

Think Ahead

ACCA

P2 Corporate Reporting/ Strategic Business Reporting

Recent examinations

Candidates often focus on:

- retention of information
- memorisation rather than understanding

Candidates need to:

- understand the principles behind the learning
- interact with the material
- think critically and relate the information to practice

It is apparent from candidates' scripts that there seems to be different approaches taken by candidates to learning. Some candidates focus on the main facts with retention of information being important rather than understanding. These candidates simply memorise the information and do not understand the meaning behind the material. This can lead to candidates remembering a list of apparently unrelated facts, as they do not understand the principles behind the learning. Those candidates who try and interpret the meaning of the subject matter perform better in this examination. This means that candidates have to interact with the material by thinking critically about the information and relating it to practical examples.

Recent examinations

- Syllabus clearly states aims and the capabilities expected
- Verbs include: discuss, evaluate, advise and appraise ...not list
- It is the learning activities of the candidate which creates the understanding and complements instruction
- Yet, there is often a surface approach to learning

The syllabus clearly states its aims and the capabilities expected of candidates; rather than merely listing the topics of which knowledge is required, these capabilities outline the level of understanding required. The verbs used in the syllabus include discuss, evaluate, advise and appraise. The higher the level of verbs, the higher the level of attainment required. All of these verbs require a degree of understanding and application and so rote learning the subject is insufficient. The capabilities should be at the centre of the teaching and learning activities.

Some candidates may feel that there is a disproportionate amount of information to be learned, and so may adopt a surface approach to learning. However, the method of examining this paper emphasises and rewards the application of personal understanding and so candidates who adopt a surface approach are unlikely to succeed.

Surface learning is not sufficiently robust to develop the professional skills required to practice. It is the learning activities of the candidate, which create the understanding and complement the instruction of the tutor. In order to perform well in this paper, candidates need to develop an understanding of the important corporate reporting concepts.

Recent examinations

- The Conceptual Framework is relevant to all questions
- Candidates' answers are sometimes naïve in the practical application of IFRSs
- To resolve, a subject could be taught across IFRSs
- There needs to be awareness of IFRS judgements and estimates
- Often there is a strategic (rather than deep) approach to study, selecting topics and basing their studies only on past questions

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The Conceptual Framework of the International Accounting Standards Board sets out the concepts upon which International Financial Reporting Standards (IFRS) are based. The principle-based nature of IFRS is not always understood by candidates. Often candidates' answers reflect inexperience in the use of judgement in reporting under IFRS. It is important that candidates have an understanding of IFRS based on the Conceptual Framework whilst developing the capability to make judgements. Candidates are often criticised because their perception is that the objective of their education and training is to know facts. This leads to candidates perceiving and tackling problems from a narrow perspective. The retention of information is important to those students. However, candidates who interpret the meaning of the information and adopt a deeper approach are likely to be more successful in the examination. Effective study methods coupled with the above approach will achieve the best possible scores in the examination.

Recent examinations – Question 1a

- Many candidates show their workings on the face by bracketing a series of additions and subtractions
- Fine if simple calculations
- Advisable to show separate workings for complex calculations
- The own figure rule is used when allocating marks.
- Varied approach by candidates in the layout of their answers is fine if well set out

Workings are acceptable on the face of any statement and inaccurate references to the workings are not penalised as the markers examine all workings recorded in the script for relevance to the question. Even the simplest of calculations should be shown. For example sometimes, candidates can inaccurately sum two figures. If the working is correct, then candidates would not be penalised for the summation error. This part of the question 1 currently does not require a discussion of the calculations performed. When marking the question, credit is given for the method used by the candidates and this does not require an explanation. Thus candidates can save time by simply laying out their workings in an orderly manner. If a candidate has correctly shown the element on the face, then no further marks will be awarded in the workings. However, if there is an incorrect calculation on the face of the statement, then the workings will be scrutinised and marks awarded if the workings show that the calculation is partially correct. Candidates are not penalised twice for an incorrect working as the own figure rule is used in marking the paper.

An example of Framework based teaching: Property, plant and equipment

1. Identification of the element (ie asset, liability or equity)
2. Classification of the identified element
3. Introduction to the relevant IFRS requirements
4. Exposure to the main principles in IFRSs, IASB Exposure Drafts and Discussion Papers or proposed Standards
5. Discussion of practical examples, cases etc

The material should be designed to develop in students the ability to make the judgements that are necessary to apply IFRS and to prepare students for a thorough understanding of the principles underlying IFRS. Framework-based teaching at this level should focus on enhancing the ability of students to make the estimates and other judgements that are necessary to account for transactions, and other events in accordance with IFRS. To do so effectively, it is best if the material discussed with students in class and is unfamiliar to those students. This should allow the students to develop the skills of making judgements and estimates.

