

Examiner's Report

June 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 the financial statements in the format stipulated in HKAS 1 (Revised) "Presentation of financial statements". Question C1, which was an optional question, was the most popular and was answered most satisfactorily. Amongst the optional questions, Question C2 was the most badly answered.

Section A – 15 Multiple-choice Questions

The overall performance in Section A was poor. 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. However, the following mistakes were commonly found:

- (a) the adjustments on Inventory was wrongly calculated as most of the candidates failed to distinguish between profit margin and mark-up;
- (b) the provision for warranties was not revised to 10% on annual total sales and the majority of the candidates did not present the increase in provision in "Other expenses";
- (c) candidates failed to indicate the depreciation of the revalued building in accordance with the estimated remaining useful life; and
- (d) the bank loan was not separated into short-term and long-term borrowings, and failed to present separately as "Current liabilities" and "Non-current liabilities".

Section C – 3 Optional Questions

Question C1

This question aimed at testing candidates' ability to apply HKAS 24 (Revised) "Related party disclosures". This was the most popular question in Section C and was attempted satisfactorily.

Many candidates who attempted this question were able to identify correctly Din Limited, Orange Limited and Apple Limited as the related parties of the reporting entity, Peel Limited. However, most of the candidates failed to provide appropriate justifications to their answers. They did not mention clearly the group relationship (e.g. parent / subsidiary / associate) between the companies.

Question C2

This question aimed at testing candidates' ability to apply HKAS 38 "Intangible Assets". The performance was poorest among the three optional questions.

The majority of the candidates who attempted this question were not able to explain the characteristics of intangible assets. Some of them wrongly defined intangible assets in part (a). For the three projects in which the company was involved, most candidates correctly explained the accounting treatments of the projects and provided necessary explanations in part (b). However,

for part (c), candidates were not able to calculate the correct amount as shown in the Statement of profit or loss and other comprehensive income and the Statement of financial position. Most of the candidates missed the costs carried forward from last year and wrongly classified the depreciation of the three items of equipment.

Question C3

This question aimed at testing candidates' ability to use financial ratios to evaluate company's performance with reference to the industry average. This was the least chosen question in this section and the performance was fair.

In general, many candidates who attempted this question were able to identify part of the usefulness of ratio analysis. However, the majority of them did not understand the effect of the ratios represented. They failed to provide detailed interpretation on the financial ratios and to explore the relationship between the ratios. Some of them did not evaluate how the ratios related to the returns to shareholders / members.

[END OF EXAMINER'S REPORT]