

ACCA

F7 Exam technique

(see also the section on general exam technique)

- in the reading time read the requirements for all five questions – don't bother looking at the figures nor the notes relevant to the questions. Just read the requirements.
 - ▶ Q1 - is it a Statement of Financial Position, a Statement of Income with / without a Statement of Comprehensive Income, a Statement of Changes in Equity? Is there a part b to the question?
 - ▶ Q2 - is it a Statement of Financial Position, a Statement of Income with / without a Statement of Comprehensive Income? Is there a part b to the question?
 - ▶ Q3 – Cash Flow, Interpretation or both? Report / Memo style or Letter style? Is there a part b to the question?
 - ▶ Q4 and Q5 – which part of the syllabus is being asked? Are they computational or written (or a combination of both)
- the next bit is a matter of personal preference
 - ▶ either start with Q5 and then attempt Qs 1, 2, 3 and 4, or
 - ▶ start with Q1 and work through the question paper in whatever sequence you feel is best for you
 - the advantage of the first method is that, if you make a complete mess of the question - for whatever reason (fear, adrenaline, relief) – the maximum amount of damage is restricted to just ten marks whereas if you start with a big one you could potentially lose 25 marks and suffer a major panic when you realise that you've made a mess
 - if you're feeling good and confident, then tackle the questions in whichever sequence you feel would suit you best

- ▶ in questions 1, 2 and 3 there is often a part b to the question
 - if part b is NOT dependent upon your answer to part a, and frequently it isn't, then DO PART b FIRST
 - if you don't, you will probably find that, at the end of 45 minutes, you're still fighting with the figures / calculations and you have no time for part b worth 5, 6 or 7 marks
 - and parts b in the exam tend to be relatively EASY marks
- ▶ should I write out a proforma first and then put in the easy figures?
- ▶ there are NO marks for proformas! Statements of Financial Position, Income, Comprehensive Income, Changes in Equity, Cash Flows? NO MARKS FOR PROFORMAS!
- ▶ sorry!
- ▶ but calculate the goodwill correctly, or the Provision for Unrealised Profit (PuP), or interest paid for a cash flow, or interest for the period in q2 - they will all score marks - even if you don't get round to putting them in a "final" Statement

Q1

- ▶ plan an answer for part b – 5 marks? 2.5 minutes to plan five separate valid markable points
- ▶ write your answer to part b in the remaining 6.5 minutes allocated time
- ▶ now tackle part a
- ▶ remember - the marks are in your workings! How much credit do you want for putting "Share capital \$500,000" straight from the question?
- ▶ follow the OpenTuition lectures and set your workings out in consistently the same sequence – every time - you should find that that helps.
 - W1 - group structure
 - W2 – goodwill
 - then the PuP calculation
 - W3 - consolidated retained earnings
 - W4a - nci on the SoFP
 - W4b - nci on the Sol (strictly, the SoCiEty)
 - W5a - investment in associate
 - W5b - our share of associate's this year's profits

- **reduce the problem to an automatic process and you should find it easier!**

- **there are often 6, 7 or 8 paragraphs of notes at the end of the figures in Q1**
 - ▶ start at the last one - say number 8
 - ▶ it often involves nothing at all - other than telling you the basis of the nci valuation at date of acquisition
 - ▶ then do number 7 - often some simple calculation like a dividend proposed but not yet accounted for
 - ▶ number 6 is often relatively straight forward as are also numbers 5, 4 and 3 - they will involve deciding whether a financial instrument should be valued at fair value, whether a potential liability should be accrued, whether an asset needs to be impaired, whether inventory value needs adjusting or whether revenue should be recognised on a basis different to the existing basis.
 - ▶ this is not intended to be a comprehensive list of possible adjustments - merely illustrative of the sort of matter you could expect to find
 - ▶ each of these notes requires a clear working to explain / calculate the amount and effect of the adjustment necessary
 - ▶ this should now leave you with just numbers 1 and 2 which typically will give you the information about the acquisition of the subsidiary and the associate
 - ▶ DO NOT get stopped by any single note - if you can't do it - LEAVE IT and come back later when you have picked up the marks you can collect
 - ▶ when you do come back to it, if you still cannot manage to find a solution, then GUESS - but do not be tempted to start verbal explanations to the marker about what / why / how you have arrived at the guessed figure - simply put "say \$50,000"

