

Examiner's Report

June 2009 Session

Paper 7
Financial Accounting

General Comments

The overall performance of the candidates is not quite satisfactory. Most candidates did not demonstrate adequate knowledge of the preparation of financial statements in the form of published accounts despite this being an important component of the examination syllabus. Candidates should understand that disclosure is an integral part of the accounting standards. It is expected that apart from the ability to identify, define and explain the accounting issues, and demonstrate skill in numerical operations. It is equally important that candidates know the proper presentation of the answer in the form of published accounts according to HKAS 1 (Revised) "*Presentation of Financial Statements*".

On many occasions, an outdated format of the financial statements was adopted. Candidates should be aware of the '*six months rule*' examination requirement and use the latest format of the financial statements. Candidates should ensure the text books they study are up to date for examination purposes. For areas that the text books fail to reflect the relevant version candidates are advised to refer to the Accounting Standards which can be found in the HKICPA members' handbook (volume II). Another useful learning resource that is highly recommended is the "*Learning Zone*" of the T/Dialogue magazine, where candidates can find useful articles that give good explanations of the concept and application of some accounting standards.

Lastly, candidates should improve their examination techniques by reading the question carefully and answering the question instead of reproducing the materials they have studied. Please note that no marks are awarded for an irrelevant answer. This area of weakness is discussed further in other parts of this report.

Section A – 15 Multiple-choice Questions

The overall performance in the multiple-choice questions was average. These questions usually cover a wide range of topics in the syllabus, including both conceptual and computational types. It is expected that candidates study the syllabus thoroughly.

Section B – 1 Compulsory Question

Question B1

This question aimed to examine candidates' ability to prepare journal entries and final financial statements. Performance in the preparation of journal entries was exceptionally poor and it was surprising that most candidates did not know how to prepare combined journals, which is a fundamental step in the preparation of accounts. Performance in the preparation of financial statement was also poor. As mentioned earlier, most candidates apparently did not study the updated format of financial statements and hence candidates could not demonstrate knowledge of comprehensive income. Candidates' knowledge on the format of the *statement of financial position* was equally poor. They should also be aware that marks are awarded for proper labelling of accounts in the financial statement.

In addition, the following observations affecting the candidates' performance were noted:

- Failure to distinguish different accounting treatments on revaluation changes and depreciation between property, plant and equipment, and investment property, in case the latter is carried at fair value.
- Failure to compute depreciation charges correctly.
- Failure to deal properly with a government grant in accordance with HKAS 20 "*Accounting for Government Grants and Disclosure of Government Assistance*".

- Failure to deal properly with the tax provision brought forward, proposed dividend and bonus issue in the financial statement.

Section C – 3 Optional Questions

Question C1

Overall performance of this question was not satisfactory.

Part (a) was very straightforward, and most candidates managed to obtain reasonable marks.

Performance in part (b) was disappointing. Listed below are the main reasons for this poor performance:

- In part (i), many candidates did not respond to the question. Instead of explaining the appropriate accounting treatments case by case with reference to HKAS 38 “*Intangible Assets*”, they wrote about the recognition criteria of development expenditure.

To score a good mark candidates should explain the appropriate accounting treatments according to the requirement of HKAS 38 and use some key terms to demonstrate their understanding and knowledge of the topic. For example, the second case concerned about the “*uncertainty on availability of financial resources*”, whilst the issue for the third case is that the project is at a “*research stage*”.

- In part (ii), most candidates did not demonstrate adequate knowledge of preparing extracts of the financial statement. Many candidates failed to properly calculate the figure as well as to label those amounts in the financial statement. Quite a number of candidates prepared separate financial statement for individual projects, and this is of course not correct as published financial statements do not require disclosure of the financial details of individual research and development projects.

Question C2

This question had the worst performance due to the following reasons:

- Failure to read the question carefully and respond appropriately to the question. Some candidates wrote extensively on the criteria of provision and contingencies without relating the concepts to the cases of the question.
- Failure to demonstrate appropriate knowledge and understanding of the concepts. Many candidates failed to correctly identify whether the events relate to “*events after the balance sheet date*” or a “*provision and contingencies*”. Many candidates got confused over these two accounting concepts. For example, “*events after the balance sheet date*”, clearly refers to events that arise after the balance sheet date but before the financial statements are authorised for issue, regardless of whether it relates to a condition which existed at the balance sheet date or not, and this is indeed the nature of events (3), (4) and (5) of the question.

Further, many candidates failed to distinguish between adjusting events and non-adjusting events, as well as between a provision and a contingent liability.

- Failure to prepare disclosure in the form of notes to the financial statements. Candidates should appreciate that *notes to the financial statements* form part of the disclosures in financial statements and should not be ignored in the candidates’ exam preparation.
- Failure to prepare journal entries with proper account names.

- Failure to answer the question with good skill. For example, in order to get high marks, candidates are required to identify that the main issue of events (1) and (2) is the concept of *constructive obligation*. Then they should explain how the constructive obligations have arisen in these particular cases. Lastly, the candidates have to explain the appropriate accounting treatment for these constructive obligations according to HKAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*".

Question C3

This was the best performed question in the examination paper.

The score for part (a) is satisfactory. However, some candidates again did not read the question carefully and just answered one part of the question. In this case, candidates tended to produce an answer only on the limitations of ratio analysis.

Most candidates were able to compare the given ratios of the companies and give reasonable comments. However, they were unable to carry out further analysis and suggest possible reasons leading to differences in the financial performance of the two companies. Therefore, most appraisals in the answers are superficial. Nevertheless, it is pleasing to note that most candidates attempting this question were able to conclude that Sea Limited is a more appropriate takeover target.

[END OF EXAMINER'S REPORT]