

Examiner's report

DiplFR

December 2009



General Comments

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 than in June 2009, with a lower pass rate and average mark. This was mainly because the average mark in (compulsory) question 1 was lower than in June. However both the overall pass rate and the average mark compared reasonably well with that achieved December 2008. As usual the performance of candidates in computational aspects of questions was generally superior to that in written aspects.

It is more valid to make statistical inferences as the number of students sitting the paper worldwide increases. The number sitting this time – around 950 – was significantly higher than in previous sittings. It is notable that the performance of students across the larger centres was in general better than in centres with a smaller number of candidates. Therefore the availability of tuition could well be a key factor in the overall results achieved.

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. Readers of previous reports will know that I have made such comments before but they bear repetition because they are still valid.

Specific Comments

Question One

This question required the preparation of a consolidated income statement for a group that contained two subsidiaries, one of which had been acquired during the accounting period. On the whole the basic preparation of the consolidated income statement was satisfactory.

Candidates coped less well with the more complex aspects of the question, in particular the issue of impairment of goodwill arising on the acquisition of Gamma. Candidates should be aware that this aspect of consolidated accounts will be subject to regular examination.

Unfortunately there was a small error in the information in note 2 to the question regarding the acquisition of Gamma. The question gave the market value of a Gamma share when this should have been the market value of an Alpha share. The vast majority of candidates took the market value of the Gamma share and used this in the calculation of the cost of investment. A small minority stated their assumption. In both cases, full credit was given.

Question Two

This question required the preparation of a statement of comprehensive income 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. The only technical issue that caused problems for some was the treatment of the property the directors had decided to sell. A number of candidates seemed completely unaware of the provisions of IFRS 5 and ignored the issue completely.

Question Three

This question required candidates to explain four issues:

- a. The requirements of IAS 39 regarding impairment of financial assets.
- b. The requirements of IAS 16 regarding asset revaluations.

- c. The treatment of the change in estimated useful life of a non-current asset.
- d. The treatment of a claim against the entity and a corresponding counter-claim

Parts (b), (c) and (d) of this question was answered satisfactorily. However for part (a) a number of candidates seemed unaware of the need to use discounting techniques to compute the recoverable amount of a financial asset where payment was likely to be delayed significantly.

Question Four

This question required candidates to explain key requirements of IFRS 2 – Share based payment – and apply them to a given scenario. On the whole answers to this question were disappointing. Candidates did not seem to appreciate that in the case of the granting of employee options it was the option price, rather than the underlying share price, that needed to be used to compute the fair value of the payment. Those that did appreciate this often restated the computations to reflect changes in fair value since grant date. In general candidates should be more aware of the application of this standard than was apparent from answers to this question.

Question Five

This question required candidates to prepare financial statement extracts in respect of two events:

- a. The closure of a business segment.
- b. The deferred tax charge

Answers to part (a) were generally very good. Answers to part (b) were mixed, with many candidates seeming to confuse taxable and deductible temporary differences