Q2

- ▶ part b first!
- ▶ remind yourself, is it a SoFP or Sol / SoCI (or both)
- ▶ is it a trial balance which is given or a set of draft financial statements?
- ▶ the difference is important, particularly in the context of arriving at Cost of Sales – if it's a trial balance, you will need to calculate cost of sales using the figure given for closing inventory. If it's a draft set of financial statements, the cost of sales figure will be given (but will probably require adjustment!)
- ▶ again, you're looking at 8 or 9 notes, each requiring an adjustment to be made.
- ▶ note 1 is most frequently complicated and multi-faceted – so leave it and do the others first
- ▶ then tackle note 1 remembering that, although it's complicated and multi-faceted, it's still not likely to be worth more than, say, 4 or 5 marks. So spend no longer than 9 minutes sorting this particular note out. If you don't finish in that time, GUESS eg "depreciation say \$5,000"
- ▶ BEWARE!!! In Q2, the examiner (nearly always) has a loan borrowed or preference shares issued part way through the current accounting period – typically 3 months into the period
- ▶ interest / preference dividends will have been paid for 6 months, but that means that there needs to be a three month accrual. And he does not always highlight the need for this accrual

● Q3

- ▶ is it a cash flow, an interpretation or a combination of the two?
- ▶ is there a part b? (if so, do it first if it's not dependent upon the part a answer)
- ▶ is there a report / memo (same style) or letter asked for?
- ▶ if it's a cash flow question, I suggest the following approach:
 - at the top of a new page, write "Profit before tax" and put in the figure (occasionally you'll need a working to arrive at that figure)
 - immediately beneath, write the heading "Operating activities"
 - then, half way down the page, write the heading "Investing activities"
 - three quarters of the way down, write "Financing activities"
 - and in the final three lines of the page write
 - net cash flow for the year
 - cash and equiv brought forward
 - cash and equiv carried forward
 - now work your way through the question – some figures will be given and can be slotted into the appropriate section without thought
 - probably a good idea to leave the four elements affected by Tangible Non-Current Assets (TNCA) until you have put all the other easy figures in (even then, two of those four figures will be given so they can go straight into the answer)
 - generally, work on the principle that every figure you get correct (and in the correct section, and the correct +/-) will score a mark
 - and there are SO MANY EASY marks in a cash flow!
 - tax, dividends, interest paid (3 marks)
 - changes in inventory, receivables and payables (3 marks)
 - proceeds from share issue (2 marks)
 - debts repaid (1 mark)
 - to get stuck on something like depreciation (worth possibly 2 marks) runs the risk of losing all these other easy ones
 - BEWARE the revaluation reserve – any movement in that reserve needs to be taken into account when calculating "Purchase of TNCA"
 - at the bottom of your page you have the three lines about the cash

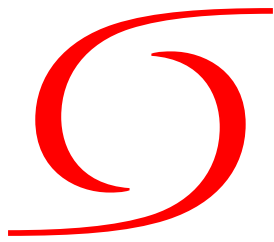
- these three figures MUST be correct – you may need to be careful about cash equivalents hidden within the notes (incidentally, I ALWAYS treat an overdraft as a negative cash figure and not as part of financing)
- when you add up the three sub-totals of operating, investing and financing it is highly likely that they will not equal your pre-written figure of “Net cash flow for the year”
- do not alter the net cash flow value – it has to be right
- do not write to the marker anything like “These three figures should add up to the net cash flow figure so I have made a mistake somewhere” – it’s the marker’s job to find your mistakes, it’s not your job to point them out!
- in fact, when sub-totalling the three sub-divisions, DO NOT write the sub-totals on your answer booklet until they in fact DO agree with the net cash flow value
 - ▶ if Q3 is a combined question with both cash flow and interpretation / analysis, the split of the marks could be 10 / 15 up to 15 / 10
 - ▶ most students (non-natural English speakers particularly) would rather get lost in the numbers than think about the analysis part
 - ▶ fatal!
 - ▶ in addition, just because you don’t finish the cash flow element, this does not prevent an attempt at interpretation! You can always guess a figure and then interpret based on your guess!
 - ▶ remember, in a report / analysis section, any pair of correctly calculated ratios will be worth, probably, 1 mark each
 - ▶ but with a maximum of 6 marks (so calculate 7 pairs in case one of them is incorrect)
 - ▶ the real marks are available for a sensible interpretation / analysis - so a suggestion of “why a calculated ratio may have moved by as much as it has” rather than the fact that, say, “cost of sales has increased by \$22,000”
 - ▶ equally important is explaining why a calculated ratio has NOT changed when it could have been expected to
 - ▶ report / memo style and / or letter style are the only area of the F7 exams where there are specifically marks available for the style and layout of the answer - so make sure you know how to pick those marks up!

● Q4 and Q5

- ▶ these two questions could be on any part of the syllabus and it's silly to try to predict which area!
- ▶ the technique to apply is as already indicated in the previous pages - make sure that you attempt both questions fully and allocate the correct length of time to both of them
- ▶ ensure that you collect as many of the easy marks as there are on offer
- ▶ there will be many of your contemporaries who fail to answer one - or even both - of these two smaller questions
- ▶ so the marker will be heartily pleased to see your attempt and MAY be correspondingly generous

● DO NOT be tempted to say "I'll just concentrate on the first three questions"**● the examiners like the answers to be subdivided into sections with appropriate headings**

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