Examiner’s report
P2 Corporate Reporting
December 2013

General Comments
The examination consisted of two sections. Section A contained one question for 50 marks and Section B contained three questions of 25 marks each, from which candidates had to answer two questions. Question 1 is a lengthy and difficult question and often determines whether a candidate is successful in the examination. A quite surprising phenomenon is the fact that candidates often do not answer all parts of all questions. This contributes to failure in the examination. This is particularly the case in question 1c, which is invariably a question, which requires ethical knowledge and application. This is part of the syllabus, which is quite finite in terms of a candidate’s knowledge, and where marks can readily be gained for a well-argued answer. Student feedback seemed to indicate that candidates felt that the paper was difficult for various reasons. This report will set out how candidates should apply themselves in answering this paper, and it will illustrate how to gain success in this examination. There are obvious problems which arose such as failing to read the question clearly and therefore providing irrelevant answers, poor time management where candidates spend too much time on one aspect of a question and too little on others but more particularly, poor application of knowledge to the scenario. Many of the questions are based around real life scenarios, which mean that rote learning of topics will simply not work. Many of the marks are given for the application of the standard. In many questions, the knowledge of the standard does not need to be in great depth but the answer does need to be precise and relevant. If a client requests advice from an ACCA member, it is unlikely that they would want the member to quote an IFRS word for word without any application to their particular circumstances. Most of the real issues in corporate reporting revolve around the application of existing standards and the weaknesses therein. The Examiners guidance to P2 sets out the nature of what is considered to be a current issue, and criticisms of extant standards are prominent in that cast. A candidate is required to understand real issues affecting the profession. These issues will not always be EDs or DPs simply because they will not be currently applied in practice until they become an IFRS. It is difficult for the writers of the ACCA text books to keep up with current issues. Therefore it is incumbent upon students to read articles for themselves. A cursory glance at key websites on a monthly basis will keep a student’s knowledge up to date. For example, recently there has been a DP on the conceptual framework, recommendations on key areas for European regulators to review, and a framework for integrated reporting published. These are current issues, which may or may not appear in the examination but candidates should ask themselves whether they could answer a question on such topics.
Generally the pass rate was consistent with other examination diets, which would tend to indicate that the difficulty of question paper was consistent with past examinations.

Question One
This question required candidates to prepare a consolidated statement of cash flows using the indirect method for the Angel Group plc for the year ended 30 November 2013 in accordance with the requirements of IAS 7 Statement of Cash Flows. Questions requiring the preparation of consolidated statement of cash flows will always consist of fairly basic adjustments and more complex ones. The complex adjustments require candidates to determine how the statement of cash flows is affected by the information in the question. For example, in this question, a grant had been received by Angel but it had not recorded correctly in the financial statements. More basic adjustments would be the purchase of an associate, the implication of impairment of goodwill and the sale and purchase of financial assets. These latter adjustments just require candidates to show how these items are dealt with in the consolidated statement of cash flows. Invariably there will be a calculation of goodwill in the question so that candidates can demonstrate their group accounting skills. The impact on the cash flow statement will depend on the nature of the information given. In this case, a subsidiary was purchased and the balances had to be adjusted for in the consolidated statement of cash flows. Several candidates did not adjust for the purchase of the subsidiary .This of course affects several items in the consolidated statement of cash flows. However the marking scheme treated the non-adjustment of the various balances as a single error. Additionally, candidates had to show how a retirement benefit obligation as adjusted for the purchase of the subsidiary was

dealt with and also PPE movement was complicated by the capitalisation of interest in the period as well as the above-mentioned grants.

Consolidated statement of cash flows questions will always have complex elements and this question was no different. However, there are some elements of the consolidated statement of cash flows which are quite basic and candidates always score well in this regard. Marks are awarded, for example, for simply showing the proceeds of the issue of share capital, which was simply the deduction of two figures in the statement of financial position. However, the difficulty with a consolidated statement of cash flows question is that it is more difficult to award marks for method as some of the items in the statement are either 'right' or 'wrong'. In consolidated statement of financial position questions, marks are allocated for method for such calculations as goodwill, NCI, Group reserves etc. In this type of question there are not as many of these types of calculations. Additionally, candidates often place the wrong sign on the correct figure. For example, a deduction is made in the statement rather than an addition. If this is a simple subtraction of two figures and the candidate puts the wrong sign on the resultant figure then it is difficult to award marks.

