Financial Accounting (FFA/FA) September 2023-August 2024 Examiner’s 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 those sitting the exam in the future.

Contents

General Comments

The examination is divided into two parts, both of which are compulsory. 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 specimen exam (and extra multi-task questions) and practice tests available on the ACCA website so that they are familiar with all the different styles of OT questions. You are not asked to enter text but may be asked to identify the correct text.

Section B consists of two multi-task questions (15 marks each), testing candidates' understanding and application of financial accounting skills in more depth.

This report covers each section of the examination separately and uses illustrative examples to demonstrate the type of questions candidates are expected to be able to answer.

Comments about Section A performance

Many candidates achieve reasonable marks in Section A, suggesting that most candidates prepare well for the examination. Since Section A is OT based, there were no issues or problems associated with examination technique noted, although candidates must make sure they spend the appropriate amount of time on each question and each section of the exam overall.

This section of the report discusses six questions in Section A with which candidates experienced difficulties.

Example 1

Vinay has a trade payables balance for Companies Co of $12,010 at 31 December 20X7.

The supplier's statement from Companies Co shows a balance of $13,209. Vinay has prepared a reconciliation and identified the following reconciling items:

(1) An invoice for $670 dated 15 December 20X7 for goods received the following day was not included in the general ledger account

(2) An invoice for $180 dated 31 December 20X7 for goods received on 2 January 20X8 was not included in the general ledger account

(3) An invoice for $693 was recognised in the general ledger account, incorrectly, as $639

(4) A bank payment of $295 instructed by Vinay on 31 December 20X7 was not received by Companies Co until 3 January 20X8

What is the reconciled trade payable balance in respect of Companies Co as at 31 December 20X7?

$

The correct number entry is **12734** (i.e., $12,734).

This type of question requires you to use the information in the scenario to calculate and input a correct number entry.

The question asked for the reconciled trade payables balance for Companies Co. Firstly, candidates are encouraged to look at each option and determine if they should be adjusted in the trade payables general ledger account, the supplier statement or have no affect. Items that adjust the trade payables general ledger account will be adjusted to find the reconciled balance.

From the question, notes (1) and (3) require an adjustment to the trade payables general ledger, note (4) requires an adjustment to the supplier statement and note (2) requires no adjustment.

Once candidates know which options affect the trade payable general ledger account, the reconciled balance can be calculated. The invoice in note (1) was omitted entirely from the trade payables account. The goods were received before the reporting date and, therefore, the invoice should be added. The $693 in note (3) was transposed and recorded, incorrectly, as $639. The trade payables general ledger account was, therefore, understated and the difference should be added.

The reconciled trade payables balance is:

	$
Balance at 31 December 20X7	12,010
(1) Invoice omitted	670
(3) Invoice transposed ($693 - $639)	54
	12,734

Example 2

The following disclosure note for property, plant and equipment has been drafted:

	Land and buildings	Fixtures and fittings	Plant and equipment
	$'000	**$'000**	**$'000**
Cost b/fwd	5,000	1,200	620
Additions		55	70
Revaluations	1,000		
Cost/valuation C/fwd	**6,000**	**1,255**	**690**
Acc. Depn b/fwd	500	240	93
Charge for the year	333	157	70
Acc. Depn c/fwd	**833**	**397**	**163**

There have been no disposals of any property, plant and equipment during the year.

Which of the following items should be included to complete the property, plant and equipment disclosure note?

(1) The effective date of the revaluation
(2) Whether an independent valuer had been used
(3) The historical carrying amount of the item of land and buildings that would have been included had they not been revalued
(4) The total carrying amount of each class of asset at the beginning and end of the accounting period

Choices:

A. 1 and 4 only
B. 1, 2 and 3 only
C. 4 only
D. 1, 2, 3 and 4

The correct answer is **D**.

This is an example of a multiple-choice style question where candidates are required to select one from four options.

This was a question from the *Preparing Financial Statements* section of the syllabus, specifically **G3 Disclosure notes**. This area of the syllabus requires candidates to draft disclosure notes.

Performance on this question was mixed and in some cases a lack of knowledge on the property, plant and equipment disclosure note was evident. Candidates should ensure that they have revised the disclosure note content to be successful in this type of question.

Example 3

Which FOUR of the following statements about accounting ratios are correct?

(1) They help the user of financial information to focus attention on significant issues

(2) They are only useful when comparing a business' results from one year to the next

(3) They provide all the information needed for interpreting company accounts

(4) They can provide information about the profitability, liquidity, efficiency and position of the company

(5) Ratios can be affected by a business' choice of accounting policies

(6) If there is an increase in any calculated accounting ratio, it is seen as favourable

(7) Gearing may indicate how risky a business is

(8) Interest cover will give an investor information about whether a dividend will be paid

This is an example of a multiple response question where candidates are required to choose four of the eight responses.

The **correct** options are **(1)**, **(4)**, **(5)** and **(7)**.

