Examiners' report

DipIFR
December 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 December 2008 was superior to that in June 2008, with a higher pass rate and average mark. I believe there were two main reasons for this:

1. An improved performance and hence average mark in question 1 as compared to June 2008. Students seem to prefer a consolidated statement of financial position than any consolidated performance statement (the subject in June).

2. An improved performance in questions 3 and 5. There is no apparent reason for it however, this is an encouraging development.

As usual the performance of candidates in computational aspects of questions was generally better than the written aspects.

It is difficult to make too many statistical inferences where the number of students sitting the paper worldwide – around 500 – is fairly small. However, it is notable that the distribution of students across the larger centres was somewhat different to June 2008 and this may also have contributed to the variation in performance.

There were a number of centres that have only recently been presenting candidates for this paper where the performance was extremely encouraging. Unfortunately however 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. Readers of previous reports will know that I have made such comments before but they bear repetition because they are still valid. It increasingly appears that such candidates are concentrated in specific centres.

Question 1:

This question required the preparation of a consolidated statement of financial position for a group with one subsidiary and one joint venture. The question specified that the joint venture had to be consolidated using proportional consolidation. On the whole this question was answered satisfactorily as candidates would have expected a question of this nature to appear on the paper. However a significant minority of candidates were unable to apply the proportional consolidation method. Of these candidates, some used equity accounting despite the question specifying the use of proportional consolidation, some consolidated the joint venture as a subsidiary, and some treated the investment at cost.

A number of candidates also seemed unaware of the implications of the revised IFRS3 – examinable for the first time in December 2008. Such candidates were unaware of the full goodwill method and of the requirement to measure contingent consideration at fair value.

It was encouraging that the number of very poor answers to question 1 was less this time than in previous sittings. This reflects credit on both candidates and tutors.

Question 2:

This question required the preparation of an income statement and a statement of financial position for a company from a trial balance. As usual this question was very well answered by the majority of students who attempted it and it was by some distance the best answered question on the paper. The only technical issue that caused any real problems was the correct treatment of the held for sale property. A significant minority of candidates seemed to think that the information regarding the expected selling price should be treated as a revaluation of PPE under IAS 16 rather than under IFRS 5.

Question 3:

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

a. The closure of a business segment.
b. The receipt of three different types of government grant.
c. A staff training campaign

The answer to this question was very satisfactory on the whole and I was very pleased to note the improvement in standard compared with previous sittings. The only aspect on which I wish to specifically comment is that many candidates seem to confuse the issue of potentially reporting a closure as a discontinued operation and whether or not a provision should be made for the closure costs.

Question 4:

This question required candidates to prepare a statement of cash flows for a single company. The standard of answers was very variable. On the whole candidates scored very poorly or very badly. It would appear that at least for some candidates this was an unexpected topic. Tutors and candidates should note that this topic is amongst the list of examinable topics and should prepare accordingly.

Question 5:

This question required candidates to consider four issues:

- The use of a financial instrument to hedge the exchange risk arising on an executory contract.
- The treatment of a property lease where the land element was an operating lease and the buildings element a finance lease
- The issue of a possible provision for vehicle modification costs plus the associated penalties.
- The review of goodwill for impairment where the goodwill could not be meaningfully allocated between four cash generating units.

The standard of answers to this question was quite variable. The first issue (on executory contracts) was answered quite well, with most candidates being aware that an executory contract is not recognised in the financial statements unless it is onerous. Most candidates were also able to describe the fundamental principles of hedge accounting, which I found most encouraging.

Answers to the leasing issue were generally satisfactory. However a minority of candidates were not aware of the need to make the lease classification decision in two parts. This is surprising as I have commented on this matter in earlier examination reports and it was in fact mentioned in the June 2008 report.

Answers to the environmental provision issue were generally rather disappointing. A majority of candidates stated that a provision was required for the vehicle modification costs because the effective date of the legislation was six months before the year end. This was despite the fact that the vehicles had been operated for the six month period since the effective date of legislation. Few candidates correctly concluded that only the financial penalties for non-compliance should have been provided for.

Answers to the impairment issue were generally disappointing. Most candidates were able to correctly calculate the goodwill on consolidation but were unaware of the need for a two-stage impairment review.