It is important as always to show all workings. For example, very few candidates correctly calculated the income taxes paid figure but there were several marks for this calculation, which were often awarded in the workings in the scripts. As intimated above, many of the figures in the statement do not need workings but where they do, it is important to show them.

Candidates did quite well on this question but it is important to heed the advice given in the report above.
Part b of the question required candidates to discuss the principles behind the classifications in the statement of cash flows whilst advising on two transactions. It is obviously important to know the principles behind the statement as classification of items is not always clear-cut and the principles have to be used to classify these items. Candidates found this question difficult to answer satisfactorily as many candidates simply outlined the headings in the statement rather than discussing the cause or reason for the classification. The second element of the question required a discussion of how two items should be treated. The wording above the two transactions was as follows: 'they (the directors) are unsure of the meaning of the definition of cash and cash equivalents'. This sentence was an indicator of the type of discussion, in which candidates should have engaged, that is, whether the two items were cash or cash equivalents. However candidates often did not engage in this discussion choosing to extend their discussions from the first part of the question.

Part c required candidates to discuss a comment by the Directors of Angel that codes of ethics were irrelevant and unimportant. Quite a worrying trait was that some candidates actually agreed with the directors' comment, stating that the profit motive was more important than ethical behaviour. In previous examiners reports, I have commented that candidates often do not answer question 1c or do not apply their knowledge. The same comment applies again. This part of the question normally attracts high marks if candidates apply their knowledge and therefore it is a part of the paper, which should never be omitted.

Question Two

Question 2 was split into 3 parts. Generally within each part of the question, marks are awarded for knowledge of the relevant standard(s) and for application of the standard(s) to the scenario. Thus it can be seen that if a candidate simply recites the IFRS, then it is unlikely that the candidate will score more than half marks. In fact, it is likely to be less than half marks. In part a of the question the following sentence could be seen 'Havanna's accounting policy for revenue recognition is to recognise the contract income in full at the date when the contract was signed'. Therefore it should have been evident that the knowledge required was that of IAS 18 Revenue. The level of knowledge needed to answer the question was quite basic but candidates had to apply that knowledge to gain the marks and again this was where any problem arose. However, this part of the question was answered quite well.

Part b of the question dealt with a disposal group with the relevant standard being IFRS 5 Non current Assets Held for Sale and Discontinued Operations. Again the marks were split between knowledge and application. The main issue with the answers to this question was that candidates found reasons as to why the disposal group was incorrectly classified as such, when there was no evidence in the question of this fact. The main problem was the measurement of the disposal group but many candidates failed to recognise this fact. It should be said that every question dealing with IFRS 5 will not be centred on the determination as to whether the non-current asset or disposal group is 'held for sale'. Again the knowledge level was basic and the application extremely important. The second part of part b required candidates to determine whether certain costs should be dealt with as part of continuing operations or as part of the disposal group. The marking of this section of the question was based upon the candidates reasoning and the treatment of the items involved. Obviously if the reasoning was inaccurate then few marks could be gained. The part of the question was not well answered and if candidates did not recognise that it was a measurement issue re IFRS 5 then they struggled to gain a pass mark in the part.
Part c of the question required candidates to give advice on accounting for a sale and lease back of property in four different price scenarios. This part of the question was answered quite well by candidates. The main issue was that some candidates simply showed the accounting entries without discussing the implications. However candidates scored well on this part of question 2.

Question Three

As mentioned in the introduction to this report, many of the scenarios set out in the question paper are based upon 'real life' examples and this question was a good example of this fact. In part a, an entity had a subsidiary which had two classes of shares, A and B, and the B-shares owned by minority shareholders were to be reported as a non-controlling interest. Candidates were required to determine whether this treatment was correct. The knowledge level required was simply the definition of equity and liability in IAS 32.The application however was given equal weighting in the marking. Candidates seemed to understand the definitions but could not apply them. If the application was not exactly correct, candidates scored marks for a sensible discussion. In answering this type of question, candidates should plan their answer by thinking of the knowledge required and how they are going to apply that knowledge as generally, both aspects are equally important. The question was generally answered reasonably well.

