Examiner's report
P2 Corporate Reporting
December 2016

ACCA

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. It is apparent from candidates' scripts that there seems to be different approaches taken by candidates to learning. Some candidates focus on the main facts with retention of information being important. These candidates simply memorise the information and do not understand the meaning behind the material. This can lead to candidates remembering a list of apparently unrelated facts, as they do not understand the principles behind the learning. This style of learning is seldom effective because of the focus on memorisation rather than understanding. Those candidates who try and interpret the meaning of the subject matter perform better in this examination. This means that candidates have to interact with the material by thinking critically about the information and relating it to practical examples. Candidates are responsible for their learning and so should utilise an active approach to learning and develop efficient study skills. For example, rather than simply relying upon a tutor's manual and revision pack, candidates should read articles published in professional magazines and try to see how this knowledge can be applied in practice in order to develop their understanding of the subject matter. If this approach is taken, it is more likely that the information will be retained long-term. It is the learning activities of the candidate, which creates the understanding and complements the instruction of the tutor. In order to perform well in this paper, candidates need to develop an understanding of the important corporate reporting concepts so that they can then apply their understanding of these concepts to the scenarios presented in the examination. The P2 syllabus clearly states its aims and the capabilities expected of candidates; rather than merely listing the topics of which knowledge is required, these capabilities outline the level of understanding required. The verbs used in the syllabus include discuss, evaluate, advise and appraise. The higher the level of verbs, the higher the level of attainment required. All of these verbs require a degree of understanding and application and so rote learning the subject is insufficient. The capabilities should be at the centre of the teaching and learning activities. Some candidates may feel that there is a disproportionate amount of information to be learned in P2, and so may adopt a surface approach to learning. However, the method of examining this paper emphasises and rewards the application of personal understanding and so candidates who adopt a surface approach are unlikely to succeed. Surface learning is not sufficiently robust to develop the professional skills required to practice.

The Conceptual Framework of the International Accounting Standards Board sets out the concepts upon which International Financial Reporting Standards (IFRS) are based. The majority of IFRS requirements are deemed consistent with the concepts set out in the Framework, however, there are certain principles that are currently used in IFRS that are not dealt with by the Framework. For example, the notion of the entity's 'business model' is used in IFRS 9 Financial Instruments. Although other Standards do not explicitly refer to a business model, the way in which an entity uses its assets has previously been used in IFRSs to classify and measure different types of non-financial assets. Examples are IAS 40 Investment Property and IFRS 5 Non-current Assets Held for Sale and Discontinued Activities. Thus, candidates should look at the principles used in particular IFRSs to establish an understanding of the standard. If a candidate determines the principles behind each IFRS then the syllabus will not seem disproportionately large.

In the current paper, candidates needed to know the principles behind amortisation, the determination of the functional currency, related party disclosure, fair value, business combinations, and impairment of financial and non-financial assets. The performance in this diet of exams was very pleasing. It appears that candidates are taking notice of previous examiners reports as they are utilising the facts in the case studies in applying the principles of the accounting standards. Additionally, candidates seemed to deal with the technical aspects of question 1a in a more structured manner.

Specific Comment

Question One

Question 1a required candidates to prepare a consolidated statement of profit or loss and other comprehensive and this carried 35 marks. Many candidates showed their workings on the face of the consolidated statement of profit or loss and other comprehensive income by bracketing a series of additions and subtractions of what could have been random numbers. Markers will look to see if there are recognisable figures in such a working but it is important to describe the calculation so that the marker can establish the principles behind the numbers. It is probably advisable to show a separate working for each complex item in the consolidated statement of profit or loss and other comprehensive income with a description of the nature of the calculation. The published model answer for this question sets out such workings.

This type of question will often include an acquisition or disposal of a subsidiary during the period, which require a candidate to time apportion the results of the subsidiary. Marks are allocated for this time apportionment. Invariably, there will also be a goodwill calculation, which is associated with the acquisition or disposal of the subsidiary. Obviously if there is a disposal of a subsidiary, then a loss on disposal will have to be calculated from the group's perspective. This calculation will generally attract quite high marks. Other elements, which appear in these types of questions, are investment property gains/losses, pension scheme adjustments and, particularly with the recent issue of IFRS 15 Revenue from Contracts with Customers, revenue calculations.

The presentation of the consolidated statement in terms of the analysis of profit attributable and total comprehensive income attributable to the owners and NCI should not be ignored by candidates because it also attracts high marks. As these figures are generated from the candidates own workings, markers will normally use the own figure rule (OFR) in allocating marks. Many of the figures in this question should have been derived from the question paper and therefore, the own figure rule would be used less than in other group accounting questions. However, it was used where appropriate, for example some candidates time apportioned the disposal of the subsidiary incorrectly - this error also affected the equity accounting for the associate in the period after the sale.

This type of question attracts a varied approach by candidates in the layout of their answers. This makes marking the question quite difficult and so annotated workings are essential. Many candidates produce incomplete calculations for items particularly on the face of the consolidated statement of profit or loss and other comprehensive income. This can cause problems particularly where the OFR is used as the candidate has not actually calculated their 'own figure' if the working has not been completed.

