

Examiner's Report

December 2018 Session

Paper 7
Financial Accounting

General Comments

The overall performance of candidates in the examination was good. The Compulsory Question B1 was answered satisfactorily. The majority of candidates were able to produce financial statements in the format stipulated in HKAS 1 (Revised) "Presentation of financial statements". Question C3, which was optional, was the most popular and was answered most satisfactorily. Amongst the optional questions, Question C2 was the least popular and was poorly answered.

Section A – 15 Multiple-choice Questions

The overall performance in Section A was poor with over half of the candidates failing to obtain a pass mark. This section contained questions covering a wide range of topics in the syllabus, including both conceptual and computational types. Such unsatisfactory performance reflected that candidates had not prepared well for the examination. To improve performance, candidates are strongly advised to thoroughly study all topics and accounting standards in the syllabus.

Section B – 1 Compulsory Question

Question B1

This question aimed at testing candidates' abilities to prepare a statement of profit or loss and other comprehensive income and a statement of financial position in accordance with HKAS 1 (Revised). In general, candidates performed satisfactorily in this question. Many demonstrated an understanding of the format and presentation of the two statements and the majority of candidates were able to present the "other comprehensive income" section of the statement of profit or loss and other comprehensive income.

In this question, some of the candidates failed to revise the useful life when calculating the depreciation of plant and machinery. Also, some were not able to calculate correctly the provision for warranties and did not present the provision under "Current liabilities" in the statement of financial position.

Section C – 3 Optional Questions

Question C1

This question aimed at testing candidates' ability to prepare the "Cash flows from operating activities" section based on the requirements set out in the HKAS 7 "Statement of Cash Flows". In general, this optional question was attempted satisfactorily.

The majority of the candidates who attempted this question were able to identify non-cash items and perform necessary adjustments in the answers. They were familiar with the format and structure of the session and able to differentiate between direct method and indirect method. Only a few of them failed to adjust correctly all the changes in working capital.

Question C2

This question aimed at testing candidates' ability to apply HKAS 24 (Revised) "Related party disclosures". This was the least popular and the worst performed question among the three optional questions in Section C.

In part (a), many candidates were able to identify correctly Tree Limited and Flower Limited as the related parties of the reporting entity, Grass Limited. However, they did not mention clearly the group relationship (e.g. parent / subsidiary / associate) between the companies. In parts (b) and (c), most of the candidates were able to recognise the person as a related party to another person, but failed to identify correctly the related party relationship among companies. Part (d) was poorly answered as most of the candidates failed to understand the disclosure requirements for a related

party transaction.

Question C3

This question aimed at testing candidates' ability to apply HKAS 16 "Property, plant and equipment" and HKAS 40 "Investment property" to the two models of the two accounting standards, namely, revaluation model and fair value model. This was the most popular question in Section C and was answered most satisfactorily.

In general, most of the candidates were able to identify the appropriate classification of the two properties and to prepare correct journal entries. However, some of them did not state precisely "Property, plant and equipment" and "Investment property" in the journal entries. A few of them mistook the fair value changes of investment property as a revaluation surplus.

[END OF EXAMINER'S REPORT]