Option (1) is **correct**. If there are any large or unexpected fluctuations in ratios, then these can be further investigated.

Option (2) is incorrect. Whilst a comparison year-on-year is useful when assessing the performance of an entity, it may also be useful to compare to other data such as competitor or industry ratios.

Option (3) is incorrect. Other information will be required when interpreting company accounts such as disclosure notes or debt covenants.

Option (4) is **correct**. Accounting ratios help to provide information on these areas.

Option (5) is **correct**. Accounting policy choices may affect ratios. For example, if an entity chooses to revalue land and buildings, a revaluation surplus may be recorded in equity. The revaluation surplus will, in turn, increase equity and both return on capital employed and gearing are likely to be lower than an entity that has not revalued land and buildings.

Option (6) is incorrect. An increase in an accounting ratio is not always considered favourable. For example, if there has been an increase in gearing this may be unfavourable (depending on the level of gearing, ability to repay etc.). Accounting ratios should always be interpreted based on other known information about a company and the reasons why changes have arisen should be explored.

Option (7) is **correct** as the gearing ratio may indicate the level of risk in an entity. The ratio alone does not necessarily mean that there is a high-risk level as other factors must be considered; such as debt covenants, ability to repay etc.

Option (8) is incorrect. Interest cover provides information about the ability to cover interest with profit but does not give any indication of whether a company is likely to pay a dividend or not.

Example 4

Companies Co has several subsidiaries and has invested in an associate for the first time in the current year.

Identify whether each of the following statements regarding associates are true or false.

		True	False
(1)	Goodwill in associates is presented separately on the consolidated statement of financial position		X
(2)	Associates are accounted for using equity accounting	X	
(3)	An associate's total profit for the year is presented in the consolidated statement of profit or loss		X
(4)	The group share of an associate's assets and liabilities are consolidated on a line-by-line basis		X

This is an example of a multiple response matching question.

To answer this question, candidates need to apply their knowledge of IAS 28 Investments in Associates and Joint Ventures. For each of the options (1) – (4) candidates will need to select whether the statement is true or false in accordance with IAS 28.

Option (1) is **False**. Unlike subsidiaries, goodwill for an associate is not presented separately. It is, effectively, included within the 'Investment in associate' balance.

Option (2) is **True**. Associates are accounted for using equity accounting.

Option (3) is **False**. Under equity accounting, for the statement of profit or loss, the share of the associate's profit is recognised and not the total profit. For example, if Companies Co owned 40% of the equity shares in the associate company, 40% of the profit will be recorded in the consolidated statement of profit or loss as a 'Share of profit of associate'.

Option (4) is **False**. Adding the group share of an associate's assets and liabilities on a line-by-line basis is known as proportional consolidation and is prohibited. In the consolidated statement of financial position, the associate is recorded as a single line item within non-current assets called 'Investment in associate'.

Example 5

A draft statement of profit or loss for the year ended 31 March 20X8 presented a profit for the year of $65,800. Subsequently, the following errors were discovered:

(1) A $2,000 receipt from a credit customer was omitted from the general ledger

(2) A sales invoice for $8,000 was incorrectly raised at an amount of $9,000

(3) A $400 supplier invoice for IT services was incorrectly posted to the depreciation charge general ledger account

What is the revised profit for the year following the correction of the above errors?

A. $64,800
B. $66,400
C. $66,800
D. $67,800

The correct answer is **A**.

Firstly, candidates should review the three errors and decide whether they affect profit.

Error (1) will **not** affect profit. The receipt has been omitted. To correct for this error, the following manual journal entry will be recorded:

Dr	Bank	$1,000
Cr	Trade receivables	$1,000

Both the debit and credit are within the statement of financial position so there is no impact on profit.

Error (2) **will** affect profit. A sale has been overstated by $1,000 ($9,000 - $8,000). To correct for this error, the following manual journal entry will be recorded:

Dr	**Sales**	**$1,000**
Cr	Trade receivables	$1,000

Error (3) will **not** affect profit. The $400 has been recorded as an expense in profit or loss but has been included in the wrong expense account. To correct this error, the following manual journal entry will be recorded:

Dr	IT expense	$1,000
Cr	Depreciation expense	$1,000

There will be no impact on profit as both the debit and credit entry are included in the statement of profit or loss.

The revised profit is calculated as:

	$
Draft profit	65,800
Sales invoice adjustment (2)	(1,000)
	64,800

Option B is **incorrect** as all three items have been adjusted for ($65,800 - $1,000 + $2,000 - $400).

Option C is **incorrect** as the receipt from the credit customer has been adjusted for as well as the correction of the sales invoice ($65,800 - $1,000 + $2,000).

Option D is **incorrect** as only the receipt from the credit customer has been adjusted for and the sales invoice adjustment has been ignored ($65,800 + $2,000).

Example 6

Identify whether the following costs incurred by Companies Co should be capitalised as INTANGIBLE assets in the year ended 30 November 20X1.

