



Examiner's report

FA/FFA papers

For CBE exams covering September 2017 to June 2018

General Comments

There were two sections to the examination paper and all of the questions were compulsory. Section A consisted of 35 multiple choice questions (two marks each) which covered a broad range of syllabus topics. Section B had two longer questions (15 marks each) testing the candidates' understanding and application of financial accounting skills in more depth.

The following paragraphs report on each section and focus on some of the key learning points.

Section A

It was pleasing to see that the majority of candidates attempted all of the questions. Candidates preparing for the next examination of FA/FFA are advised to work through the sample questions discussed here and to carefully review how each of the correct answers were derived. The following three questions are reviewed with the aim of giving future candidates an indication of the types of questions asked, guidance on dealing with exam questions and to provide a technical debrief on the topics covered by the specific questions selected.

Sample Questions for Discussion

Example 1

M Co's trial balance does not agree and therefore a suspense account with a debit balance of \$3,000 has been opened.

Which of the following errors could explain this difference?

- A A receipt of \$3,000 from a credit customer has been credited to the payables control account instead of the receivables control account
- B The interest received account of \$1,500 has been omitted from the trial balance
- C Equipment repairs of \$3,000 have been incorrectly capitalised as part of plant and equipment
- D A \$1,500 bank balance has been shown in the trial balance as an overdraft of \$1,500

This question tests a candidates understanding of the errors that may occur in financial statements and whether an impact on the suspense account will arise.

Option C is an error of principle where M Co has incorrectly capitalised an expense by performing the following double entry:

Dr	Plant and equipment	\$3,000
Cr	Bank	\$3,000

As an equal debit and credit entry has been performed there will be no impact on the suspense account. M Co can correct this error of principle by debiting equipment repairs and crediting plant and equipment.

Option A is an error of commission where M Co has completed the following double entry in error:

Dr	Bank	\$3,000
Cr	Payables control account	\$3,000

The credit entry should have been recorded within the receivables control account. Again, this error will not impact the suspense account. M Co can fix the error by debiting payables control account and crediting receivables control account.

Option B is an error of omission where the account is omitted from the trial balance entirely. Interest received is a credit balance and for the trial balance to balance a suspense account on the credit side would be required, not the debit side.

Option D will impact the suspense account as a positive bank balance (debit) has incorrectly been recorded as an overdraft (credit) on the trial balance. This will result in debits being understated by \$1,500 and credits being overstated by \$1,500. The error will have resulted in a debit entry to the suspense account of \$3,000 in order for the trial balance to balance.

Therefore, the correct answer is **D**.

Example 2

On 1 October 20X6, N Co had 400,000 25c ordinary shares in issue. On 1 January 20X7, there was a rights issue of one for five at \$1.50. The entry in the share premium account was omitted in error and as a result the trial balance at 30 September 20X7 did not agree.

What balance would have been entered in the suspense account when it was opened?

A	\$400,000 Dr
B	\$400,000 Cr
C	\$100,000 Dr
D	\$100,000 Cr

This question tests a candidate's ability to record a share issue in the financial statements. To identify the amount that would have been recorded in the suspense account it would be useful to consider how the share issue would have been recorded in the financial statements in full.

On 1 January 20X7 the rights issue would have resulted in a further 80,000 shares being issued (400,000 ordinary shares x 1/5) and would generate cash of \$120,000 (80,000 x \$1.50). On this date the share issue should have been recorded as follows:

Dr	Bank	\$120,000
Cr	Share capital (80,000 x 25c)	\$20,000
Cr	Share premium (40,000 x (1.50 – 0.25))	\$100,000

Therefore, the answer is **D** as it is a credit to share premium that has been omitted from the financial statements.

Distractors A & B arise where the 400,000 shares are mistaken as a monetary amount of \$400,000. If this were the case, the number of shares in issue would have been 1,600,000 (\$400,000 / 25c) which in turn would result in 320,000 new shares being issued under the rights (1,600,000 x 1/5). The share premium arising would have been \$400,000 (320,000 x (\$1.50 – 0.25)).

Example 3

D Co's year-end balance on the receivables control account does not agree to the total of the list of receivables ledger balances of \$560,000. The following errors have been identified:

- (1) An irrecoverable receivable balance of \$30,000 has been correctly written off in the receivables control account but no adjustment has been made in the relevant customer's account in the receivables ledger
- (2) Early settlement discounts of \$12,500, which were not expected to be taken at the time the invoice was raised, have been omitted from both the receivables control account and the receivables ledger balances

What was the balance on the receivables control account AFTER the errors were corrected?

