Financial Reporting and Analysis ("FRA")

By Mr Hua Chia Yee

The FRA section (Study Sessions 7 to 10) contributes approximately 20 marks (out of 100 marks) of the Level 1 CFA examination. It represents the largest marks contributor in the CFA examination and is a study area candidates must perform well in order to pass the Level 1 CFA examination.

Unlike conventional accounting examinations, the FRA section of the CFA Level 1 examination tests a candidate's ability to <u>interpret</u> financial statements, instead of preparing financial statements. The syllabus assumes candidates already have a working knowledge of preparing financial statements, prior to studying the FRA section of CFA syllabus.

In order to be able to interpret financial statements, candidates should have a <u>pre-requisite</u> knowledge (at least at the basic level) in preparing financial statements, e.g. how double entries are formulated in financial statements, before they start to prepare for the FRA section of the CFA examination. This is especially important for candidates who have a non-accounting background in their university degree, e.g. engineering, marketing etc.

Secondly, a substantial portion of the FRA examination questions are <u>qualitative</u> in nature, as opposed to quantitative (i.e. calculations). Therefore, a candidate must be able to identify manipulations / mistakes in the preparation of financial statements, and how to correct / reverse these manipulations / mistakes. More importantly, a candidate cannot expect to perform well (> 70%) in the FRA section of the examination by only doing well in 'calculation' questions.

Thirdly, the accounting standards used in the FRA section of the CFA examination include <u>both</u> U.S. GAAP and IFRS (international accounting standards). In order to answer the FRA questions, students must be able to identify the <u>similarities</u> and <u>differences</u> in these two accounting standards.

Last but not least, the FRA examination questions cover the whole spectrum of Study Sessions 7 to 10. Therefore, candidates should not attempt to 'spot' examination questions when studying the FRA study sessions.