Examiner's report

DipIFR
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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 superior to that of recent sittings. This is a very pleasing development. Candidates performed very well on questions one and two this time. As usual the performance of candidates in computational aspects of questions was generally superior to that in written aspects. However the performance in written parts did seem better, on the whole, than previously. This may be due to the fact that availability of tuition for this paper is more widespread than in previous sittings.

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 statement of financial position for a group that contained one subsidiary and one associate. The group also held an available-for-sale investment via its subsidiary. On the whole the basic preparation of the consolidated statement of financial position was satisfactory. The majority of candidates were able to process the fair value adjustments necessary to consolidate the subsidiary and the associated deferred tax provision. However a minority of candidates attempted to consolidate the associate, either fully or using proportional consolidation techniques. This error has occurred before when associates have been examined in a question requiring the preparation of the consolidated statement of financial position.

A larger number of candidates failed to realise that balances between group entities and associates are not adjusted when preparing the consolidated statement of financial position. Many candidates did not know how to account for the deferred consideration of $15 million – it was often referred to as contingent consideration. Many candidates did not recognise a deferred tax liability on the revaluation of the available-for-sale investment.

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 many was the treatment of the property revaluation, in particular the deferred tax implications. A significant number of candidates failed to realise that the deferred tax on the property revaluation was shown as a deduction in arriving at other comprehensive income rather than as part of the profit or loss for the period. An associated issue was to show the closing deferred tax liability as a charge in the statement of comprehensive income rather than the movement in the liability. Many candidates were not able to compute, and correctly account for, the transfer to retained earnings due to the excess depreciation on the revalued asset. The net of tax amount should be debited to the revaluation reserve and credited to retained earnings.

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

a. The impairment of financial assets.
b. The treatment of an operating lease of a property with variable rentals that had been modified by the
c. lessee but which had to be returned to the lessor in its original condition.
d. The treatment of the purchase of inventory on credit and the subsequent settlement of the resulting payable where the transaction was denominated in a foreign currency.

Part (a) of this question was answered particularly poorly. The majority of candidates who attempted this part seemed unaware of the requirements of IAS 39 regarding the impairment of financial assets. I raised exactly the same issue in my report on the December 2009 paper, where a similar issue was tested. It is unclear whether students or tutors failed to devote enough study time to this issue because it was tested in December 2009 and they did not feel it was likely to be tested in consecutive examinations. If that is the explanation then it shows the dangers inherent in 'question spotting'.

Answers to part (b) were superior to those in part (a). However a number of candidates wasted time reflecting on whether or not the lease was operating or finance when the question clearly stated it was operating. A significant number of candidates were unaware of the need to recognise lease rentals on a straight line basis even where they are payable on another basis. Most candidates were aware of the principle that the cost of leasehold improvements and the consequential obligation to restore the property should have been capitalised. However many candidates did not realise that the provision unwound as the date for payment drew closer.

Question Four

This question required candidates to explain the basic principles underpinning the recognition and measurement of revenue and to apply those principles to three scenarios:

- Machines that required installation.
- Goods sold on a consignment basis.
- A property sold with an option to repurchase.

Answers to this question were, on the whole, highly satisfactory. Candidates had clearly studied this topic and were able to relate their learning to the scenarios described in the question

Question Five

This question was in two parts. Part (a) required candidates to compute the carrying value of a constructed factory where the construction was partly financed by borrowings, and to which component depreciation had to be applied. Part (b) required candidates to compute the carrying value of two properties that the directors of the entity intended to sell, but which remained unsold at the year-end.

Answers to part (a) were generally very satisfactory. Most candidates seemed aware of the basic principles of which costs could be capitalised and which could not. There was generally a satisfactory awareness of the requirement to capitalise relevant borrowing costs, although few candidates were wholly accurate in their calculations. Similarly, the principle of component depreciation seemed well known but very candidates produced correct calculations. A common calculation error was to add the expected replacement cost of the roof onto the other costs when computing the overall carrying value.

Answers to part (b) were somewhat disappointing. Many candidates failed to recognise that the decline in value of property A was caused by an event after the reporting date and so would be classified as non-adjusting. Many candidates did not appreciate that property B could not be classified as held for sale until the necessary repair work was carried out. A number of candidates seemed to confuse 'held for sale' with 'available for sale'. However if the principles of IFRS 5 were applied correctly no candidate was penalised for referring to the properties as 'available for sale'.