		Capitalised as intangible asset	Not capitalised as intangible asset
(1)	$48,000 on staff costs relating to the development of a new product that is expected to generate future economic benefits	**X**	
(2)	$35,000 on advertising a new product which was successfully developed during the year. It is expected that the advertising campaign will generate additional economic benefits for Companies Co		**X**
(3)	$180,000 on laboratory equipment which will be used to build new product prototypes		**X**
(4)	$22,000 on the cost of testing whether a separately acquired intangible asset is functioning properly	**X**	

This question required candidates to apply their knowledge of IAS 38 Intangible Assets.

Option (1) **should** be capitalised as an intangible asset. Where there is a development phase of a new product, costs can be capitalised providing the relevant recognition criteria have been met.

The staff costs can be capitalised because the wording in the question states that the "product is expected to generate future economic benefits". In a question like this, it can be assumed that all other recognition criteria have been met.

Option (2) should **not** be capitalised as an intangible asset. Advertising costs are specifically prohibited from being capitalised as an intangible asset. Therefore, these costs should be recognised as an expense as they are incurred.

Option (3) should **not** be capitalised as an intangible asset. The $180,000 expenditure relates to laboratory equipment (a tangible asset) rather than the prototype itself.

Option (4) **should** be capitalised as an intangible asset. IAS 38 states that any "directly attributable costs of preparing the asset for its intended use" can be capitalised. Costs of testing are considered a directly attributable cost.

Comments about Section B performance

In this section, candidates are required to provide answers which test their understanding and ability to prepare 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 extracts. Where only extracts are required, there will be additional elements to the question.

Candidates will be required to prepare the financial statements using a variety of number entry, drop-down list and multiple response matching. It is vital that candidates familiarise themselves with the computer-based exam format for section B using the specimen exam (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 the future when producing different types of financial statement.

Single entity financial statements

It is advised that you become familiar with the presentation of the financial statements in accordance with IFRS® Accounting Standards. You will not be asked to enter 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 amount within the financial statements or to 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, you might be asked:

Should each of the following amounts be used to determine the figures to be reported on the statement of financial position (SOFP) as at 31 October 20X7 before any year-end adjustments?

To answer this question, you might be given a trial balance and have the option of selecting ‘Yes’ or ‘No’ from a drop-down list. For example, buildings at cost would require you to select ‘Yes’, whereas buildings accumulated depreciation as 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.

You will need to be familiar with the relevant journal entries for transactions as there may be a specific requirement within the question related to adjusting figures in the trial balance. Typically, you will need to calculate the depreciation charge on some of the assets, perhaps using two different depreciation methods.

This question style focusses on your understanding of accounts preparation and the double-entry system; attempting numerous practice questions is essential.

Single entity statement of cash flows

You may be required to prepare a statement of cash flows using both number entry and drop-down lists. It is important that you know the format of a statement of cash flows as you may be required to select appropriate headings. For each cash flow identified, you may be required to indicate whether you need to ‘add’ or ‘subtract’ the amount calculated; you must sufficiently prepare for this.

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

- Understand, for the indirect method, whether movements in working capital have a positive or negative impact on cash generated from operations.
- Know how to calculate the tax and dividends paid during the year. Dividends are not always given in the question and so you may need to reconcile retained earnings to work out this balancing amount.
- Be careful with the impact of a profit (or loss) on disposal – these are non-cash items and need to be adjusted in operating activities. The **cash received** on disposal should be shown as a cash inflow under investing activities and the carrying amount of the disposed asset must be removed from property, plant and equipment when calculating the purchase of property, plant and equipment.

Consolidated financial statements

When preparing 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 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 IFRS Accounting Standards; 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 things to remember when preparing a consolidated statement of financial position:

- 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, even if the parent company owns less than 100% of the subsidiary.
- The investment in the subsidiary (shown in the statement of financial position of the parent company) is removed and the goodwill figure added.
- The share capital and share premium balances of the subsidiary are not consolidated; only the balances related to the parent are used in the consolidation.
- The pre-acquisition retained earnings of the subsidiary are not included in the consolidated statement of financial position. Instead, the group share of the

subsidiary's profit in the post-acquisition period is calculated and added to the group's retained earnings.

Below are some important things to remember when preparing a consolidated statement of profit or loss:

- The revenue and expenses are added together on a line-by-line basis **in full**, even if the parent company owns less than 100% of the subsidiary (although be mindful that the subsidiary results must be time apportioned if control was achieved mid-year).
- Eliminate intragroup sales and purchases.
- Eliminate unrealised profit held in closing inventories (in the statement of financial position and as part of cost of sales) related to intragroup trading.
- Ensure you know how to calculate the profit attributable to the group and the non-controlling interests in the subsidiary.

Conclusion

It is imperative that candidates study and prepare well for all topics in the syllabus and not just a select few as the exam will cover the full breadth of the syllabus.

Equipping themselves with adequate knowledge of all topics will 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 attempt all questions in the exam.