The teaching would not just deal with IAS 16, but IAS 40, IFRS 5 and other relevant standards.

Marking a working in Question 1a

Non Controlling Interest	\$m	Comment
H-fair value at 01/10/X1 (W1)	17	Fair value calculated in W1. OFR
Retained earnings (30% x (7-4))	0.9	All numbers were in question-must be correct
OCE (30% x (3-1))	0.5	Incorrect calculation but marks given
S-fair value at 01/04/X2 (W2)	7	Incorrect but OFR
Retained earnings (20% x 9(W4))	1	Adjustment required to earnings-OFR
OCE (20%X(3-3))	-	If no working then no mark.

This slide demonstrates how a working in question 1a would possibly be marked. The first calculation of the fair value of the NCI has been calculated in a previous working and therefore, if the figure is incorrect, marks would still be awarded for the correct posting of the figure to NCI. The retained earnings figure however can be calculated from information in the question and therefore to be awarded the marks, the figure has to be correct. If the working is correct but the calculation is inaccurate then marks will be awarded. This is exemplified by the next working of OCE. Again the subsidiary's fair value has been incorrectly calculated but the own figure rule (OFR) will apply as the original figure was calculated in a previous working. Similarly, the subsidiary's retained earnings figure has an element that has been calculated in a previous working, so if the percentage holding is correct then the OFR OCE figure is interesting as the OCE amount is zero. If the candidate shows the working then marks will be awarded but if the OCE is simply left as zero without a working, then no marks.

Marking a Section B question

'Fair value is a value obtained in an ordinary transaction between market people and is an exit price.'

There are 3 levels of hierarchy:

Level 1/level 2/level 3.

IAS 13 says that level one should be maximised and level 3 minimised with level 2 in the middle. Therefore, level 3 inputs should not be used.'

Up to 2 marks for this as sets out (poorly) two distinct points. Grammar poor but understanding there.

Marks will be allocated for definitions of levels 1-3 but would be restricted to 2 marks.

No marks as the principles are misunderstood. IAS 13 incorrect but no real issue.

Points should be relevant.

The grammar in the first sentence is poor but the candidate is attempting to set out two distinct points. One is that fair value is a market transaction and secondly that it is an exit price and not an entry price. The grammar is poor but the understanding is there.

Marks will be allocated for definitions of levels 1-3 but candidates often simply quote the standard but do not apply it very well. Therefore the marks would be restricted to a maximum of 2. In future exams, the hierarchy levels may become assumed knowledge therefore marks will be restricted further.

No marks for the final paragraph as the principles are misunderstood. The reference to IAS 13 is incorrect but no real issue as marks are not awarded for the correct IFRS.

The points should be relevant and accurate. The principles are completely misunderstood and therefore no marks will be awarded

Marking a Section B question

'There was public information available and there had not been a decline in the trading of the shares. Also newly issued shares were fully subscribed.'

The valuation was incorrect because of the use of a level 3 valuation technique when a level 1 valuation was available.

When the company sells the shares they would incur unreal losses that wouldn't have been incurred with a proper valuation.'

Up to 3 marks for this as sets out three distinct points even though the points are in the question

Up to 2 marks - 'incorrect' and understanding of levels.

No marks as the principles are misunderstood.

The candidate has used the case study to set out three relevant point relating to public information, the decline in the trading of shares and the newly issued shares being fully subscribed. Therefore up to 3 marks will be awarded. The use of the case study is so important and in doing so, marks can easily be gained.

The second sentence concludes that the valuation was incorrect- which is correct!! Therefore marks would be awarded. However, if the explanation and discussion in the candidate's answer is sensible but the conclusion is inaccurate, then only 1 mark would be lost. Marks are awarded here for the understanding of the application of IFRS 13.

The final paragraph is almost indecipherable as the principles are totally confused which would be a surprise to the marker as in the earlier paragraphs, the candidate has shown some understanding. Therefore the marker would reread the sentence to try and ascertain if any marks could be awarded but sadly none would be in this case.



Let's now look at how this exam will change in the new Strategic Professional, examinable from September 2018.

