many of the problems already discussed in the analysis of consolidated financial statements are also relevant in the analysis of single entity financial statements. As noted above, CBE students appear less likely to show

workings for ratio calculations, therefore potentially losing out on marks which could be given for individual components of the calculation.

Candidates did demonstrate an improvement in using the narrative information from the scenario here, which was pleasing to see. A significant minority continue to ignore all narrative information from the scenario, instead simply commenting on increased margins being a result of better performance rather than attempting to explain how this better performance had arisen.

While the analysis of consolidated financial statements was often disappointing in that candidates failed to identify group issues, the performance in analysing a single entity financial statements did improve on previous years as candidates were able to demonstrate their ability to bring the scenario into the answer more and more. After providing similar comments for numerous sittings, this was an encouraging sign and one which we hope continues.

### **Exam technique**

Good exam technique is vital for success in F7. Strong candidates continue to use good workings for the preparation of financial statements, enabling them to maximise the marks gained here. As stated earlier, candidates who failed to provide workings often scored much lower marks on both the preparation of financial statements and the calculation of ratios.

The analysis discussion points should be laid out clearly, using headings for each area requested, such as 'performance' and 'position'. Candidates should only be making one or two points per paragraph and leaving space between paragraphs. Too many candidates attempt to make all of their points in one block of text, which is difficult to mark and not a professional layout.

Candidates should also ensure they include a conclusion on the analysis discussion. A sensible conclusion summarising the main points of the analysis is important, and marks will be given here.

The completion rate of questions continues to be high, suggesting that many candidates are able to manage time well. The majority of candidates attempted all sections. The most commonly omitted sections tended to be areas where candidates were asked to explain issues. The F7 exam will involve elements of discussion, so candidates cannot afford to neglect these sections as they practise questions.

### **Word processing and spreadsheet technique**

As stated earlier, candidates using the word processing tool for the analysis question were less likely to show their workings for calculating ratios than those sitting the paper-based exam, which needs to be improved so that marks are not lost.

Conversely, the narrative answers were often well presented, with headings and spacing used well.

For the preparation of financial statements question, candidates often laid out the financial statements and workings well. Some candidates tended to put figures in individual cells and add the cells across for the answer, whereas others did the entire working in one cell using a formula. Both are perfectly acceptable as markers will follow both methods.



There are resources on ACCA's website giving more guidance on how to use the spreadsheet software. A video introducing the main functionality and how to make best use of these in F7 can be accessed [here](#).

### **Guidance and Learning Support resources to help you succeed in your exam**

There are many resources available to candidates to help with the F7 exam. Many of the common themes discussed in this report regarding exam technique and ways to improve are comments that are commonly made across sittings. Previous examiner's reports can be found [here](#) and will give good, consistent guidance in what the examining team is looking for from well prepared candidates on F7.

One of the keys to success in the F7 exam is question practice, attempting questions and reviewing the answer to see any areas you may have missed. This is particularly relevant on the analysis questions. Often on this question candidates feel comfortable, but reviewing the answers can show the depth of discussion that is being sought here. We strongly recommend that you use an up to date question and answer bank from one of our [Approved Content Providers](#) but if this is not possible then work through the most recent past exams on the ACCA website. However, please note if you are using the past exams that these are **not** updated for syllabus changes or changes to the exam format and so should be used with caution – so check the latest [syllabus and study guide](#) for changes.

Some of the more challenging areas of the F7 syllabus have specific articles describing them in more depth in the [technical articles](#) section and these should provide greater understanding. The [exam technique](#) section also provides guidance for approaching the analysis question, and further guidance for resit students.