F7 Examiner's report
March 2017

ACCA

Introduction

The Candidate performance on this diet was generally pleasing with some candidates scoring well in all three sections. In this report, the Examining Team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance and seek to offer constructive advice for future candidates.

General comments

The F7 Financial Reporting examination is now offered in both computer-based (CBE) and paper-based (PBE) formats. The structure and standard of both exams are the same, but the model of delivery for the CBE paper means that candidates do not all receive the same set of questions.

In both formats, the examination consisted of three sections: Section A consisted of 15 objective test questions of 2 marks each, for a total of 30 marks; Section B consisted of three scenarios with 15 objective test questions of 2 marks each, also for a total of 30 marks; Section C consisted of two constructed response questions of 20 marks each, for a total of 40 marks.

This format requires candidates to cover the entire syllabus in their studies and not rely on "question spotting" for a few selected areas. Future candidates are advised to work through questions from published past papers and the material provided by Approved Content Providers. The exam was a fair test of familiar topics and well-prepared candidates had the opportunity to score well in all three sections.

Although there were similar levels of performance in all three sections, there was some evidence that candidates were not allocating sufficient time to the final two questions in section C. Future candidates should ensure that they are fully aware of the time available to them during the exam and practice past papers under exam conditions.

Section A (Questions 1 to 15)

It was pleasing to see that almost all candidates attempted all of the objective test questions in Sections A and B.

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 debrief on the technical topics covered by the specific questions.

Example 1. In accordance with IAS 16 *Property, Plant and Equipment*, which of the following is true?

A	If an entity decides to use the revaluation model, then all of its non-current assets must be revalued
B	An entity must transfer excess depreciation from the revaluation surplus to retained earnings on an annual basis in respect of any property which it revalues
C	If an entity decides to revalue property annually, then this property will not need to be depreciated
D	There is no requirement for an entity to revalue property on an annual basis

What does this test?

This is knowledge based question that tests the use of the revaluation model for non-current assets

What is the correct answer?

The correct answer is D.

IAS 16 requires revaluations (where the revaluation model is chosen) to be made with "sufficient regularity" to ensure the carrying amount does not differ materially from the fair value. There is therefore no automatic requirement for an annual revaluation of non-current assets.

Why the correct answer is none of the other options:

Answer A (selected by most candidates) is incorrect as IAS 16 only requires "the entire class" to which an asset belongs to be revalued. Examples of separate classes given in the Standard are land and buildings (property) and machinery (plant). An entity could revalue its property, but does not have to also revalue its plant.

Answer B is incorrect because IAS 16 states this as an option: the excess depreciation on the revaluation surplus may be transferred annually OR on the derecognition of the asset.

Answer C is incorrect as any asset with a finite life (which includes the building component of property) should be depreciated on a systematic basis over its useful life.

Future candidates are advised to read the question carefully before answering it.

Example 2. An entity has decided to adopt the revaluation model for the first time from 31 December 20X6.

At that date, details relating to two properties were as follows:

Asset at 31 December 20X6:	Carrying amount ($'000)	Fair value ($'000)
Head Office	10,200	10,800
Factory	7,875	7,500

What is the total gain to be recorded in the revaluation surplus at 31 December 20X6?

A	$0
B	$225,000
C	$375,000
D	$600,000

What does this test?

This question requires the application of the candidates' knowledge to the accounting treatment of revaluation deficits and surpluses.

What is the correct answer?

The correct answer is D.

A revaluation deficit should be recognised in the statement of profit or loss (unless the asset has been revalued upwards before which, in this case, it has not).

(All figures given as $'000.) As the fair value of the Head Office is given as 10,800, there is a revaluation surplus on this asset of 600 (10,800 - 10,200) and this should be credited to the revaluation surplus and recognised as other comprehensive income.

As the fair value of the factory is 7,500 there is a revaluation deficit on this asset of 375 (7,875 - 7,500) and this should be written off in the statement of profit or loss.

Why the correct answer is none of the other options:

Answer A is incorrect as it suggests no adjustments. However, the question states the entity has decided to adopt the revaluation model for the first time and so surpluses should be recognised.

Answer B (the most popular choice) is incorrect as it nets off the revaluation surplus (600) with the deficit (375).

Answer C is incorrect as it is the deficit only (which would not be recognised in the revaluation surplus).

Future candidates need to be aware that the full breadth of the syllabus will be examined in both sections A and B of the exam and that, over several diets, most of the IFRSs in the list of examinable documents will be tested in some depth.