Strategic Business Reporting – meeting changing demands

Changing demands	Re-shaping the exam
More holistic reporting	Continue to focus on <IR>, maybe included in current issues question
Stakeholder management and engagement	Changing focus, investor/stakeholder perspective-Examples include impact of new IFRS and incorrect reporting on stakeholders
Conceptual Framework and principles	Framework as a basis for answers to some questions
Performance reporting	Reports for stakeholders, performance measures including evaluation of the role of additional performance measures
IFRS – key areas	Focus on principles- study guide clarification on key areas to be examined (current issues)

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The syllabus requires students to examine corporate reporting from a number of perspectives, not only from the point of view of the preparer of corporate reports, but also from the perspective of a variety of different stakeholders such as finance providers. The syllabus further requires the assessment and evaluation of the reporting decisions made by management and their implications for a range of stakeholders and entities. The syllabus requires students to reflect on the usefulness of corporate reports to stakeholders including developments in narrative reporting such as Integrated Reporting, and to discuss the nature of the information that would help stakeholders assess the future prospects of the entity. This involves the analysis and interpretation of corporate reports, and advice on the reporting implications of transactions.

Students should have a cohesive understanding of the Framework for Financial Reporting and to use the Framework as a basis for judgement in applying International Financial Reporting Standards in corporate reports. The syllabus sets out the principles and practices embodied in IFRS and uses these principles as a basis for the preparation of group financial reports.

Alternative performance measures are introduced to the syllabus for the first time and students will need to understand the main issues with the disclosure of these measures.

Key developments in corporate reporting will be examined as part of a question and not a full question. They include a discussion of the deficiencies of existing accounting standards and the ability to explain the implications for a business and its

stakeholders of major changes to reporting frameworks

Strategic Business Reporting – meeting changing demands

Changing demands	Re-shaping the exam
Ethics	Question 2 –ethical case study dealing with IFRS issues and ethical dilemma
Segmental Reporting	Assessment of profitability and risk to external stakeholders and maybe ethical implications
Financial instrument valuation	Discuss and apply the classification, treatment, recognition and de-recognition of financial assets and liabilities, in various contexts
Related party transactions	Determine parties related to the entity; identify implications and need for disclosure. Key area in ethics questions
Critical thinking and communication	Examine relationship between Framework, principles and practice

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The syllabus also explores the professional and ethical responsibilities of the accountant to these stakeholders. This question will require candidates to discuss more complex ethical issues than was previously the case.

The nature and importance to stakeholders of segmental reports will be examined more frequently in this paper and may appear in the ethical question.

Historically, the accounting for financial instruments has not been very well understood by candidates. Candidates often struggle to apply the principles to a scenario. The examination will require candidates to discuss this topic in a business context, that is the application of the principles will be important much more than an extremely detailed knowledge of the IFRS.

Related party transactions are a key element of corporate reporting. They often involve transactions which are not in the ordinary course of business or which may involve misleading presentation of the accounts. Thus this type of transaction is a key area in ethics questions.

Students need to develop the ability to think critically about information and relate it to practical examples.

Strategic Business Reporting – Specimen Exam

Question	Comment
1a Calculation of goodwill and adjustment of errors, calculation of gain or loss on sale of subsidiary, pension scheme and restructuring	Based upon June 2015 question 1. Could ask for implications of errors for stakeholders on performance ratios. Discussion more important than previously. Question could be 20-25 marks
1b Equity v liabilities discussion, and contingent payments	Similar to current question 1b. Based upon scenario in question 1. Could be any IFRS related topic requiring discussion of framework/principle based topic. Marks including 1a could add up to 35 marks.
2	Scenario based-IFRS principles and ethics. 15-20 marks Not rote learning of ethical principles.

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The focus of the examination is changing. Rather than candidates simply producing a completely numerical answer to question 1a, candidates will be required to explain their workings. The question may not require a full set of group accounts to be produced instead, candidates may be required to produce certain aspects of those accounts.

Question 1b will be similar to existing questions and could be based upon question 1a and be based upon any syllabus topic. Question 2 will be a scenario based question linking IFRS principles and ethics. A more in depth discussion of the ethical implications of management's actions will be required. Simply quoting ethical guidance will not be enough to gain a pass mark, instead a discussion of the ethical implications of certain accounting practices will be required. Knowledge of several IFRS will be required for this question. Rote learning of ethical principles will not be enough.

Strategic Business Reporting – Specimen Exam

Question	Comment
3 and 4	<p>Similar to questions 2 and 3 in current P2 exam.</p> <p>Will include a theme or context.</p> <p>Whole question could be on a single area.</p> <p>Current issues will be parts of questions, not a whole question.</p> <p>Investor perspective, Framework and performance reporting could be examined here.</p>

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Questions will be similar to existing questions but will differ in the following ways:

- Current issues will only be a part of the question and more detailed guidance on current issues is given in the study guide than before.
- There will be greater emphasis on the implications for stakeholders of the accounting practices adopted by entities.
- Framework based answers are important-if relevant to the scenario.

