F2 FINANCIAL MANAGEMENT
Examiner’s general comments

In general our marking team was delighted to be marking scripts of candidates that seemed to be genuinely prepared to take this assessment. Workings were clear and logical and it was evident that the majority of candidates had studied past exam questions and were able to format their answers accordingly.

The questions in Section A were answered very well and it was good performance in this section of the paper that secured a pass for many candidates. Many candidates achieved full marks in questions 2 and 4. This was encouraging as these questions covered the main principles of consolidation and the accounting for financial instruments, which is a tricky subject area. Candidates demonstrated excellent application skills in these questions.

Question 1 was also answered well; however, the majority of candidates were unaware of the revised rules regarding past service costs.

The short analysis question on working capital was well answered, although a number of candidates failed to answer both parts of the question, ignoring the request for review of financial performance. It is important to note from these questions what has been specifically asked for – in this case to analyse - no recommendations were asked for and therefore no marks were available for this. Those candidates who used 365 days were not heavily penalised in this instance but it does question their ability to appreciate a business environment as few entities would be willing to wait 6 months for payment.

The performance in Section B questions was not good, particularly in question 7. Candidates often failed to appreciate the business that POP was operating in, which made many of their comments inappropriate. An alarming number of candidates commented on the dividend being paid from retained earnings so would not impact on cash!!

Many candidates scraped a pass on Q6 by performing the basic mechanics of consolidation together with the translation of the foreign subsidiary’s accounts but did not demonstrate an understanding of the impact of the foreign subsidiary on the calculation of goodwill, NCI and OCI (exchange gains/losses).
SECTION A – 50 MARKS

Question One

Required:

Calculate, in accordance with IAS 19 (revised) Employee benefits, the following in respect of GH’s pension plan:

(a) The expense in the income statement for the year ended 31 March 2013.  

(b) The amounts that will be included in other comprehensive income for the year ended 31 March 2013.  

(c) The net pension asset or obligation (stating which) that will be included in the statement of financial position as at 31 March 2013.  


Rationale

This question was intended to test a core element of Section B of the syllabus, which is accounting for pensions. Candidates were required to apply the revised standard and record the actuarial differences within OCI.

This question tested learning outcome B1(f).

Suggested Approach

It would be helpful to set up the workings for income statement and actuarial differences at the same time as a number of the elements affect both calculations.

Marking Guide

<table>
<thead>
<tr>
<th>Element</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service costs – past and present</td>
<td>1½</td>
</tr>
<tr>
<td>Net interest cost</td>
<td>1½</td>
</tr>
<tr>
<td>Gain on pension assets</td>
<td>2</td>
</tr>
<tr>
<td>Loss on pension obligations</td>
<td>3</td>
</tr>
<tr>
<td>Net pension liability</td>
<td>2</td>
</tr>
</tbody>
</table>

Total for Question One

10

Examiner’s Comments

This question was answered exceptionally well with many candidates scoring 9 out of 10. The most common mistake was not including the past service cost in the interest calculations. Those candidates who did not score well seemed to be confused about what information was included in which part of the financial statements.
Question Two

Required:

Prepare the consolidated statement of financial position for the ER group as at 31 December 2012.

Total for Question Two = 10 marks

Rationale

This question was intended to test consolidation techniques in drafting a group statement of financial position. Candidates were tested on their ability to perform the main consolidation adjustments – goodwill, group reserves and NCI - including FV adjustments and intra-group transfer of goods.

This question tested learning outcomes A1(a) and (b).

Suggested Approach

Drafting up the pro-forma group statement of financial position would have been the best first step, inserting lines for goodwill and NCI. Working through the headings and preparing the associated workings would have been the most logical approach.

Marking Guide

| Aggregation and PPE | 2 |
| Calculation of goodwill | 2 |
| Current assets | 1 |
| Consolidated retained earnings | 2½ |
| Non-controlling interest | 2½ |
| **Total for Question Two** | **10** |

Examiner’s Comments

The majority of candidates showed real understanding of the consolidation principles in this question which was great. The marks were therefore high with many achieving full marks.

The most common mistakes for those not achieving full marks were to miscalculate the FV adjustment – although many were able to correctly adjust retained earnings, they included the wrong figure in PPE. Other mistakes included adjusting for the PUP twice in retained earnings, including the FV uplift in retained earnings instead of just the movement from additional depreciation and including the depreciated amount of FV uplift in the goodwill calculation.
Question Three

Required:

**Analyse** the financial performance and working capital position of SAF.  
(5 marks are available for the calculation of **relevant** ratios.)

*Total for Question Three = 10 marks*

**Rationale**

This question tested Section C of the syllabus and included the calculation of working capital ratios that candidates would have seen many times in Question 7. The answer was then intended to focus specifically on the results of the ratios, as no detailed background scenario was provided.

This question tested learning outcomes C1(a) and C1(b).

