

Examiner's report

F7 Financial Reporting

December 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

In this section, two Section A questions that proved to be difficult for candidates are reviewed:

Example 1

On 1 January 20X5, Pratt Co acquired 80% of the equity shares of Sam Co. Pratt Co values non-controlling interests at fair value and, at the date of acquisition, goodwill was valued at \$20,000. At 31 December 20X5, the goodwill was fully impaired.

In conducting the fair value exercise of Sam Co's net assets at acquisition, Pratt Co concluded that property, plant and equipment, with a remaining life of five years, had a fair value of \$5,000 in excess of its carrying amount.

Sam Co has not incorporated any of these adjustments into its individual financial statements.

What is the total charged to group retained earnings at 31 December 20X5 as a result of these consolidation adjustments?

- A** \$16,800
- B** \$21,000
- C** \$17,000
- D** \$20,800

What does this test?

This tests that candidates know how to write off the group share of any goodwill impaired and the group share of the additional depreciation relating to any fair value adjustments on consolidation.

Unfortunately, the majority of candidates failed to restrict the write-offs to the group share (80%) and most wanted to charge 100% of both adjustments against retained earnings.

What is the correct answer?

The additional depreciation charged as a result of fair value adjustment is:

$\$5,000/5 = \$1,000$

$\$1,000 \text{ (depreciation)} + \$20,000 \text{ (impairment of goodwill)} = \$21,000 \times 0.8 = \$16,800$

Why is the correct answer none of the other options?

\$21,000 – no adjustment to either adjustment for group share

\$17,000 – 80% of the goodwill impairment + 100% of the additional depreciation

\$20,800 – 100% of the goodwill impairment + 80% of the additional depreciation

Example 2

In accordance with the *Conceptual Framework for Financial Reporting* of the International Accounting Standards Board, which of the following is/are true in relation to the enhancing characteristic of comparability?

- (1) Permitting alternative accounting treatments for the same economic phenomenon enhances comparability
- (2) Comparability requires uniformity

A Both 1 and 2

B Neither 1 nor 2

C 1 only

D 2 only

What does this test?

This question tests whether candidates understand the meaning of comparability.

What is the correct answer?

Paragraph QC25 of the conceptual framework of Financial Reporting states that permitting alternative accounting treatments for the same economic phenomenon **diminishes** comparability.

Paragraph QC23 of the conceptual framework of Financial Reporting state that comparability is **not** uniformity and does not require it.

Why is the correct answer none of the other options?

Unfortunately, most candidates recognised that the first statement was incorrect but thought that comparability required uniformity. Candidates should read the question carefully and rationalise each of the options individually.

Section B

Section B consisted of three scenario-based questions, each of which had five (two mark) objective test questions. In December 2017, the cases included in the paper-based exam tested the impairment of non-current assets (IAS 36), government grants (IAS 20), discontinued operations (IFRS 5), earnings per share (IAS 33), foreign currency (IAS 21) and financial instruments (IFRS 9). The case questions in section B require candidates to demonstrate a wide knowledge of the syllabus and that they are able to apply that knowledge to a given set of circumstances. Unfortunately, candidates did not perform well in the questions that addressed IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 33 *Earnings per Share*. Candidates should be prepared to answer questions that test all areas of the syllabus and be aware that the case questions allow the examiner to test a wide variety of topics in-depth.

Section C

Candidates were presented with questions drawn mainly from the areas of:

- 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, although possibly not as good as in previous sittings.

As in previous questions on single entity financial statements, 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 were generally able to prepare a well presented set of financial statements, maximising the marks available due to the 'own figure rule'. For example, candidates who made a depreciation calculation error still gained credit for following that incorrect figure through into the financial statements. Candidates who show good workings and neatly presented financial statements are often able to pick up these marks. Candidates who do not show how they have arrived at a final answer for an item containing numerous calculation errors continue to miss out on these marks. The presentation of logical and clear workings is a fundamental approach to producing a set of financial statements in this exam, whether in CBE or paper format.

Candidates generally coped well with adjustments relating to inventory, depreciation and the issue of loan notes. A surprising number of candidates seemed unable to deal with a non-current asset held for sale, with a significant minority ignoring it completely. An onerous contract proved the most challenging aspect for many students, producing the most incorrect answers. Again, candidates

who attempted the calculation and indicated the impact of the double entry picked up more marks than the candidates who attempted to record the expense with no consideration for the impact on the statement of financial position.

There continues to be a wide variety of layouts used by CBE candidates. CBE candidates should ensure that all of their workings are logical and easily linked. They should also be aware that formula within a cell is entirely acceptable. A small minority of candidates completed workings many rows beneath or to the right of their answers. This should be avoided, and workings should be presented either next to or directly below the main answer.

There are multiple past exam questions looking at the preparation of single company financial statements, as this has been a large part of the F7 exam for many years. Triage Co from the September 2016 paper and Moston Co from the September/December 2015 hybrid paper are good examples of this type of question which students must practice, preferably within the CR workspace for CBE candidates. As this type of question has possibly the widest areas of syllabus coverage, candidates are advised to attempt numerous single entity accounts preparation questions before sitting this exam.