Strategic Business Reporting – general points

Change of focus	Not a change in knowledge
Framework	More direction on use of Framework in answering exam questions
Investor perspective	Need to understand the implications of reporting on stakeholders
Ethics	Currently superficial knowledge of ethical dilemmas.
Current issues	More direction on areas to be examined and integrated into questions.
Discuss and apply	No real change in approach.

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The knowledge level has not changed but the approach has changed. The use of the Framework as a basis for answering questions is important. This does not mean that every answer has to include the definition of an asset ,liability ,expense etc but it does mean that the fundamental principles in the Framework will be useful in answering the questions.

The IASB,in developing new standards, always looks at the current and proposed Frameworks as a basis for its standards. Obviously, there are inconsistencies between the Framework and certain IFRS and this type of discussion would be useful in answering the questions.

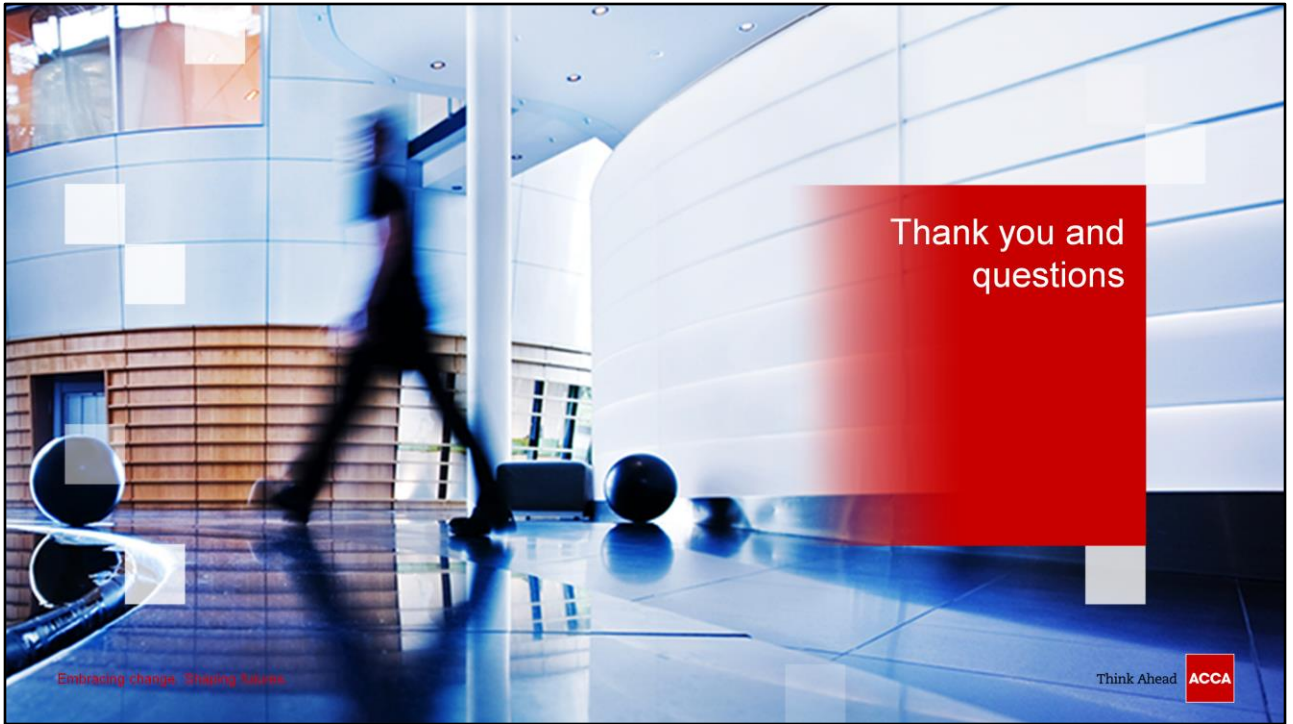
Previously there has been a focus on the implications of certain scenarios for the preparer of financial statements. In addition to this approach, the implications for other stakeholders such as investors will be examined.

Candidates are currently demonstrating a superficial knowledge of ethics. This is changing as candidates will have to demonstrate a more in depth understanding of the ethical dilemmas facing practising accountants.

Current issues will be integrated into questions and more guidance will be given in the study guide. These questions will not just be based upon ED's or Discussion Papers but issues facing the profession.

'Discuss and apply' will be the approach taken in the examination and this will be reflected in the marking of answers to the

examination.



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