**Suggested Approach**

Candidates should have been totally prepared to answer this question as working capital is an area that has appeared in numerous past paper questions. Candidates should have calculated the ratios and then considered the results as a whole, commenting on how the key working capital ratios impact on each other and the likely causes of the results.

**Marking Guide**

<table>
<thead>
<tr>
<th>Ratios (1 per pair)</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comments on financial performance - Up to 2 marks</td>
<td>5</td>
</tr>
<tr>
<td>Comments on working capital - Up to 4 marks</td>
<td></td>
</tr>
<tr>
<td>Comments – up to max of 5 marks in total</td>
<td>5</td>
</tr>
</tbody>
</table>

*Total for Question Three = 10 marks*

**Examiner’s comments**

This question was reasonably well done by most candidates, however there still seemed to be an element of rote learning and not answering the specific question. Many were able to successfully analyse the working capital position and score 8 of the 10 marks but completely ignored the financial performance which was specially requested in the required section of the question. There was a minor issue of using 365 days rather than just 182 but candidates were only penalised by 1 mark for this error. It does make the narrative a little far-fetched however if candidates think it would be acceptable in business to expect your suppliers to wait 6 months for payment!

In future candidates should be aware of what has actually been asked for – in this case it was to analyse so suggestions for what could be causing movements was what we were looking for. There was no request for recommendations for improvement and yet many candidates included this.
Question Four

Required:

(a) Prepare the journal entry to initially record the issue of the convertible bond by CLW, in accordance with IAS 32 Financial Instruments: Presentation.

(b) Calculate the amounts to be included in the statement of financial position of CLW in respect of the convertible bond as at 31 December 2012, in accordance with IAS 39 Financial Instruments: recognition and measurement.

Total for Question Four = 10 marks

Rationale

This question examined two elements of financial instruments, the initial classification and recording of a convertible instrument and then the subsequent measurement of a financial liability.

This question examined learning outcomes B1(d) and (e).

Suggested approach

Candidates who had worked through previous exam papers would appreciate exactly how to set this out. The instrument would be initially split between debt and equity and the PV calculations were required for doing this. Candidates should have then used their own figures for (a) to re-measure the liability at amortised cost.

Marking Guide

<table>
<thead>
<tr>
<th></th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Calculation of initial value of liability and equity</td>
<td>3½</td>
</tr>
<tr>
<td>Journal entry to initially record debt instrument</td>
<td>2½</td>
</tr>
<tr>
<td>(b) Value of the liability at 31 December 2012</td>
<td>3</td>
</tr>
<tr>
<td>Value of equity at 31 December 2012 (ie not remeasured)</td>
<td>1</td>
</tr>
<tr>
<td>Total for Question Four</td>
<td>10</td>
</tr>
</tbody>
</table>

Examiner’s comments

Candidates were well prepared for dealing with financial instruments and many achieved full marks in this question. This was great to see as accounting for financial instruments is a tricky subject area and this question required application of knowledge.

For those who struggled with this question, their most common errors were omitting to mention the value of equity at the year end, calculating the opening value of the liability and then using $4m to calculate the effective interest cost. The wrong discount rates were often used but marks were awarded for understanding the principle of discounting.
Question Five

Required:
Discuss why the narrative elements of financial statements are likely to include comments about employees being an asset and the recognition criteria that prevent employees from being recorded as an asset in the statement of financial position.

Total for Question Five = 10 marks

Rationale

This question tested Section D of the syllabus, and specifically the expansion of narrative/voluntary disclosures in respect of human capital.
This question tested learning outcome D1(d).

Suggested Approach

It was essential that candidates absorbed the small scenario provided and presented answers that were relevant to the entity and scenario given.

Marking Guide

<table>
<thead>
<tr>
<th>Reason for narrative reporting on human resource</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recognition criteria for assets and explanation of why human capital fails criteria</td>
<td>6</td>
</tr>
</tbody>
</table>

Total for Question Five 10

Examiner’s comments

The majority of candidates were able to gain the 6 marks for the recognition criteria and for providing explanation on why human capital was not recognised in the financial statements. The ability to discuss the recognition criteria for assets is a key skill for qualified accountants and it was encouraging to see that candidates were able to do this competently.

The coverage of why narrative reporting would include comments on employees being assets was less comprehensive. The focus of this was really from a reporting perspective – undercapitalised, bridging the gap when assessing future potential performance, impact on ratios, etc. There were no marks for the softer side eg making employees feel valued, which is not a financial reporting issue.
Question Six

Required:

Prepare the following for the A group:

(a) the consolidated statement of profit or loss for the year ended 31 December 2012;
(b) the consolidated statement of comprehensive income for the year ended 31 December 2012; and
(c) the consolidated statement of financial position as at 31 December 2012.

(Please round all numbers to the nearest $000.)

(Total for Question Six = 25 marks)

Rationale

This question examined candidates’ understanding of consolidation of a foreign subsidiary. Candidates were able to achieve a large portion of the marks by adopting the basic procedure of consolidation of a subsidiary, and the complex area tested was the additional calculations required for the translation.