A	\$505,000
B	\$530,000
C	\$542,500
D	\$517,500

The receivables control account and the list of receivables should agree. To correctly answer this question, candidates need to use the relevant information given about the list of receivables reconciliation. The irrecoverable receivable has not been adjusted in the list of balances so will need to be taken into account in the reconciliation. The early settlement discount was not expected to be taken at the time the invoice was raised and therefore, the sale and receivable would have been recorded at the gross amount in accordance with IFRS 15 *Revenue from Contracts with Customers*. The correct adjustment for this discount when taken would be to Dr

Revenue \$12,500 Cr Receivables control account \$12,500. The total list of receivables would also need to be adjusted.

Reconciliation back to the receivable control account balance:

	\$
Total list of receivables ledger balances	560,000
Irrecoverable debt write off	(30,000)
Settlement discounts	<u>(12,500)</u>
Adjusted receivables	<u>517,500</u>

Therefore the correct answer is **D**.

Section B

Section B type questions will test the preparation of basic financial statements (including Statements of cash flows) for single entities (single companies or sole traders) and simple consolidated financial statements. It can also include some basic accounts interpretation aspects. The standard of answers in section B was generally good and the majority of candidates attempted both questions. The following comments explain how candidates might be able to improve their performance in the exam.

Comments on the exams:

Single entity questions:

Candidates should ensure that they have a good understanding of double entry book-keeping and how an adjustment made in the statement of profit or loss might impact elsewhere (for example in the statement of financial position). The following comments may be of assistance when preparing the required statement for a single entity:

- Read the requirement first to determine the statement that you have been asked to prepare.
- Carefully read through the trial balance and decide what should be included in your required statement (i.e. have you been asked to prepare a statement of profit or loss or a statement of financial position). Remember not everything given in a trial balance will need to be used for the statement you are being asked to prepare.
- Adjustments or calculations may be required to arrive at a figure for the financial statements you are being asked to prepare or asked as a separate task within the question.
- Select the correct format and title for the statement of profit or loss or statement of financial position in accordance with IAS 1.
- Attempt all parts of the question.
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- Common adjustments for depreciation are required in these questions. Ensure that you are able to calculate depreciation using both the straight line and reducing balance methods and adopt the correct method relevant to the information in your question.

Basic consolidation questions:

A thorough understanding of consolidation techniques is also required, including the calculation of key figures such as goodwill, non-controlling interests and consolidated retained earnings. When preparing consolidated financial statements candidates should:

- Carefully read through the information provided.
- Select the correct title i.e. “consolidated statement of financial position at (date)” or “consolidated statement of profit or loss for (date)”.
- You are expected to know how to calculate net assets, goodwill and non-controlling interest. You may be asked to select both headings and figures to complete a working or identify the correct formula. Ensure you practice these workings and know what should be added and/or deducted to arrive at the correct figure. Add the assets and liabilities of the parent and subsidiary together on a line-by-line basis. Do not time apportion the figures if it has been a mid-year acquisition as the statement of financial position must show 100% of the assets and liabilities that the parent controls.
- Add income and expenses of the parent and subsidiary together on a line-by-line basis however time apportion profit or loss items where relevant ie the subsidiary has been acquired during the current financial year
- Record the equity share capital (and share premium) of the parent **only**.
- The group share of the subsidiary’s post-acquisition profit is calculated and added to group retained earnings. Be extra careful when there is a mid-year acquisition of a subsidiary as you will need to time apportion the profit for the year to determine the post-acquisition amount.
- Ensure when calculating unrealised profit that you correctly apply mark-up or margin dependent upon information relevant to your question.

Candidates should read the question carefully and follow the instructions contained therein. For example, some questions will tell you to use \$’000 or \$m. Others will give you instructions to ignore brackets or signs when entering negative numbers. Note also that where a pro-forma answer shows headings such as “Less: cost of sales”, that no minus sign or brackets should be put round the figure as the heading already indicates that the figure is negative. In questions requiring the preparation of statements of cash flows, all figures should be entered as positive and there are drop down lists for candidates to indicate whether the figure is positive or negative.

Conclusion

Both the FA and FFA exam require candidates to have a thorough understanding of financial accounting techniques and the capability of preparing financial statements for both single and group entities. Candidates are advised to engage with practise questions and to know the formats of financial statements. In the exam you should ensure you answer/attempt **all** questions in the time available.