Section B (questions 16 to 30)

Section B has three case-based scenarios, each of which has five (two mark) objective tests questions. In the current diet, these cases were based on IAS 16 *Property, plant and equipment* and IAS 23 *Borrowing costs,* IAS 37 *Provisions, contingent liabilities and contingent assets* and IAS 12 *Income taxes*. These questions are written to test candidates' depth of knowledge on a particular topic and their ability to apply that knowledge to a set of circumstances. Future candidates should practice these questions as much as possible by using the materials provided by Approved Content Providers, specimen exams and past papers.

Section C (questions 31 and 32)

For this diet, candidates were presented with a question that related to the interpretation of the financial statements of a single entity and another that required the preparation of a consolidated statement of financial position. This report will consider issues that are associated with the former question type.

Interpretation of the Financial Statements of a Single Entity

These questions often require candidates to make a number of adjustments to profit; for example, adjustments for the effect of the disposal of a division. Candidates are then often required to calculate some ratios and then comment on the entity's performance and position by comparing it to either industry averages, a prior period or another entity.

In these types of questions, most of the profit adjustments are dealt with correctly by candidates, though it is not always clear whether the adjustments made have increased or decreased profit. This is because candidates do not always show workings – this is especially true in the CBE version. The use of word-processing or spreadsheet software does not mean that there is no need to show workings.

In these types of questions, the analysis is usually based on the adjusted financial statements and ratios and so marks are awarded using the "own figure rule" i.e. if candidates use the correct formula to calculate a ratio but it is based on the incorrect adjusted figure and they subsequently use that ratio to provide an analysis, appropriate credit will be given for the ratio calculation and the analysis, although not for the adjustment. This is why it is so

important to provide workings. Sometimes the question will state how the overall adjustment to profit should be made thereby testing candidates' understanding of double-entry. However, candidates do not always read the question carefully and so do not make the correct adjustment. This can mean that a number of ratios are calculated incorrectly. However, candidates can be assured that, due to the "own figure rule", they will not lose all of the marks available. Future candidates should ensure that they continue to answer the remainder of the question, even if they think they have calculated an adjustment or a ratio incorrectly. Markers are unable to award marks to an empty answer space.

Future candidates are also advised to review the logic of their ratio calculations; for example, sometimes the receivables collection period (days) is calculated as trade receivables/cost of sales x 365. There is no underlying logic to this calculation; the use of credit sales gives the most logical denominator, but total revenue is an acceptable substitute.

The analysis often shows little insight into the scenario provided in the question.   Most answers confine themselves to giving an explanation of whether the entity's ratio was higher or lower than its comparative. Very few answers provided any further analysis as to why this increase or decrease might be the case. Better answers often make use of the information in the scenario; for example, comment on the differing performance of a division that has been disposed of or the likely implications if a company was acquired. Although a formal report is not often required, many candidates provide a short conclusion to their analysis which is encouraged.

Examination technique

Candidates are encouraged to be organised in their approach and ensure that all complex workings are appropriately referenced. For Section C questions, where workings are simple, it is adequate to show the arithmetic of these numbers on the face of the answer.   Markers continue to see candidates who show too few or even no workings and those who spend considerable time preparing over-elaborate workings that earn no marks. For example, some candidates provide lengthy consolidation journal entries for the intra-group balances that are not required and waste time.

Word processing and spreadsheet technique

There are common issues arising with CBE answers whether the requirement is to use an Excel spreadsheet (one page) or a Word document. Some candidates are spending too much time on the "neatness" of their answers, particularly for Word document based answers. Questions requiring Excel spreadsheet answers should either show workings on the face of the spreadsheet or in the respective cell which markers can see during the marking process.

Guidance and Learning Support resources to help be successful in the examination

Preparing for the F7 exam may appear daunting but there are many resources available to help you. You should refer to these throughout your studies.

You should make sure you have made use of all of the resources found under technical articles for F7 – these include technical articles, study support videos and exam technique resources – all developed with you in mind.

It is essential to practise as many exam standard questions as you can in the lead up to your exam. 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 our 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.

It is essential that you have a good understanding of the verbs typically used in ACCA exam questions. Take a look at the article *What is the examiner asking?* which sets out some of the most commonly used verbs, and ensure that you understand how these are used in the F7 questions.

Work through the F7 resource *A guide to using the examiner's report* if you are sitting the exam for the first time or *A guide to reflection* if you are retaking your exam. Both of these interactive tools can be found under the technical articles page for F7. These have been developed to sit alongside the self-study guide and the retake guide respectively, and provide you with further pointers for using the examiner's reports for previous sittings.

Conclusion

This report draws attention to some objective test questions that were answered poorly and common errors with the constructed response questions. As noted in the introduction, these comments are intended for the benefit of future candidates. However, it is pleasing to note that many candidates had clearly prepared well for all sections of this exam and they were rewarded accordingly.