Examiners' report

DipIFR
June 2008

The examination consisted of one compulsory question for 25 marks and four optional questions for 25 marks each. Candidates were required to attempt three of the optional questions.

In general performance in this examination was less satisfactory that in December 2007, with a lower pass rate and average mark. This was mainly because the average mark in (compulsory) question 1 was lower than in December. However both the overall pass rate and the average mark compared reasonably well with those achieved in sittings prior to December 2007. As usual the performance of candidates in computational aspects of questions was generally superior to that in written aspects.

Unfortunately there remains a notable minority of candidates who produce performances that are way below pass standard. All candidates should be aware of the need to undergo thorough preparation before attempting this examination.

Question 1:

This question required the preparation of a consolidated income statement and a consolidated statement of changes in equity for a group that contained one subsidiary and also had an interest in an associate that had been acquired during the accounting period.

On the whole the preparation of the consolidated income statement was satisfactory. However a minority of candidates seemed unaware of basic consolidation procedures and some candidates used proportional consolidation for both the subsidiary and the associate.

Candidates had problems with the preparation of the consolidated statement of changes in equity. Candidates and tutors should note that this area will continue to be examined from time to time in future and therefore its principles should be mastered.

Question 2:

This question required the preparation of an income statement, a statement of changes in equity and a balance sheet for a company from a trial balance. As usual this question was very well answered by the majority of students who attempted it. The only major problem was the correct provision for warranty costs. A number of candidates failed to appreciate that the amount that should be provided, for a sample of items is the expected value of the amount that will be spent on the obligations for the sample as a whole.

Question 3:

This question required candidates to explain the financial reporting implications of four issues:

a. The construction of a building.
b. A development project that became eligible for capitalisation in the current accounting period.
c. A cash flow hedge of a firm commitment.
d. A property lease.

Answers to parts (a) and (b) were generally satisfactory. For part (b) however, a minority of candidates incorrectly stated that there would be a retrospective adjustment in respect of the development project.

In part (c) a significant number of candidates incorrectly stated that it would be necessary to recognise a liability at 31 March 2008 for a machine that was due to be delivered in June 2008. However it was pleasing to note that most candidates who attempted this part recognised the potential availability of hedge accounting for this transaction.

In part (d) it was surprising to note that a significant number of candidates were unaware that property leases need to be split into two components before being assessed as either operating or finance.

Question 4:

This question required candidates to adjust a previously prepared income statement for the effect of transactions that had been incorrectly accounted for. This question was answered well by the majority of candidates who attempted it. The only issue that a number of students dealt with incorrectly was the sale and leaseback. A significant number of students attempting this question assessed the leaseback as a finance lease. This was incorrect as the leaseback period was 5 years and the future economic life of the leased asset was estimated at 30 years!

Question 5:

This question required candidates to consider three issues:

- The calculation of goodwill arising on a business combination.
- The calculation of consolidated retained earnings for the group at the end of the year of acquisition
- The treatment of a property that was held for sale at the year-end.

The first issue (on goodwill) was answered quite well, although a reasonable number of candidates were unaware of the acquisition costs that could be included as part of the goodwill figure rather than being taken to the income statement as an expense. Some candidates did not display sufficient knowledge of the intangible items that could be recognised as identifiable assets in the consolidated balance sheet.

Answers to the second issue (calculation of consolidated reserves) were generally rather unsatisfactory. Many candidates were unable to correctly compute the impact of the fair value adjustments made in calculating the goodwill on consolidated reserves. This is worrying, given that consolidated accounts is effectively a compulsory topic for this paper

Answers to the third issue were generally satisfactory. However a number of candidates re-measured the property to its fair value less costs to sell without comparing its existing carrying value.