This question tested learning outcomes A1(a), (b) and A2(b).

Suggested Approach

The first step would be to establish the group structure and identify the complex issue in the question and how this would affect the answer, given that a SOFP was to be prepared. Drafting up the pro-forma statements and inserting lines for goodwill, NCI, etc would have been the next step. Translating the accounts of the foreign sub would then be required prior to any consolidation workings being completed. Candidates would then insert the aggregated figures or cross reference to workings where appropriate.

Marking Guide

<table>
<thead>
<tr>
<th>Marking</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated statement of profit or loss, including NCI and translation of sub</td>
<td>4</td>
</tr>
<tr>
<td>Consolidated statement of comprehensive income, including NCI and exchange gains</td>
<td>6</td>
</tr>
<tr>
<td>Consolidated statement of financial position including translation of sub and aggregation</td>
<td>5</td>
</tr>
<tr>
<td>Goodwill</td>
<td></td>
</tr>
<tr>
<td>Consolidated reserves</td>
<td>3</td>
</tr>
<tr>
<td>Non controlling interest</td>
<td>2</td>
</tr>
</tbody>
</table>

**Total for Question 6**

25
Examiner’s Comments

The majority of candidates clearly understood how to perform the mechanics of translating a foreign subsidiary. The follow through marks were not well attained however eg many candidates attempted to calculate exchange gains and then did not incorporate this figure anywhere in the financial statements.

Most candidates gained the marks for basic calculation of goodwill but then did not retranslate it. Those who did translate it at the closing rate then failed to include this value in the SOFP. This question was, however, testing a complex area of consolidation and the mark scheme was designed to firstly test consolidation and just more than half of the marks available were for the principles of consolidation and the remainder were for the complex area of accounting for a foreign subsidiary.
Question Seven

Required:

(a) Calculate the following ratios for POP for the year ended 31 March 2013, including comparatives:
   - Earnings per share
   - Price/earnings ratio
   - Dividend yield

   (3 marks)

(b) Analyse the financial performance of POP for the year ended 31 March 2013 and its financial
    position at that date based on the information provided. (Your analysis should include discussion
    relating to the ratios calculated in (a). A further 5 marks are available for the calculation of other
    relevant ratios.)

   (18 marks)

(c) Discuss what additional information your client could obtain in order to help him arrive at a decision
    about whether or not to invest.

   (4 marks)

Total for Question Seven = 25 marks

Rationale

This question formed the main test of financial analysis and tested candidates’ calculation of ratios and
analysis of the information the ratios provided.

This question tested learning outcomes C1(a) and C2(b).

Suggested Approach

Calculation of the ratios and then re-reading the opening scenario would have been the natural first steps,
ensuring that the ratios selected were relevant for this question and covered both financial performance
and position.

Marking Guide

Again there is an element of fluidity about the marking in this question as we are committed
to awarding credit for well-analysed points with good back-up explanations.

<table>
<thead>
<tr>
<th>Part</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td></td>
</tr>
<tr>
<td>Calculation of investor ratios</td>
<td>3</td>
</tr>
<tr>
<td>(b)</td>
<td></td>
</tr>
<tr>
<td>Discussion of financial performance</td>
<td>3</td>
</tr>
<tr>
<td>Discussion on working capital</td>
<td>3</td>
</tr>
<tr>
<td>Discussion on gearing and interest cover</td>
<td>3</td>
</tr>
<tr>
<td>Discussion on investor ratios and share price</td>
<td>4</td>
</tr>
<tr>
<td>Other relevant ratios</td>
<td>5</td>
</tr>
<tr>
<td>(c)</td>
<td></td>
</tr>
<tr>
<td>Additional information</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total for Question Seven</strong></td>
<td><strong>25</strong></td>
</tr>
</tbody>
</table>
Examiner’s comments

The majority of candidates were unable to correctly calculate the P/E ratio and the dividend yield ratios, although most then managed to select relevant ratios from a selection of potentially valid ratios for part (b).

The most disappointing aspect of the answers to this question was the number of candidates that made references to the entity as if it was manufacturing – making comments like cost of goods being bought in must have increased in price. Candidates generally did well on discussing borrowing and finance costs and the impact of this on performance, but calculation of interest cover is still a problem for a lot of candidates. Despite not being able to correctly calculate the investor ratios, it was encouraging to see that many candidates were able to appreciate the impact of the scenario on the market indicators and the share price. Similarly with question three, candidates were not asked to make suggestions for improvements and so there were no marks for this. The marks were for analysing the results and for making suggestions and conclusions on the likely causes.

The answers to part (c) were completely unrealistic for the most part. Internal information about the budgets and forecasts and the directors’ plans for the future will not be available to individual investors. The marks were for additional information that an investor could reasonably be expected to access in the public domain.