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Introduction to F2 *Financial
Management*

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LEARNING OUTCOMES

After completing the work in this *Learning System* students should be able to:

- ▶ prepare the full consolidated statements of a single company and the consolidated statements of financial position and comprehensive income for a group (in relatively complex circumstances);
- ▶ explain the principles of accounting for capital schemes and foreign exchange rate changes;
- ▶ discuss accounting principles and their relevance to accounting issues of contemporary interest;
- ▶ produce ratio analysis from financial statements and supporting information;
- ▶ evaluate performance and position;
- ▶ discuss contemporary developments in financial and non-financial reporting.

1.1 Introduction

The learning outcomes of this course are achieved through study of four principal syllabus areas, given below with the related syllabus weighting:

Group financial statements	35%
Issues in recognition and measurement	20%
Analysis and interpretation of financial accounts	35%
Developments in external reporting	10%

The *Learning System* has been organised in the same way as this listing:

Chapters 2–9	Group financial statements
Chapters 10–13	Recognition and measurement issues
Chapters 14–16	Analysis and interpretation of financial accounts
Chapters 17–18	Developments in external reporting

This introductory chapter of the *Learning System* contains the following sections:

- 1.2 International financial reporting standards covered by the Financial Management syllabus
- 1.3 Advice and guidance for F2 candidates.

1.2 International Financial Reporting Standards covered by the Financial Management syllabus

To successfully achieve the learning aims of F2, we must study aspects of specific international accounting standards. The indicative syllabus content provided in the syllabus highlights the areas we must be familiar with. The relevant standards are covered in the forthcoming chapters, however for additional clarity a list is provided below:



Financial Management candidates are expected to have studied the following standards in preparation for the exam:

<i>IAS 1</i>	<i>(revised)</i>	<i>Presentation of Financial Statements*</i>
<i>IAS 7</i>		<i>Statement of Cash Flow</i>
<i>IAS 19</i>		<i>Employee Benefits</i>
<i>IAS 21</i>		<i>The Effects of Changes in Foreign Exchange Rates</i>
<i>IAS 27</i>	<i>(revised)</i>	<i>Consolidated and Separate Financial Statements</i>
<i>IAS 28</i>		<i>Investments in Associates</i>
<i>IAS 29</i>		<i>Financial Reporting in Hyperinflationary Economies</i>
<i>IAS 31</i>		<i>Interests in Joint Ventures</i>
<i>IAS 32</i>		<i>Financial Instruments: Presentation</i>
<i>IAS 33</i>		<i>Earnings per Share</i>
<i>IAS 39</i>		<i>Financial Instruments: Recognition and Measurement</i>
<i>IFRS 2</i>		<i>Share-based Payment</i>
<i>IFRS 3</i>	<i>(revised)</i>	<i>Business Combinations</i>
<i>IFRS 5</i>		<i>Non-current Assets Held for Sale and Discontinued Operations (Note: In respect only of subsidiaries held exclusively for disposal)</i>
<i>IFRS 7</i>		<i>Financial Instruments: Disclosure</i>
<i>IFRS 8</i>		<i>Operating Segments</i>

*Note: Candidates will not be examined specifically on knowledge of IAS 1. However, they are expected to be able to present financial statements prepared in accordance with IAS 1, and to that extent it is examinable and specifically mentioned in the indicative syllabus content for F2.

1.3 Advice and guidance for F2 candidates

The part of the book preceding this chapter (The CIMA *Learning System*) contains some useful general advice on study techniques. Candidates are advised to take notice of this. The syllabus for F2 is similar in content to its predecessor P8 Financial Analysis. The comments below refer to candidates performance on the recent diets of P8, however as they mostly refer to exam technique and style of answers, they are fully relevant to all F2 candidates.

The best source of detailed feedback about the examinations is found in the Post-Examination Guides (PEGs). PEGs are available on the CIMA website at www.cimaglobal.com (look under the section 'Studying'). This area of the website will contain other useful information about F2. It is updated frequently, so candidates should refer to it on a regular basis during their period of study.

Some common themes emerge in the (P8) PEGs particularly with reference to exam technique:

- Candidates often do not address the question asked. This is especially true of written questions.
- In questions requiring analysis and interpretation of financial statements candidates often demonstrate a lack of commercial awareness. It is not sufficient to state blandly that figures have gone up or down, or to calculate a long list of accounting ratios. In order to find out what is required by these questions, candidates are advised to spend some time studying the questions and answers very carefully. General commercial awareness can be improved by reading the financial press and specific awareness of the type of information given by financial statements could be addressed by careful reading of a lot of examples of real-life statements.
- Candidates do not allocate their time properly. Often there is evidence of one or more questions having been rushed because too long has been spent on some other question. Sometimes, for example, answers to written questions for 10 marks are as long, or longer, than the answers provided for written questions for 25 marks. In order to increase their chances of a pass, candidates should practise working past exam questions within the time allowance (NB – past papers for P8 are available on the CIMA website, also within the Studying section and as they are testing similar technical areas as F2, many will be relevant to your studying). While sitting the examination they should be absolutely rigorous with themselves about not exceeding the time allowed on any question.
- Workings for calculation questions, especially consolidated financial statements questions, are sometimes virtually illegible because they are so untidy. If poor handwriting or organisation are a problem, candidates should make it part of their exam preparation to practise being neater. Sometimes, in order to save time, it seems that candidates take short-cuts by doing the calculation on their calculators without writing down their workings. Often this means that no marks can be awarded for questions. An extract from the May 2007 PEG explains:

Some candidates ‘. . . produce very lengthy and cumbersome workings for consolidation questions, using many T accounts, or ‘tree’ diagrams (or, occasionally, both). Errors are penalised only once, and markers give credit for figures that, while incorrect because of earlier errors, show the correct application of principles. However, the nature of some candidates’ workings can make it very difficult, even impossible, to follow through the figures. Sometimes the workings are so complicated that it is clear that the candidate himself or herself has become thoroughly confused by them’.

- Some candidates do not prepare, apparently, for all sections of the syllabus. It is quite common to find, for example, that they are apparently ignorant of anything to do with financial instruments or other parts of syllabus area B. Candidates who go into the exam knowing about only part of the syllabus are very likely to fail. The examination is designed so as to cover the syllabus according to the syllabus weightings set out earlier in this chapter. There is very little variation from this and so candidates can be confident that syllabus area B will account for 20% of the question content, and syllabus area D for another 10%.
- Some candidates are much given to repetition in written questions. Markers will not give additional marks for the same point expressed in a slightly different way.

In each examination it is clear that a minority of candidates is significantly under-prepared for the examination. Such candidates, who have virtually no chance of passing, bring down the average pass rate. Well-prepared candidates who have conscientiously studied all syllabus areas and who have done plenty of practice questions, will be able to pass, and should not be deterred by apparently low historic pass rates.

It is important to read the PEGs as they provide useful guidance on what not to do if you wish to pass the examination. They are likely to be of particular use and relevance to those candidates who are not able to attend any formal tuition sessions and whose studying comprises this *Learning System* only.

1.4 Summary

This introductory chapter lists the examinable accounting standards.

All candidates are advised to read the post-examination guidance (PEGs) which are made available on the CIMA website. Section 1.3 of the chapter identifies some of the key points from the PEGs covering the 2005, 2006 and 2007 Financial Analysis examinations; however, many of the points cover issues relating to examinable areas that are vital in F2 and so are highly relevant.