Analysis of consolidated financial statements

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. Candidates scored well on the calculation of goodwill, but often performed poorly on the calculation of the gain/loss on disposal of a subsidiary. Although this has is a relatively new addition to the syllabus, it has been tested on a number of occasions now and candidates should be prepared for it.

Candidates continue to be able to score well on the calculation of ratios, with the exception of the calculation of return on capital employed and net asset turnover. 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 present the ratios without workings, possibly due to the answer being in a word processing format rather than a spreadsheet. It is good practice for candidates to show their workings which support each ratio, and the candidates that showed these, whether in a table or just over several lines, scored much higher than those who simply wrote the percentage figure calculated.

The analysis surrounding consolidated financial statements must involve comments on group-related issues; for example, the comparability of consolidated financial statements year-on-year especially where there has been a disposal or acquisition of a subsidiary or the elimination of intra-group transactions. However, a minority of candidates answered the question without any reference to these group-related issues. A disappointing number of candidates produced very limited or zero commentary. Generic statements 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 their knowledge of consolidations into a question that requires the analysis of consolidated financial statements. 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 significant minority continue to attempt ratios with no attempt at discussion, which highlights that further work and practice in this area of the syllabus 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 some CBE students had less workings displayed, instead showing the total consolidated figure with no guidance as to how that figure had been calculated.

The preparation of a consolidated statement of profit or loss was generally well answered, with the better prepared candidates often scoring near to full marks, highlighting the importance of good practice. A surprising number of candidates used proportionate consolidation in relation to the subsidiary, which is a fundamental error at this stage. Although this has been a problem in previous years, it is an approach which has been in decline. However, this sitting displayed a rise in candidates who used this incorrect approach. If future candidates analyse the solutions provided in past papers and Approved Content Providers revision kits properly (ie alongside the question), then they should be able to avoid the adoption of fundamentally incorrect techniques.

Calculations of goodwill continue to be well presented. Also, the adjustments required to the consolidation were often an area that candidates scored highly on, which is encouraging to see. Students displayed good knowledge of intra-group sales, fair value depreciation and unrealised profits. It was also heartening to note that many candidates attempted to unwind the discount which is one of the most technical aspects of the syllabus.

The most common error by far was the omission of the profit split between the parent's shareholders and the non-controlling interest in the Statement of Profit or Loss (SOPL). This is a key part of the preparation of a consolidated SOPL, but continues to be missed by too many candidates. Individuals who did not attempt to split the profit or other comprehensive income between the parent and the non-controlling interest missed out on a potential 4.5 marks out of 17.

As expected, answers to the narrative section of this question were mixed. When revising consolidated financial statements, candidates cannot simply rote learn a technique. The F7 exam is looking for an understanding of the principles behind the preparation of consolidated financial statements, rather than simply providing a set of calculations. Candidates who omitted this discussion missed out on a further 3 marks.

It was not uncommon to see candidates who clearly had a decent knowledge of the topic fail this question by omitting the profit split and the discussion, therefore forfeiting 7.5 marks out of 20. Candidates must not target their revision simply at calculations, as this can prove costly. The December 2015 exam contains a good example of a consolidated statement of profit or loss for students to attempt.

Analysis of single entity financial statements

Again, the ratio calculations were often well attempted, with many candidates scoring maximum marks for the calculation of some relatively straightforward ratios. Candidates found it more difficult when asked to adjust figures first and then produced revised ratios. The most common problem here is when candidates simply show a percentage or a figure with no workings. If candidates do this, it is difficult to see how they have arrived at the figure, meaning credit cannot be given if they have done some elements of the adjustments correctly.

Candidates did demonstrate an improvement in using the narrative information from the scenario here, which was pleasing to see. Unfortunately however, a significant minority continue to ignore all narrative information from the scenario, simply stating that a lower profit margin meant worse performance, with no attempt to analyse why a company may have recorded lower margins.

Pleasingly, in many scripts, candidates did demonstrate that they could use the scenario to help them answer the question. After highlighting this issue in numerous previous sittings, this was an encouraging sign and one which we hope continues.

An area of continuing weakness is that candidates too often fail to summarise their thoughts in a well explained conclusion. A sensible summary of the analysis that candidate has already written will always score marks, and candidates must ensure that they include this in their answer – it is a professional skill which is required in the workplace.

Exam technique

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

The analysis discussion points should be laid out clearly, using headings for each area requested, such as 'performance' and 'position'. Candidates should make clear statements, and avoid repetition. Numerous candidates continue to repeat the same point two or three times when explaining the movement on a ratio. It is much better to make comments on a wider range of figures than to repeat similar points over one specific issue.

Candidates should also ensure they include a conclusion which is based on their analysis/discussion; if so, marks will be awarded accordingly.

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 as this is a skill that is required in P2, so candidates cannot afford to neglect these sections as they practise questions.

Word processing and spreadsheet technique

As stated earlier, it would appear that when the word processing tool is used for the analysis question candidates are less likely to show their workings for calculating ratios than those sitting the paper-based exam. CBE candidates need to improve their answers here 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 that provide more guidance on how to use the spreadsheet software for CBE candidates. 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 F7 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 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.

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.