

Paper F1 Financial Operations

Students are often confounded by the large amount of detail provided by questions on single-company financial statements. Using a step-by-step process should make answering them a less daunting task

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Questions about single-company financial statements have been a standard feature of F1 papers since they were introduced in May 2010. They also appeared regularly in the P7 exam under the previous syllabus. The current syllabus states that section C of the F1 paper will be worth 50 marks and consist of one or two questions. Until now, it has always comprised two 25-mark questions, one of which has required students to produce a set of financial statements for a single company.

This question provides candidates with a trial balance and several notes, usually between seven and 12 (depending on the detail), and requires them to prepare the key financial statements: the

‘Never calculate a figure and simply put it into the statement without showing your workings’

statement of comprehensive income, the statement of changes in equity and the statement of financial position.

Seeing that this type of question has appeared on the exam paper for six regular sittings under the current syllabus, I’m disappointed that the general quality of the answers has remained poor. This topic is largely straightforward, providing that you have done enough revision.

Where to start

The most common complaint I hear about this type of question is: “I don’t know where to start.” Candidates feel overwhelmed by the volume of information they see in the scenario. Here are a few tips on how to approach it:

- Read the requirements. Which financial statements are you being asked to prepare?
- Draw up a “skeleton” of these statements with the main headings and full titles. Do this as quickly as possible – you can’t waste half an hour writing up beautifully presented statements. Simply ensure that the key headings are down on paper. For the statement of financial position I would head up non-current assets, current assets, ►

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Paper F1

Financial Operations

equity, non-current liabilities and current liabilities. You may also want to fill in items such as property, plant and equipment; inventory; receivables; and payables, because these generally feature in most questions.

- Ensure that all titles state three things: the name of the company, the name of the statement and the date. This question often awards marks for presentation – and these are easy to lose. Don't forget that the statement of comprehensive income should state "year ended..." and the statement of financial position should state "as at..."
- Prepare a page of notes on a separate piece of paper to show all your workings and produce a table for your first working for the three key expense categories: cost of sales (anything to do with production), administration expenses (other expenses that are neither cost of sales nor distribution), and distribution (transport and selling) costs. All expenses on the face of the statement of comprehensive income should fall into one of these categories unless you can identify them as a finance cost (generally interest), taxation or a material item (an unusual and sizable cost). Often the question will tell you the category into which expenses should go.

What to do next

Now that you have prepared your basic pro formas to answer the question, you can get on with actually filling in some of the figures. I'd suggest taking the following steps:

- Read the notes to the question to identify which items in the trial balance need to be changed. You could even do this during the reading time.
- Enter the easy figures from the trial balance (where you aren't required to make any changes). These will often be items such as loans, revenue, receivables and payables, but be sure to read the notes first, because every question is different. Tick each item off on the trial balance as you write it into the statements so that you know that the item has been handled correctly.
- Deal with the unticked items on the trial balance, which should represent the items where changes are required as per the notes to the question. Work through each note, ensuring that you show any workings clearly in your own notes.
- Never calculate a figure and simply put it into

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TYPICAL MISTAKES THAT COST MARKS

Failing to draw up correct statement formats – e.g. by showing all workings on the face of the statement instead of summarising cost of sales and showing the workings in the notes.

Failing to use correct statement titles containing the three key elements: company name, statement name and date (showing "year ended..." or "as at..." appropriately).

Failing to show any workings for the figures that you have calculated – e.g. workings for the elements in the cost of sales, non-current asset total or taxation.

Failing to follow instructions. If the question asks you to treat an item as a cost of sale, for example, don't put it in the administration expenses.

Failing to carry your own figures into the retained earnings or revaluation reserve column in the statement of changes in equity and then transferring your own figures to equity in the statement of financial position.

Failing to complete the question as a result of poor time management. Remember: the more you practise this type of question, the easier it will become. Your speed will improve, too. Always keep one eye on the clock and don't exceed your time allocation.

the statement without showing your workings. If the figure is wrong, you will lose all of the marks that could have been awarded when you may have made only one small mistake.

- The final step involves the totalling of all financial statements. Start by totalling up the statement of comprehensive income to find out the profit, which can be transferred to the retained earnings column of the statement of changes in equity. Once you have totalled the balances carried forward in the statement of changes in equity, the totals can be transferred to the statement of financial position. Do this even if you think your figures are wrong, as you'll normally gain marks for transferring your own figures. Lastly, complete the total of the statement of financial position assets, equity and liabilities. Do not expect it to balance.

Remember: don't give up if you cannot deal with one of the notes. Accept that you have lost marks for that part of the question and keep going.

To help with your exam preparation, I have produced a worked example to the question on single-company accounts from the November 2012 F1 paper. You can find this on CIMA Global at <http://tinyurl.com/aovm32v>.