Question 1b normally relates to question 1a in some way. The question dealt with the issue as to where in the statement of comprehensive income, profits and losses should be recognized, either in profit or loss or in the other comprehensive income. There is no established principle that justifies or explains in which part of the statement, gains and losses should be reported and usually, it is the individual accounting standards that determine where gains and losses are reported. Although there is no assistance from the Conceptual Framework in this regard, it is important that candidates realise that there is no underlying principle involved. It seems that candidates have embedded knowledge that is incorrect in this regard, as many felt that the realisation principle was the basis of the segregation of the gains or losses.

Question 1c links ethics with the reporting of transactions. There is generally a scenario where the entity or its employees are acting unethically and candidates will be required to discuss the reporting and ethical issues involved. As previously reported, many candidates focus on the reporting issues to the detriment of the ethical issues. The marks in this part of the question are often split equally and therefore not to discuss the ethical or accounting issues is a serious omission by candidates.

Question Two

The approach of question two and three are often quite similar, although the nature of the questions can be quite different. These questions always require the candidate to give advice to the client. Thus although knowledge of IFRS is important, a client would not be happy with simply a regurgitation of a standard without applying it to the circumstances of the case. This is the principle that should be used when answering these questions.

Question 2a dealt with IAS 21 The Effects of Changes on Foreign Exchange Rates. IAS 21 sets out the principle that the functional currency is the currency of the primary economic environment in which the entity operates. Given this principle, it is therefore a matter of applying it to the scenario in the question. Candidates are generally good at the application of this principle.

Question 2b tested multiple standards. IAS 38 Intangible Assets states that the cost less residual value of an intangible asset with a finite useful life should be amortised on a systematic basis and the amortisation method should be reviewed at least annually. Further, IAS 36 Impairment of Assets states that an entity should assess at the end of each reporting period whether there is any indication that an asset may be impaired. These are fundamental basic principles and if a candidate can apply them, then high marks can be achieved. Additionally there may be a change in accounting policy in the question and so candidates should bear in mind IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Question 2c related to IAS 24 Related Party Disclosures. IAS 24 is based on the principle that an entity's financial statements should contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties. Candidates are good at applying this principle and, as there is no negative marking, incorrect assessments as to a related party relationship are not penalised other than the loss of the allocated mark for the incorrect statement.

Question Three

Question 3 generally deals with a particular industry, although specialist knowledge of the industry is not required. This question dealt with the telecommunications industry. The first part of the question dealt with IFRS 13 Fair Value Measurement. IFRS 13 is based upon the level of activity in the exit market, or the valuation technique(s) used. Fair value is a market-based exit price that considers the current market conditions as at the measurement date. Hence, when answering the question candidates should be aware of the principles behind the standard. Candidates often simply quote the valuation hierarchy without really understanding the nature of it. Candidates gain credit for quoting what levels1, 2, 3 actually mean but it is the application of IFRS 13 that is important. The key point in this question was the availability of market information, which is the basis of IFRS 13.

Part b dealt with IFRS 3 Business Combinations. IFRS 3 establishes certain principles in relation to the recognition and measurement of items arising in a business combination and the treatment of a gain on a bargain purchase (negative goodwill) in profit or loss. An entity should ensure that appropriate valuation techniques and assumptions are used to estimate fair value. It is the application of this knowledge that leads to a candidate scoring high marks. Several candidates assumed that this section of the question related entirely to IFRS 13 and some candidates assumed also that part c of the question related to the same standard. Although questions (mainly question 2) often do have a theme, it cannot be assumed that if part a of a question deals with a certain IFRS, then the remainder of the question will also deal with that IFRS. In fact, it is more than likely that this will not be the case.

Part c dealt with IAS 36 and the assessment of impairment. There were several impairment indicators set out in the question. IAS 36 states that cash flow projections should be based on reasonable and supportable assumptions, and presumes that budgets and forecasts should not go beyond five years. As with any estimate, it is up to management to assess the reasonableness of its assumptions in determining value in use. In this scenario, the management had not taken into account certain key information in evaluating value in use. Candidates needed to discuss the information provided in the question in order to gain good marks.

Question Four

This question generally deals with ‘current issues’, the determination of which is quite subjective. Generally, the IASB’s work plan would be a useful source of current issues as would the imminent publication of a new IFRS or problems relating to a current IFRS.

In this examination, IFRS 9 Financial Instruments was the subject of the question. In particular, the impairment requirements of the IFRS were examined. The principle in IFRS 9 is that an entity should recognise expected credit losses at all times and update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of the financial instruments. The question required candidates to discuss the principles, general approach and the simplified approach to accounting for impairment under IFRS 9. Part a was knowledge based and there was very little application required, however part b, required the application of that knowledge to two simple scenarios.

The question was not demanding if candidates had studied the subject however it was poorly answered and was not the question of choice for most candidates. Financial instruments seem to be an area which many students avoid, perhaps because they have not applied the principles set out in the introduction to this report. If candidates spend time reading, asking questions of tutors and trying to apply the subject matter in a practical context, then they will not be afraid of questions in this area.