

Examiner's analysis interview: F3 – Financial Accounting

Interviewer: Hello and welcome to the examiner's interview for F3, Financial Accounting. The examiner has provided answers to a number of questions and her words are spoken by an actor.

In this interview the examiner will consider the following points:

Firstly, she will give a review of the past exam performance of candidates over the last few exam sessions, summarising areas where candidates do well and areas which candidates seem to find difficult, and highlight the newer syllabus areas.

Secondly, the examiner will highlight those areas where candidates seem to have the most difficulties.

Finally, the changes that will be made to the paper in the near future will be reviewed.

So how have candidates performed over the last few sittings?

Examiner: Over the last four sittings of the F3 exam, the pass rates have been stable at around 55%. These pass rates include a combined paper-based and computer-based exam pass rate.

It's encouraging to note the stable pass rate over a period when a number of new areas were introduced into the syllabus. These are:

- Duties and responsibilities of those charged with governance (A5)
- Disclosure Notes (F3)
- Preparing simple consolidated financial statements (G)
- Interpretation of financial statements (H)

Interviewer: Are there any areas where candidates have performed particularly well?

Examiner: Typically, candidates perform well in the following areas of the syllabus:

- Recording double-entry bookkeeping transactions, such as completing a journal entry or recording a transaction for the first time
- Documentation of accounting transactions such as identifying which document is to be used in a transaction
- Accounting for inventory
- Basic non-current asset transactions such as recording depreciation or selecting depreciation methods
- Incomplete records questions – particularly manipulating the accounting equation and calculating missing figures

- Interpretation of financial statements – with the exception of the interest cover ratio.

It's worth noting that most of these areas are included in the Foundation level FA2 syllabus.

Interviewer: Are there any areas where candidates have not performed so well?

Examiner: There are a number of syllabus areas that candidates have found difficult over recent sittings – and these have changed slightly compared to the immediately preceding sittings.

There seem to be two common issues across all of the areas in which candidates have experienced difficulty.

The first is that some of these areas are also covered in Foundation level FA2, but candidates need to be aware that these areas are developed in F3.

This raises the question of whether some candidates are attempting to complete the ACCA qualification in the shortest possible time, and are entering F3 without gaining sufficient underpinning knowledge.

The second is that candidates who have completed Foundation level FA2 or other previous studies need to recognise that F3 requires a greater degree of application and that the nature of the questions is such that some thought is needed to ensure that their selected answer is based on sound knowledge, which has been properly applied.

This is particularly the case in the question on suspense accounts and reconciliations.

Interviewer: So what can we learn from what you have just explained?

Examiner: There is little doubt that the often repeated advice to candidates to ensure that their study provides an in-depth understanding across the whole syllabus remains valid.

As well as sound - and broad – knowledge, the need to read the question carefully and make sure they answer the question which has actually been asked is another key piece of advice.

For example, when answering computational questions on reconciliations, suspense accounts and consolidated financial statements, candidates can select an incorrect answer because they have not made use of all the information in the question.

The value of preparing for the F3 exam by completing questions which require a full reconciliation or a full set of financial statement should not be overlooked. Moreover, this will provide a sound foundation for paper F7 *Financial Reporting*.

Interviewer: So, how can candidates improve their performance in those areas you have mentioned?

Examiner: As I've already noted, there has been a slight change in the areas which have caused problems for candidates over the last four sittings as compared to the immediately previous sittings. In recent sittings, these were:

Suspense accounts:

When answering questions on suspense accounts, it's essential that a methodical approach is adopted. The correct entry, or the missing entry, must be identified. This will highlight the entry needed in the 'other' account – and the suspense account entry will therefore be the 'opposite' entry.

Reconciliations:

In questions on reconciliations, it is essential that candidates can think clearly about what error has been made, what the correct entry is and thus, what correcting entry or adjustment to a list of balances is now needed.

Consolidated financial statements:

Here, the major problem for most candidates is that they don't appear to have a sound grasp of key knowledge. There are several aspects to this.

One is the calculation of goodwill. Here many candidates incorrectly include the nominal value of shares issued as part of the consideration, as opposed to the fair value of these shares.

There is also evidence that some candidates have difficulty identifying the nature of an investment, as they do not recognise the factors that indicate whether an investment gives rise to control or significant influence.

A further issue is that candidates struggle to describe the key principles of equity accounting.

The main difficulties here are that some candidates lack an awareness of the format of the statement of cash flows, or are unable to recognise the cash effect of transactions. A particular example of the latter is that investment and financing transactions are combined into one transaction, when these should be separated into two distinct transactions.

