Examiner's report

Dip IFR
June 2013

General Comments

The examination consisted of four compulsory questions. Section A contained question 1 for 40 marks. Section B comprised three further questions of 20 marks each.

The vast majority of candidates attempted all four questions, and there was little evidence of time pressure. Where questions were left unanswered by candidates, this appeared to be due to a lack of knowledge or poor exam technique, as opposed to time pressure.

As in previous sessions, candidates generally performed well in question one, where consolidation skills were tested. Questions two, three and four, being more written in nature, caused more problems for candidates. This is typical of financial reporting examinations, where on the whole candidates are far more comfortable performing computational tasks than analysing and explaining underlying principles.

Specific Comments

Question One

This 40-mark question required candidates to prepare a consolidated statement of financial position for a group whose parent had one subsidiary and one associate. In addition to performing the consolidation tasks, candidates had to adjust for a number of transactions that had not been appropriately accounted for by the parent in its own financial statements. These included a financial liability, a share based payment arrangement, and a decommissioning provision.

Areas showing good knowledge:

- Good formats which were mostly complete.
- Calculations for goodwill were often correct
- The basic adjustments for deferred tax, fair value of net assets on acquisition and inter- company balances were dealt with correctly.
- Calculations for the share based payment and provision adjustments.

Areas where mistakes were common:

- Deducting the unrealised profit for the associate as well as the subsidiary from the inventories.
- Forgetting to include the contingent consideration liability in the statement of financial position.
- Many candidates forgot to do anything with the other components of equity – perhaps Alpha's was included but little else.
- Although many knew that the provision needed adjustment and calculated the provision correctly, many forgot to debit property, plant and equipment and make the appropriate adjustments to depreciation.
- For the financial liability many candidates added the transaction cost to the liability instead of deducting it.
- For the investment in Gamma (the associate) many candidates forgot to add the share of the post-acquisition change in other components of equity.

Question Two

This question required candidates to explain and illustrate the treatment of three separate financial reporting issues:

- A financial liability denominated in foreign currency (question 2 (a).
- A joint arrangement (question 2 (b).
- An asset leased via a special purpose vehicle that was a subsidiary following the 'control' concepts in IFRS 10 (question 2 (c).

Question 2 (a) was answered poorly by a majority of candidates. Most were able to appreciate that the financial liability should be measured at amortised cost. However many appeared unsure about whether to apply this principle before translating into $ (as they should have) or after. Consequently few candidates were able to correctly compute the finance cost or closing balance in $ or the exchange difference on translation.

Answers to question 2 (b) were generally of a higher standard than for question 2 (a). Most candidates were able to appreciate that the costs and assets of the joint arrangement were partly included in the financial statements of Delta and most made a reasonable attempt to capitalise the finance costs appropriately.

Question 2 (c) was poorly answered. Very few candidates appreciated that Epsilon was a subsidiary of Delta due to the ability of Delta to control Epsilon. The focus for almost all candidates was whether the lease was operating or finance.

Question Three

This question focussed on IAS 18 – *Revenue*. Part (a) required candidates to outline the underlying theoretical principles of the standard, whilst part (b) required their application to four practical scenarios. This question was the best answered of the three 20 mark questions.

Part (a) was generally answered satisfactorily although a minority of candidates did not refer to fair value or discounting when describing the principles for the measurement of revenue.

The first scenario in part (b) required candidates to distinguish between two types of discount, a trade discount (deductible when measuring revenue) and a settlement discount (treated as an operating or finance cost). A surprisingly large minority of candidates were not aware that the two types of discount should be treated differently.

The second scenario required candidates to distinguish between the timing of revenue recognition on two machines, one where the installation process was simple and one where it was not. Most candidates appeared to appreciate the basis distinction but few mentioned that, where revenue was not recognised, the relevant machine would be included in inventory.

The third scenario concerned an arrangement that was effectively a financing arrangement, being a sale and re-purchase. Many candidates were able to identify this as a financing arrangement but a significant minority also incorrectly stated that the asset would be de-recognised, clearly inconsistent with their (correct) conclusion that the arrangement would be treated as a financial one.

The fourth scenario involved the sale of a machine where the consideration was deferred and so the revenue effectively included a financing element. This question was well answered by most candidates.

Question Four

This question (more 'essay type' in style) required candidates to describe the main provisions of two International Financial Reporting Standards – IRFS 13 – *Fair Value* – and IFRS 8 – *Operating Segments.*

Answers to the IFRS 13 part were very polarised. Some candidates had clearly read the (relatively new) standard and scored good marks. Others clearly had not, and so failed to gain many marks. This shows the importance of keeping up to date in this paper.

Most candidates seemed aware of the main principles of IFRS 8 although not all stated that it only applies to listed entities. Many were unsure on how to apply the '10% limits'.