Examiner's report

DipIFR
December 2011

General Comments

The format for the December 2011 examination was unaltered from that of June 2011. A significant format change occurred in June 2011, when there was a removal of any choice from the paper. The December paper consisted of one 40 mark question and three 20 mark questions. The 40 mark question required the preparation of a consolidated statement of financial position and the practical consideration of a number of other financial reporting issues. Two of the three 20 mark questions were scenario based; question two required candidates to evaluate the financial reporting implications of a restructuring and a construction contract; question three also contained a scenario element, albeit one focussed on a specific international financial reporting standard – IAS 19 – *Employee Benefits*. Question four was a written question dealing with the adoption of International Financial Reporting Standards (IFRS) by entities currently using their own local standards.

The pass rate for this sitting was similar to that of June 2011. The performance of candidates was very polarised, with very few marginal scripts encountered. A key message going forward is the need for candidates to present themselves for examination having acquired a satisfactory level of knowledge by disciplined study and being able to explain clearly the steps they are taking when answering examination questions.

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 associate. Information about the recoverable amount of the subsidiary at the year-end was provided and it was necessary to test the goodwill on acquisition of the subsidiary for impairment.

In addition to the consolidation tasks candidates were required to adjust the financial statements of the parent for a number of transactions that had not been properly accounted for by the parent. These included a complex financial instrument that contained both a debt and an equity component, the re-measurement of a financial instrument that had been designated as fair value through other comprehensive income, an equity settled share-based payment and a potential provision for the consequences of failure to comply with relevant legislation

The standard of presentation of the statement of financial position was generally very good and workings were clearly labelled and easy to follow – suggesting that most candidates are tackling the question in a methodical way.

Areas showing good knowledge:

- Most candidates correctly consolidated the parent and subsidiary with only a small number consolidating the associate and a smaller number still taking 40% of Gamma and 80% of Beta.
- Goodwill calculations for Beta – identifying all aspects of the consideration correctly (although some candidates accounted for the shares as if they had not been recorded and made adjustments to the parent's share capital and share premium). Many correctly identified the fair value adjustments and calculated the correct amount of deferred tax on them.
- Most candidates correctly dealt with intercompany balances – although many also deducted the trading with the associate
- Most candidates correctly deducted the unrealised profit relating to the subsidiary from inventories – although many included the associate's too, rather than deducting it from the investment in associate.
- Convertible debt calculations were done well with many candidates scoring full marks.

Areas where mistakes were common:

- Incorrect calculation of depreciation for the fair value adjustments. Most candidates took 1 year's depreciation not 1.5.

- Impairment of goodwill – the most common mistake was not taking the goodwill into account for the carrying value so comparing $50,000 with $52,000 and saying there was no impairment (some thought the impairment was $2,000 as a result). Also many candidates forgot to complete the double entry and take the debit to retained earnings and NCI.
- Unrealised profit adjustments - many candidates took mark-up instead of margin and came up with $3,200 and $800 - getting $4,000 overall.
- Share based payment – although most candidates were aware of the basic principles common mistakes included incorrectly computing both the expected percentage of employees qualifying for the award the proportion of the vesting period that had elapsed at the start and end of the reporting period. A number of candidates based their calculations on the market value of the share options at the end of the reporting period rather than at the grant date.
- Other components of equity – as well as the omission of Beta as a result of not splitting the reserves as mentioned above, candidates often took the amount to be $90,000 (just the parent's amount) or $95,000 (the parent's amount plus the subsidiary's amount) without incorporating the other figures.
- Many candidates included the investment in Gamma at cost, without adjusting for post-acquisition profits or unrealised profits.
- Valuation of Sigma – nearly all candidates correctly included the value of the asset at $16,000 but many did not deal with the credit side correctly. A common mistake ignoring deferred tax on the restatement to fair value.

Question Two
This question required candidates to explain and illustrate the financial reporting treatment of:
 a. A restructuring involving the closure of a business unit.
 b. A construction contract

Part (a)

Areas showing good knowledge:
- Good definitions of a provision (although the application was not as good). Many candidates did not clearly state at the beginning that a provision was needed for the closure but simply attempted to compute the various components of the provision without justifying their treatment. Most candidates correctly stated that the termination payment and onerous lease needed providing for and the training and the losses did not but did not apply IAS 10 and state the correct amounts. Some candidates incorrectly included the impairment of the plant and machinery as part of the provision.

Areas where mistakes were common:
- Many candidates treated the disclosure as a discontinued operation based on the incorrect conclusion that the assets should be classified as held for sale under current assets. Despite this most correctly note the impairment. However a large number revalued the property to £17m at the same time.

Part b

Areas showing good knowledge:
- Good technique shown in that most candidates identified that a profit needed to be calculated from the revenue less costs and that a proportion should be taken based on costs.
- Statement of financial position disclosures were generally good (although some put the deposit received as a liability instead of deducting from the asset)

Areas where mistakes were common:
- The main one was including general overheads in the costs incurred to date and costs to be incurred.

Question Three
This question required candidates to explain the basic difference between defined contribution and defined benefit retirement benefit schemes and contrast the accounting treatment in the financial statements of contributing entities. Following this explanation candidates were required to apply the principles to a practical scenario.

Part (a)

Areas showing good knowledge:
- The majority of candidates correctly compared and contrasted the key features of the two types of scheme.

Areas where mistakes were common:
- Some candidates seemed unclear on the differing accounting treatments and often seemed to confuse them. A particularly common error was to state that contributions under a defined benefits scheme were treated as an expense by the employer.
- Many seemed unsure of the different methods of accounting for actuarial gains and losses.

Part (b)

Areas showing good knowledge:
- Most candidates seemed to be aware that the net pension liability appeared in the Statement of Financial Position and that the amounts included in the Income Statement were the actuarially determined amounts.
- Some candidates scored well on the calculation of the corridor amount, getting the correct answer.

Areas where mistakes were common:
- Showing the closing liability in liabilities and the asset under assets instead of netting them off
- Calculating the service charge and the interest earned on the closing balances instead of the opening ones
- Not explaining clearly where in the Statement of Financial Position and Income Statement the various amounts should be included. For example, not specifying that the net liability was a non-current one and whether or not the expenses were operating or financial expenses.

Question Four

This question required candidates to:

a. Explain the benefits of moving to IFRS from local accounting standards
b. Outline the components of the standard setting process under IFRS
c. Explain the procedures that need to be applied on first time adoption of IFRS

Part (a)
Areas showing good knowledge:
- This was answered reasonably well with many candidates mentioning financing, comparisons and easy consolidation process

Areas where mistakes were common:
- Some candidates seemed to be expressing the same matter in three slightly different ways rather than raising three distinct benefits.
- Some talked about benefits to investors comparing although the question asked about how the company could benefit

Part (b)

Areas showing good knowledge:

- Most knew the names of the different bodies but failed to talk sensibly about what they did. Many students simply talked through the process without referring to the bodies at all

Areas where mistakes were common:

- Some candidates described the components of financial statements rather than the individual components of the standard setting process.

Part (c)

Areas showing good knowledge:

- Most mentioned the comparatives that were needed but then failed to be specific with dates

Areas where mistakes were common:

- Some candidates merely stated that comparatives were needed. Many talked about the process to restate, which was not what the question asked.
- Many candidates seemed unaware of special disclosures and exemptions.