Examiner's report

Diploma in International Financial Reporting (DipIFR) December 2015

General Comments

The examination consisted of four compulsory questions. Section A contained question 1 for 40 marks. Section B contained questions 2, 3 and 4 for 20 marks each.

Candidates generally performed well on questions 1a, 2b, 2c, and 4b. Performance was variable on question 3. This question was based around IFRS15 – the relatively new standard on revenue. The questions that candidates found most challenging were questions 1b, 2a and 4a due to a lack of relevant technical knowledge. This was particularly apparent in question 1b and question 4a. Many candidates were unaware of the detailed requirements of IFRS 10 for the attainment of subsidiary status (question 1 b). It also appeared that many candidates had little or no knowledge of IFRS 6 (question 4a). Although this is a topic that would not be expected to appear in every paper, it appears that many candidates did not study this topic in sufficient depth.

A number of candidates lost marks in section B (questions 2, 3 and 4) by failing to provide explanations to support the financial statement extracts they were asked for. Where the requirements include the verb 'explain', then marks will be given for explanations and candidates who only provide extracts will not gain full marks even if the figures in the extracts are 100% correct. Other candidates provided unnecessary written explanations to support the figures they were computing in question 1. Whilst it is clearly important that the marker can see where figures in question 1 come from, detailed explanations are not necessary and therefore providing such explanations wastes time in the examination. It is very important to read the requirements to see whether or not detailed explanations are required. This comment is an exact repetition of the one made in the report on the June 2015 sitting and this is done because it is still very relevant to candidate performance.

A recurring theme of the general comments in the examiner's report is that a minority of candidates present themselves for this examination having apparently done little preparation. It is important to realise that this examination is a demanding one that requires a thorough programme of study in order to achieve success.

Specific Comments

Question One

This question was in two parts. Part (a) – for 36 marks - required the preparation of a consolidated statement of financial position for a parent with two subsidiaries, one of which was acquired on the first day of the current accounting period. As well as the standard consolidation procedures, the question required candidates to consider a number of accounting issues that primarily related to the financial statements of the parent entity – Alpha. These comprised:

- The treatment of financial assets that were measured at fair value through other comprehensive income.
- The appropriate accounting treatment of a decommissioning liability in respect of a long-life non-current asset.
- The appropriate accounting treatment of a zero-coupon bond issued at the start of the current accounting period.

On the whole, this question was answered satisfactorily. Candidates know that question 1 will always be a consolidation question and so understandably study the topic thoroughly.

More particularly, most candidates performed well in the following areas:

- The initial calculation of goodwill, especially the calculations of fair value adjustments and the deferred tax on them.
- The computation of unrealised profits on intra-group sales (although many did not appreciate the implications of the sale being originated by a subsidiary, rather than the parent).
- The correct identification of the need to discount the de-commissioning liability to present value (although many did not appreciate that the corresponding debit entry was to property, plant and equipment rather than to profit or loss).
- The correct calculation of the finance cost associated with the zero-coupon bond and the appropriate closing liability.

Areas that were not done as well in some cases were as follows:

- Very few candidates were aware of the need to gross up goodwill when performing an impairment review when the non-controlling interest in the relevant subsidiary is measured using the proportion of net assets method.
- Many candidates seemed unsure of the treatment of acquisition costs when computing goodwill on the consolidation of subsidiaries.
- A minority of candidates attempted to make adjustments to eliminate intra-group balances despite the question clearly stating that this was not necessary.
- A minority of candidates proportionally consolidated the subsidiaries. This has arisen in a number of past examinations. Candidates and tutors should take note of this issue.

Part (b) of this question – for 4 marks – required candidates to reflect on the appropriate accounting treatment of a share purchase by Alpha in the year ended 30 September 2016. This part was not generally well answered and a significant number of candidates omitted it altogether. Those that did attempt it often referred to the purchase as a 'non-adjusting event after the reporting date'. Such candidates did not read the dates in the question carefully enough. Only a minority of candidates seemed aware of the provisions of IFRS 10 regarding identification of subsidiary status. A number of candidates incorrectly stated that it was always necessary to own more than 50% of the shares in an entity before that entity can be regarded as a subsidiary.

