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# **Examiner's Report**

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**Paper 7**  
**Advanced Accounting**

## **General Comments**

The overall performance of the candidates was comparable with last session. In general, candidates did well in calculations but were weak in answering essay question and in applying accounting standards. In this session, candidates generally performed at their best in Section C2; that is the question on preparing cash flow statement. Otherwise, several areas of weakness were identified:

- Inadequacy of preparation on financial reporting standards and, as a result, out-dated accounting standards applied in answering the questions.
- Problems in answering theoretical questions; in particular, applying accounting concepts in the scenarios given in question.
- Carelessness in reading the question, a significant portion of marks was lost for this reason.
- Inadequate comprehension of requirements of the questions, and as a result, answers were not direct to the questions.

## **Section A – 15 Multiple Choice Questions**

The overall performance in the multiple choice questions was better than the last session. About half of candidates achieved a pass mark in this section. The multiple choice questions usually cover a wide range of topics in the syllabus, and include both conceptual and computational types. It is expected that candidates study the syllabus thoroughly.

## **Section B – 1 Question**

### **Question B1**

This was a compulsory question that examined candidates' ability to prepare journal entries to record transactions at the date of business combination. Performance in this question was fair and less than half of candidates obtained a pass in this question. Those who did not perform well in this question had the following problems:

- They were weak in preparing journal entries for recording investment in subsidiary and in associates and also non-controlling interests at the date of business combination.
- Some were unable to differentiate between "significant interests" and "control".
- Some lost marks because they failed to correctly compute items of goodwill on business combination and non-controlling interest.

## **Section C – 4 Questions**

### **Question C1**

This question was the least popular one and about one-third of candidates attempted it. Performance in this question was unsatisfactory and only a few of the candidates got a pass mark. Despite the fact that part (a) was very straightforward, a number of candidates had difficulties in distinguishing between provisions and contingent liabilities.

The answer to part (b) of this question is disappointed. Significant portion of marks were lost because:

- Most of the candidates did better in identifying the items and the related amount to be recognised as provision than in providing explanations for the computation where they had to justify their application of the accounting treatments in particular situations given in the question and with relevant accounting standards.
- Some candidates did not understand the meaning of "best estimate" for the amount of provision and therefore did not explain the reasons why the amount estimated by surveyor was used in the calculation of the amount of provision.

- A number of the candidates did not know enough about the concept of present value and, therefore, failed to calculate correctly the present value of the amounts of provision and also the related finance costs.
- Even though the time value of money is material, most of the candidates were not aware of the need to discount the future outflow of economic resources to the present value when calculating the provision.

### **Question C2**

This question was quite popular and more than half of candidates attempted it and got the highest passing rate out of all the questions in Section C. This was a straightforward question and the answer to the preparation of cash flow statement was more than satisfactory. Candidates were, however, weak in providing comments on the company's liquidity and gearing position, inventory and accounts receivable management, cash flows from operating activities and cash flow position. It is expected that the candidates should be able to:

- Provide support to their comments with appropriate quantitative data and accounting ratios;
- Identify the reasons behind the changes in financial ratios and cash positions for the two years;
- Consider the economic atmosphere, business environment and scenario given in question when making comments on the company's financial status; and
- Present logical arguments or justification for their comments on the financial status of the company.

### **Question C3**

This was the most popular question and two-third of the candidates attempted it. However, not many candidates could achieve a pass mark in this question. Part (a) tests the basic principle of classifying finance lease and operating lease, it was found that a number of candidates had not prepared well for HKAS 17 "Leases" and they failed to highlight the risks and reward of ownership as the basis of identifying different types of leases.

In part (b) of this question, many candidates could not achieve high scores for the following reasons:

- Most could not provide logical arguments and explanations to justify their accounting treatments and presentation on the financial statements with reference to the particular situation given in the question and with relevant accounting standards.
- A number of candidates showed a poor understanding of the basic principles and applications of HKAS 17 "Leases" in determining the cost of the leased assets and in determining the economic life to be used for calculating the depreciation of the leased assets.
- Many of the candidates did not understand the concept of present value well and, therefore, failed to calculate correctly the present value of minimum lease payments.
- Moreover, some candidates failed to recognise the finance lease at the lower of the fair value and the present value of minimum lease payments; and also to depreciate lease asset over the shorter of the lease term and its useful life.
- Some of them could not calculate the prepayment of rent correctly.

### **Question C4**

This was not a popular question in this section and about one-third of the candidates attempted it. Performance in this one was not satisfactory and only a few of the candidates acquired a pass mark. Candidates were not able to achieve higher marks for the following reasons:

- They did well in part (a); however, they could not properly prepare the extracts of statement of financial position of Latent Limited in accordance with the format as required by HKAS 1 "Presentation of Financial Statements".

- Most of them were unable to identify the problems in accounting treatments in the specified situations and to apply the requirements of the appropriate accounting standards to the circumstances given in the question.
- Most of them could not provide clear explanations for their accounting treatments and presentation on the financial statements and justify how and why they had applied the specific accounting standards.
- Some candidates failed to define clearly the events after the reporting period and were confused about the circumstances where it should be an adjusting event or a non-adjusting event after the reporting period.

**[ END OF EXAMINER'S REPORT ]**