



# Examiners' report

## P2 Corporate Reporting

June 2008

### Introduction

Candidates performed quite well in this session. The case study question in Section A was well answered but some of the questions in Section B were quite poorly answered. Candidates seem to have difficulty applying standards to the scenarios given in the questions. It is often obvious that candidates have the knowledge but they are unable to use this knowledge in answering the question. Also this exam was unusual in as much as many candidates did not answer the essay question, which is normally question 4 in the paper. This was surprising as the question dealt with the implementation of International Financial Reporting Standards, which is very topical.

### General paper comments

The paper is laid out in two sections with candidates having to answer question 1 in Section A which is compulsory and two questions out of three from Section B. Generally speaking many candidates spend too much time on question 1. The question carries 50 marks and is a key element of the paper but candidates often compound errors made early in the question and although marks are given for method, candidates are likely to score better if they move on to another question when the time allowance for the question has expired. Often candidates do not answer parts of questions. This is again particularly true of question 1. It is good advice to answer the written parts of question 1 before attempting the computational part. Again it is important for candidates to bear in mind the time allowance for these answers. There were a significant number of candidates who scored very well on question 1 but then wrote very little on the other 2 questions. The paper was in part technically demanding but with the advent of reading time, candidates should be able to plan and complete the paper without undue time pressure.

### Question 1

This question required candidates to determine the functional currency of an overseas subsidiary, and prepare a consolidated statement of financial position for a simple group structure involving an overseas subsidiary and several adjustments for foreign currency loans, employee compensation, past service pension costs, inter company profit elimination, and early repayment of long term loans. The final part required candidates to discuss the manipulation of financial statements and the nature of accountants responsibilities the profession and to society. The first part of the question was answered well by many candidates but at the same time many candidates discussed the method used to translate the financial statements of an overseas subsidiary, which was not answering the question set. The answer to this part of the question required candidates to use the information in the scenario and if candidates did use the information then they achieved a higher mark than those that simply quoted the accounting standard.

Part b of the question was quite well answered. Candidates seemed to generally understand the method used to translate the financial statements of an overseas subsidiary. Some candidates used incorrect exchange rates to translate the balance sheet of the subsidiary but most candidates managed to compute goodwill correctly, which was encouraging. The adjustments to the financial statements were mainly to the holding company/group account, which meant that candidates could calculate any adjustment without worrying about the effect on the non controlling interest (minority interest). Thus many candidates scored well when discussing the adjustments. Although the question does not ask for a discussion of the adjustments, it is good practice for candidates to write a brief explanation of the accounting practice used in answering the particular part of the question. Many candidates dealt with the past service cost, the early repayment of the loan and the accounting for the sale of the inventory very well. However the bonus payable to the employees was not dealt with quite as well with candidates not time apportioning half of the bonus and expensing the other half.

Part c of the question was not well answered and many candidates did not attempt it. It required a discussion of the role of a profession and its responsibility to society. It was a little worrying that many candidates did not know the distinguishing features of a profession or the demands that society places on the profession.

### **Question 2**

This question dealt with segmental reporting and the application of the principles to a given scenario's second part of the question dealt with income recognition in three different scenarios. The first part of the question was quite well answered by candidates. However in the International papers, many students confused IFRS 8 with the requirements of IAS 14. There are some significant differences between the two standards particularly in the definition of a segment. Candidates did apply the principles of the standard quite well to the scenario. The second part of the question required candidates to discuss the accounting treatment of a financing arrangement, the treatment of discount vouchers and government grants. The treatment of customer loyalty programmes is the subject of IFRIC 13. The examination will require candidates to have knowledge of certain IFRIC's to supplement the accounting treatment required by the standard. Candidates performed quite well on this part of the question and applied their knowledge of IAS 18 very well to the cases in point. This type of question will appear regularly in the paper with candidates having to apply their knowledge to small scenarios with a common theme.

### **Question 3**

This question required candidates to prepare a report for the directors of a company, which dealt with certain aspects of accounting for financial instruments, retirement benefits, business combinations and a loan agreement. The question specifically asked candidates to discuss the principles behind the accounting treatment as well as the accounting treatment. Many candidates simply discussed the accounting treatment and therefore lost marks. The first part of the question required candidates to determine whether certain shares were capital or liability and how to classify a distribution of profits. The answers were quite disappointing in as much as candidates did not seem to know the definitions of equity and liability. The determination of the nature of the capital amount would have been quite straightforward if these definitions had been known. Similarly the determination of the nature of the distribution was dependent on the knowledge of basic principles regarding equity payments. Again candidates did not seem to have knowledge of the principles. The second part of the question dealt with retirement benefits. The answers to this part of the question were quite good as many candidates recognised the need to use the principles behind the creation of a provision and present value techniques whilst taking into account actuarial considerations in determining the liability. The acquisition of a subsidiary and the contingent payment in part c of the question were dealt with quite well by candidates as was the early repayment of a loan in part d. The main problem with the answers to this question was the lack of technical detail in the answers. Candidates seem to have a general understanding of concepts but seem to lack a technical insight into the appropriate accounting standard and lack the ability to apply that standard.

### **Question 4**

This question dealt with the transition to IFRS, whether this has brought greater consistency to financial statements and also in some papers whether consistency between local GAAP and IFRS is important. The second part of the question dealt with the importance of management judgement and the local regulatory framework in ensuring that confidence can be placed in financial statements. Surprisingly few candidates answered this question but those that did scored well. Candidates' answers dealt with the inconsistencies in the standards, lack of appropriate guidance, choice of accounting practice and problems with implementation of the standards. The part of the question dealing with management judgement and the regulatory framework was not as well answered but generally the answers dealt with issues surrounding fair values and the use of assumptions.

### **Conclusion**

Candidates need a greater technical knowledge and the ability to apply that knowledge if they are to succeed in this examination. Also time management is a problem to some candidates as they spend too much time on question 1, which results in quite short answers to the remaining questions, which limits the amount of marks available on these questions.