Part b of the question dealt with hedging relationships. It was a difficult question in many ways but candidates could score reasonably well if they approached the question sensibly. As set out above marks were awarded for knowledge and application. Therefore candidates could gain marks for knowledge of cash flow hedge accounting. The application to the scenario was quite difficult and required candidates to set out the accounting on termination of the specific hedging relationship. However, a pass mark in this part of the question was easily be gained by those candidates who applied their knowledge. The second element of part b again dealt with hedging and again the above principles applied. Knowledge of the equity method was required and its application in a hedging situation. This part of the question was not well answered.

Part c of the question dealt with the situation where the entity entered into a business combination with another listed bank. The question dealt with the situation where it was difficult to determine an acquirer. The knowledge required was that of IFRS 3 and IFRS 10.This type of question has been asked in the past and because of the introduction of IFRS 10, it was pertinent to ask candidates to apply the new standard. The key aspect of this question was the discussion of the principles and applying it to the scenario. The scenario contained a significant amount of information, which should have been used by candidates Marks were gained by discussing the various facts set out in the question. This part of the question was quite well answered.

In conclusion, although this question may have seemed difficult, parts a and c simply required basic knowledge of the IFRS and part b reacquired knowledge of hedging relationships. At this level of a professional qualification, this knowledge level should be taken as granted. The application of this knowledge is where candidates were weakest. The question was not generally well answered by candidates.

Question Four

This question required candidates to discuss how judgement and materiality play a significant part in the selection of an entity's accounting policies, discuss the circumstances where an entity may change its accounting policies, setting out how a change of accounting policy is applied and the difficulties faced by entities where a change in accounting policy is made, and to discuss why the current treatment of prior period errors could lead to earnings management by companies, together with any further arguments against the current treatment. There was some comment by observers of the paper that this question was not a current issue.

As set out in the question, often judgements used at the time of transition to IFRS have resulted in prior period adjustments and changes in estimates being disclosed in

financial statements. There are many instances of this issue nationally and internationally. The examiners guidance video sets out the nature of current issues and to paraphrase (last slide after 17 minutes and 45 seconds),'current issues will deal with the use of professional judgement, may be focused on a single extant standard and examine non compliance with basic aspects of IFRS. Candidates should read relevant articles in professional journals' .This question fits exactly into this category of current issues.

Any professional accountant should understand how critical is the use of judgement and materiality. In selecting an entity's accounting policies many issues arise in practice over the use of extant standards and IAS 8 is no different. Understanding how a change in accounting policy or an accounting error is dealt with and the difficulties therein is again fundamental. Similarly if accountants cannot recognise the potential earnings management issues in this context, then there is a major issue for the profession.

The question asked for discussion and examples and the marking scheme reflected these requirements. The weighting of the marks was heavily towards the discursive aspect of the question and many candidates failed to gain these marks, particularly as regards the examples as very few practical examples were given. This question demonstrates the difference in knowledge and application between paper F7 and P2.The preamble to the question also gave candidates guidance as to how to answer the question by saying 'Entities also often consider the acceptability of the use of hindsight in their reporting' but often this guidance was ignored.

Part b of the question set out three scenarios where there could possibly be a prior period error or change in an accounting policy. This part of the question was quite well answered by candidates. It is quite interesting that in part a there were very few examples given of prior period errors etc even though there were examples given in part b which could have been used in the correct context in part a.

Conclusion

The paper required candidates to demonstrate knowledge and application. The knowledge level was that expected of a candidate at this level of a professional qualification. Many marks are lost if candidates do not demonstrate the application of this knowledge. A question on cash flows brings with it benefits and problems for candidates. There are marks for relatively simple adjustments but fewer marks for 'method' and therefore candidates need to ensure accuracy in their calculations. Candidates should always think that the marks are allocated for knowledge and application, and draft their answers accordingly. Current issues can be based around extant standards and therefore wider reading is required by candidates so that they have a real understanding of the problems that entities face. The examiners guidance is very helpful in this regard.

Overall, candidates' performance was similar to previous diets, which was encouraging.