Question Two

This 20-mark question required candidates to explain and show the accounting treatment of 3 separate issues:

a) The purchase of a property originally leased out and then repossessed for conversion into flats for subsequent re-sale.
b) The purchase of a non-current asset on credit from an overseas supplier.
c) The accounting treatment of an equity-settled share-based payment.

As previously mentioned, where explanations are asked for in the requirement, marks will be specifically awarded for such explanations and full marks will not be obtained if the explanations are not given, even if the accounting treatment is correct.

On the whole, candidates found part (a) of this question challenging. Many candidates did not appreciate that the property being leased out was an investment property, so that fair value changes would be recognised in profit or loss rather than other comprehensive income (as would generally be the case for property, plant and equipment under IAS 16). A number of candidates wasted time by reflecting on the type of lease when the scenario clearly stated that the lease was operating. Some candidates spent time reflecting on the way fair value was arrived at when the question did not ask this. Answers to the second half of part (a), post-repossession of the property, were generally unsatisfactory. A number of candidates failed to consider this issue at all, focussing instead on the time-wasting activities already mentioned. A number of others incorrectly stated that the property would satisfy the 'held-for-sale' criteria in IFRS 5. Others regarded the conversion project as a construction contract when no evidence was provided of the existence of any third-party buyers to support this. Only a minority correctly applied IAS 2 to this situation.

Part (b) of this question was generally well answered by the majority of candidates attempting it. However a significant minority of candidates made a careless error of multiplying the foreign currency (groat) figure to convert into $ rather than dividing it. A smaller minority of candidates seemed unaware of the distinction between monetary and non-monetary items in a 'foreign currency context'. Therefore there were some examples of the 're-translation' of PPE, which was not appropriate. Ar minority of candidates incorrectly stated that the exchange differences on re-translation should be recognised in other comprehensive income rather than profit or loss.

Part (c) of this question was well answered on the whole, with a number of candidates scoring full marks. Some candidates lost marks by failing to appreciate that, in an equity-settled share-based payment transaction, the credit entry is to equity rather than to liabilities.

Question Three

This 20-mark question required candidates to:

a) Explain and evaluate the provisions of IFRS 15 – *Revenue from Contracts with Customers* - regarding revenue recognition
b) Apply the above provisions to two scenarios – (b(i))involving the sale of a machine and a servicing facility, and (b(ii))the sale of items with a right of return.

Part (a) was answered well by a majority of candidates. Most had clearly studied IFRS 15, were able to identify the 'five-step' approach to revenue recognition and make a sensible assessment of its likely impact. However a significant minority of candidates appeared unaware of the requirements of IFRS 15 and attempted to answer the question based on IAS 18 – its predecessor. Where this occurred, attempts were made by the marking team to award partial credit.

In part b(i) most candidates displayed an awareness that there were two performance obligations, one satisfied at a point in time and one satisfied over a period of time. On the whole candidates found the issue of measuring the total revenue and allocating this to the individual components more challenging and a variety of different mistakes were made here. It would be beneficial for future candidates to study the model answer to this part carefully. It should be noted that candidates who attempted to apply the provisions of IAS 18 to this scenario would not have been at a significant disadvantage since the treatment would have been much the same under the previous standard.

Answers to part b(ii) varied considerably. Candidates who had not studied IFRS 15 tended to either conclude that no revenue should be recognised until the return period expired or to conclude that revenue should be recognised in full, with a 'provision' for future refunds. Neither of these approaches fully accords with the IFRS 15 'expected value approach'. However, as with part (a) for such candidates attempts were made by the marking team to award partial credit.

A general message arising here for candidates is to ensure that they keep up to date with newly examinable standards.

Question Four

This 20-mark question required candidates, in their capacity as financial controller, to answer questions from a managing director relating to

a) Expenditure on exploration for, and evaluation of, mineral resources.
b) The treatment of an office building designated for sale

Part (a) of this question was not well answered. A significant number of candidates seemed totally unaware of the provisions of IFRS 6 - *Exploration for, and Evaluation of, Mineral Resources*. Such candidates made general comments about the recognition of tangible and intangible assets and this could only receive limited credit. Whilst IFRS 6 is not a standard that will appear in every paper it is part of the examinable material for this paper and accordingly candidates should devote part of their study time to this subject.

Part (b) was well answered on the whole, with a pleasing level of knowledge being displayed regarding the 'held-for-sale' issues in IFRS5.