Examiner's report

DipIFR
December 2010

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 not as good as seen in recent sittings, particularly June 2010. As usual, candidates performed quite well on questions one and two and the performance of candidates in computational aspects of questions was generally superior to that in written aspects. In contrast to questions one and two, a number of candidates produced disappointing answers to questions three, four and five. It appeared that either candidates did not have the necessary knowledge to answer these questions or they were unable to apply the knowledge to the scenarios presented.

Looking ahead to future sittings the format of the paper is changing from June 2011. From this date onwards 'scenario based' questions will account for 60 marks on the paper. Therefore it will be even more important in future for candidates to practise such questions when preparing for the examination.

Specific Comments

Question One

This question required the preparation of a consolidated statement of financial position for a group that contained one subsidiary and one joint venture. The goodwill calculation required a number of fair value adjustments and it was necessary to compute deferred tax on the temporary differences caused by these and other adjustments. On the whole the basic preparation of the consolidated statement of financial position was satisfactory. However a significant minority of candidates failed to apply proportionate consolidation to the joint venture. Some candidates making this error treated the joint venture as a subsidiary, others used equity accounting and still others left it out completely from the consolidation process.

The majority of candidates were able to process the basic fair value adjustments although a number struggled with the adjustments required in respect of the intangible asset that could not be recognised under International Financial Reporting Standards (IFRS). This causes a reduction to be made to the net assets of the subsidiary at both acquisition and reporting dates.

The standard of computation of deferred tax on temporary differences varied considerably. A number of candidates were unsure as to which adjustments required deferred tax to be recognised. A common error was to recognise deferred tax on the adjustment to receivables (see below) or the contingent consideration. Many candidates were unsure whether deferred tax on the fair value adjustments was a taxable or deductible temporary difference.

Many candidates did not calculate the adjustment required due to the incorrect accounting for the sale of trade receivables correctly. A number of different errors were made, including adjusting the cash balance which did not require any adjustment, and adjusting trade receivables and liabilities by $5 million.

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 satisfactorily answered by the majority of students who attempted it. Three only technical issues that caused problems for a number of candidates:

- The calculation of the net realisable value adjustment on the inventories. This was surprising given that it seemed relatively straightforward.
- The analysis of the finance lease liability into its current and non-current components.
- The calculation of the impairment of trade receivables. Many candidates computed this as $2 million and ignored discounting completely. This continues to be an area that challenges candidates who present for this examination.

A number of candidates produced very lengthy unnecessary workings in the form of T accounts and/or journal entries. This may well have been a contributory factor to a fairly common failure to answer four full questions.

Question Three

This question required candidates to explain and quantify the accounting treatment of three issues:

a. A convertible loan, including the treatment of issue costs.
b. The lease of a property, including an inducement received to commence the lease and modifications that require restoring at the end of the lease.
c. An equity investment that is not held for trading

Part (a) of this question was often answered unsatisfactorily. Many candidates were unaware of the need to present portions of the loan in liabilities and equity. Very few candidates were able to correctly apportion the issue costs, many incorrectly stating that they would be charged as an immediate expense.

Answers to part (b) were on the whole much better than part (a). The majority of candidates correctly concluded that the lease was operating and a pleasing number were aware of the impact of the lease inducement. Most candidates were aware of the need to provide for the restoration costs. However a number of candidates incorrectly concluded that because the lease was operating the internal alterations had to be expensed immediately. Another fairly common error was the failure to appreciate that the provision attracts a finance charge due to the unwinding of the discount.

Answers to part (c) were generally disappointing. Only a minority of candidates appreciated that available for sale financial assets are valued at fair value, with changes to other comprehensive income until the assets are sold. Very few candidates correctly identified the reclassification of unrealised gains and losses that is necessary when such assets are sold.

Question Four

This question required candidates to explain and apply the basic principles underpinning the calculation and disclosure of earnings per share and the recognition and measurement share- based payments. This question was the least popular of the four optional questions.

- Knowledge of the basic rules regarding the computation of basic and diluted earnings per share was generally satisfactory. The standard of calculations was rather more mixed, with many having difficulty computing the weighted average number of shares in issue in a period where a rights issue of shares has occurred.

- Knowledge and application of the share-based payments rules was generally disappointing. This topic seems to have caused difficulty for candidates whenever it has been examined. Candidates should expect to see this important standard being examined in future sittings.

Question Five

This question was in four parts. Part (a) required candidates to compute and account for the impairment of goodwill of a subsidiary that was a separate cash-generating unit. Part (b) required the explanation of the procedures to be adopted when a new subsidiary prepares financial statements for the first time under IFRS. Part (c) required candidates to account for the sale (at above fair value) and operating leaseback of a property. Part (d) required a discussion of the accounting treatment of a customer claim and a counter-claim by the reporting entity.

Answers to part (a) were generally satisfactory. A minority of candidates did not compute the goodwill figure using the 'fair value basis' and so lost marks here.

Answers to part (b) were somewhat disappointing. A number of candidates discussed consolidation procedures despite the fact that the requirement was to discuss first time application of IFRS. In general candidates did not appear to have a precise enough knowledge of IFRS 1, making only fairly general comments.

Answers to part (c) were also disappointing. Many candidates wasted time by speculating on whether the lease was operating or finance. Some concluded it was a finance lease despite the question clearly saying it was operating. Most candidates seemed unaware of the need to defer the excess profit on sale of the property.

Answers to part (d) were generally of a very satisfactory standard.