

# **Examiner's Report**

**June 2017 Session**

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**Paper 7**  
**Financial Accounting**

## **General Comments**

The overall performance of candidates in the examination was satisfactory. The Compulsory Question B1 was answered fairly well. The majority of the candidates were able to produce financial statements in the format stipulated in HKAS 1 (Revised) "Presentation of financial statements". Amongst the optional questions, Question C2 was the most popular question while Question C3 on the related party disclosure was the least popular question but was answered most satisfactorily in this Paper.

### **Section A – 15 Multiple-choice Questions**

The overall performance in this section was satisfactory with half of the candidates obtaining a pass mark in this section. Section A contained questions covering a wide range of topics in the syllabus, including both conceptual and computational types. 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' ability 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 with only a few candidates failing to present exchange gain on translating foreign operations in the "other comprehensive income" session of the statement of profit or loss and other comprehensive income.

In this question, the majority of the candidates failed to calculate correctly the carrying amount of plant in the statement of financial position. They are not familiar with the accounting treatments on changes in remaining useful life. Also, some of the candidates were not able to classify the bank borrowings into short-term and long-term borrowings, and failed to present the current portion of long-term bank borrowings separately as "current liabilities".

### **Section C – 3 Optional Questions**

#### **Question C1**

This question aimed at testing candidates' ability to apply HKAS 7 "Statement of Cash Flows". In general, this optional question was attempted poorly.

Some of the candidates recognised the usefulness of a statement of cash flows. However, the majority of candidates failed to present properly the cash flow from operating activities. They were unable to identify non-cash items and hence failed to perform necessary adjustments in the answer. Also, they were not familiar with the nature of cash flow from operating activities and thereby were unable to adjust correctly all the changes in working capital.

#### **Question C2**

This question aimed at testing candidates' ability to apply HKAS 17 "Property, plant and equipment". This was the most popular question in Section C and candidates performed fairly well.

Many candidates who attempted this question were able to follow the accounting treatments of property, plant and equipment. Most of the journal entries in relation to the property were correctly prepared. However, some of the candidates failed to eliminate accumulated depreciation in a revaluation and to perform the annual transfer of realised amounts of revaluation surplus to retained earnings.

### **Question C3**

This question aimed at testing candidates' ability to apply HKAS 24 (Revised) "Related Party Disclosures" and HKFRS 15 "Revenue from Contracts with Customers". This was the least chosen question in this section but was the best performed one among the three optional questions in Section C.

Part (a) was related to HKAS 24 (Revised) "Related Party Disclosures". In general, many candidates who attempted this question were able to identify correctly that Yellow Limited, Purple Limited and Green Limited were the related parties of the reporting entity, Blue Limited. However, apart from group relationships, most of the candidates were not able to understand personal relationships leading to the related party of a reporting entity. A few candidates incorrectly evaluated Amy Chan and Louis Chan as the related party of Blue Limited.

Part (b) was related to HKFRS 15 "Revenue from Contracts with Customers". Candidates poorly answered this sub-part of the question. They were not able to understand the criteria leading to a single performance obligation and hence failed to consider phone product and data and voice services separately.

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