In this case, the main problem is the same as has been noted in regard to consolidations - some candidates' knowledge of the key definitions is lacking. Consequently, they are unable to apply this to practical situations.

Again, the problem in this area is a lack of knowledge.

The study guide includes an outcome “draft the following disclosure notes”:

The four notes on the list are:

Non current assets (tangible and intangible)

Provisions

Events after the reporting period

Inventory

Candidates need to be prepared for these to be tested.

Interviewer: Are there any general issues, as opposed to subject specific issues that candidates need to be aware of?

Examiner: The typical errors that candidates make in answering multiple choice questions in these areas are:

- Not reading the question carefully enough. As a result, they don't do what is required by the question.
- Selecting a distracter which is obtained at an incomplete stage of the calculation. For example, if a question asked for the effect on the income statement as a result of updating a provision, some candidates who have correctly calculated the revised balance on the provision will select this as their answer. However, careful reading of the question would have highlighted that, as the

impact on the income statement is required, the movement in the provision is required. Correctly calculating this requires the further step of comparing the opening and closing balances to be taken.

- Another example of not reading the question carefully enough can be seen in questions on consolidated financial statements, which require a calculation of the amount of the profit to be included in the consolidated income statement. If the acquisition took place part way through the year, then only the profit earned by the subsidiary since the date of the acquisition should be included. However, many candidates tend to ignore the date of the acquisition and include the profit for the full year.

Candidates should also be aware that a superficial knowledge of topics will not be sufficient to pass the F3 exam.

This is particularly apparent in the discursive elements of the syllabus. For example, candidates need to be very clear on the factors which differentiate an investment in an associate from an investment in a subsidiary.

I noted earlier that candidates performed well in questions on interpretation of financial statements – with the exception of the interest cover ratio. Here the main problem is that many candidates were unclear as to which profit figure should be used in the calculation. This lack of clarity meant that, as

profit before tax was included in the question, such candidates merely divided that figure by the interest charge. A clearer understanding of the nature of the calculation would have highlighted that the interest charge needs to be added back to obtain profit before interest – which is divided by the interest charge to obtain interest cover.

Interviewer: How can tuition providers help to overcome these problems?

Examiner: Obviously it is essential that tuition providers emphasise the need to read the question carefully to students as well as the need to study across the whole of the syllabus. Applying these messages needs to be reinforced through constant question practice. Such practice is not just a matter of attempting questions and being satisfied at getting more than 50% correct.

Candidates need to review all of their answers – both correct and incorrect. When the correct answer has been selected, candidates need to be sure that they know precisely *why* that is the correct answer. When an incorrect answer has been selected, they need to know why it is incorrect. This ongoing reflection will improve learning and consequently exam performance.

Interviewer: What might we expect in future exams? Is there anything new to the syllabus or the exam approach?

Examiner: There will be some changes with effect from January 2014. Obviously, the examinable documents in 2014 will be based on any updates to standards which arise before 30 September 2013.

However, it's worth pointing out that there will be no changes to the examinable documents during 2013.

After January 2014, there will be some changes to the structure of the F3 paper.

Interviewer: Please could you explain what the changes to F3 will be?

Examiner: At the moment, F3 comprises 50 two-mark objective test questions, regardless of whether students sit the paper based or CBE exam.

Both types of exam will follow the new format, which will be:

Section A will be 35 objective test questions of two marks each.

Section B will be three multiple task questions of ten marks each.

There will also be a wider range of question types used in Section A of the CBE exams.

Interviewer: What kind of questions will be included?

These will be:

Hotspots – where candidates will select a number of options from a range of alternatives by clicking on their selection. In essence this is an alternative presentation of a multiple response question.

Combined item type questions – here the candidate will be required to provide two elements of the answer by number entry and drop down selection.

In many ways these new question formats are merely matters of presentation. The more significant change will be the multi-task questions.

Interviewer: And what can candidates expect with regard to this type of question?

These will take the form of a scenario, followed by several questions related to the scenario. Each question will be independent and may be in a range of formats such as a number entry, drop down box, multiple choice question or multiple response question.

In the paper version of the exam these questions will require longer answers to be written and workings will have to be shown so that again, candidates are not penalised for the same error more than once.

Interviewer: Can you just remind us when the changes to F3 will be introduced?

Examiner: The plan is to bring in these changes for the 2014 exam year. Content providers are aware of this and will ensure that materials include the new question styles, as well as objective test questions covering the whole syllabus. ACCA will be producing a specimen paper exam and a demonstration version of the CBE exam. Keep watching the website for more information.

Interviewer: Thank you very much for that useful information.

Examiner: Thank you.