



# Examiner's report

## P2 Corporate Reporting June 2009

### General Comments

This was the first sitting where the technical aspects of IFRS 3 (Revised) 'Business Combinations' were examined in question 1. It seemed as though many candidates were not adequately prepared for the question even though several articles had appeared in the student accountant. The results overall were disappointing. The main reasons for this appeared to be lack of a thorough understanding of IFRS 3 (Revised), poor time management and difficulty in applying knowledge to questions. An important aspect of the paper is the current issues question. Generally speaking current issues would comprise those issues being discussed in the accountancy press or those issues being dealt with by the IASB in its current work programme or very recent accounting standards. Candidates do not perform well on current issues questions and in order to improve their performance in this area, they should make sure that they manage their own learning by reading wider than just course notes and manuals. The IASB work programme for example is open for everyone to view and web sites such as [www.iasplus.com](http://www.iasplus.com) are available for candidates to read around subjects that are on the programme.

### Specific Comments

The structure of the paper was similar to previous diets with the exception that a computational element was introduced in question 4. This minor amendment to the exam paper format was announced at ACCA conference and within the examiner presentation and approach on ACCA website.

The main issue was that candidates often spent too much time on question 1 with the result that the other two questions on the paper were poorly answered either through lack of time or knowledge. Time management is extremely important and this report repeatedly refers to this weakness in approach by candidates. Candidates often did not answer all parts of a question. In this examination it is important to answer all parts of questions as candidates are restricting the marks available if they do not and this is often a cause of failure. A significant number of candidates are not prepared for this examination. This examination is at the professional level of the ACCA qualification and it demands a conscientious approach to study. Candidates cannot pass this examination without the necessary knowledge and this demands a significant amount of input by the candidate in terms of the commitment required

### Question One

Question 1 required the preparation of a consolidated statement of financial position using the full goodwill method, a calculation and explanation of the impact on the calculation of goodwill if the non-controlling interest was calculated on a proportionate basis and a discussion of the ethics of showing a loan to a director as cash and cash equivalents. The main body of the question required candidates to deal with the calculation of goodwill in a simple situation, the calculation of goodwill where there was a prior holding in the subsidiary, an investment in an associate, a foreign currency transaction, deferred tax and impairment of inventory. Generally speaking the basic calculation of goodwill under the full goodwill method was well done by candidates. However the calculation of goodwill in a more complex situation where there was a prior holding, contingent consideration and deferred taxation was less well done. Candidates often calculated the change in the fair value of the available for sale financial instrument correctly although many used the wrong basis for the exchange rates. The main problem with this element of the question was the double entry for the transaction. Part of the change in fair value should have been charged to profit or loss and part to other components of equity. Many candidates did not deal with the transaction in this way. Many candidates did not complete the retained earnings calculation and often there was doubt over where the gain on bargain purchase should be recorded. (Group retained profits) The calculation of the impairment of inventories was dealt with quite well by candidates, as was the increase in the value of PPE and land. Often the increase in the depreciation charge as a result of the revaluation of PPE was not calculated correctly, nor was the deferred taxation effect. The main problem for candidates in calculating the NCI was the determination of the correct figure for post acquisition reserves especially as many candidates did not treat the depreciation charge and deferred taxation correctly.

In part b of the question, a surprising number of candidates could not calculate goodwill using the proportionate basis. Candidates often calculated goodwill correctly in the simple case but as soon as any complexity was introduced the calculations were inaccurate. Many candidates left out part c completely. This was a little disturbing as part c dealt with the ethics of showing loans to directors as cash. Those candidates who answered the question dealt with the issues quite well.

### **Question Two**

This question required a brief discussion of how the fair value of financial instruments is determined with a comment on the relevance of fair value measurements for financial instruments where markets are volatile and illiquid. This part of the question was quite well answered although the answers were quite narrow and many candidates simply described the classification of financial instruments in loans and receivables, available for sale etc. The second part of the question required candidates to discuss the accounting for four different financial instruments. The requirement was to discuss the accounting but many candidates simply showed the accounting entries without any discussion. If the accounting entries were incorrect then it was difficult to award significant marks for the attempt. If however there is a discussion of the principles, then it is easier to award marks for a discussion which has a subjective element to it rather than a calculation which is normally correct or incorrect. The financial instruments ranged from a convertible bond to transfer of shares to a debt instrument in a foreign subsidiary to interest free loans. The treatment of the convertible bond was quite well done except for the treatment of the issue costs and the conversion of the bond. This part of the question often gained good marks. Again the treatment of the transfer of shares and interest free loans was well done but the exchange and fair value gains were often combined and not separated in the case of the debt instrument of the foreign subsidiary. Generally speaking this was the best-answered question in part B of the paper

### **Question Three**

This question required candidates to discuss certain transactions of a vehicle part manufacturer, which sells vehicles purchased from itself. Additionally a discussion of certain supply arrangements for the supply of car seats to two local companies was required. The question required knowledge of IAS 18 'Revenue', IAS 16 Property, Plant and Equipment', IFRIC4 'Determining whether an arrangement contains a lease' and IAS17 'Leases'. Candidates were required to apply the general principles in the standards to the scenario. Candidates found this quite difficult and often did not identify the nature of the transactions particularly the finance lease in part b of the question. Candidates could score good marks without any detailed knowledge of IFRIC 4 by simply applying the principles of IAS 17 or the Framework. Again the nature of the risks and rewards of ownership and the principles it embodies is essential to any P2 examination candidates often could not apply this principle to the question. Detailed knowledge of IFRIC 4 would have been useful but if candidates had applied the basic principles of the standards above, then they would have scored good marks. This did not always happen with the result that this question was the poorest answered on the paper.

### **Question Four**

This question required candidates to discuss the current requirements of IAS 19 'Employee Benefits' as regards the accounting for actuarial gains and losses whilst setting out the main criticisms of the approach taken and the advantages of immediate recognition of such gains and losses. The second part of the question required the discussion of the implications of the current accounting practices in IAS 19 for dealing with the setting of discount rates for pension obligations and the expected returns on plan assets. Finally candidates had to show how the use of the expected return on assets could cause comparison issues for potential investors. Part a simply required a knowledge of the rules of IAS 19 whilst at the same time candidates needed to understand some of the criticisms being levelled at the standard and the advantages of recognising gains immediately. The immediate recognition of gains has advantages to an entity even if the recognition is not linked to IAS 19. If candidates understand the principles of accounting, then they should be able to apply them to different scenarios. This standard is on the IASB's work programme and discussions in the media have set out the main problems with the standard. It seems that very few candidates have looked at the issues surrounding the standard. Often candidates simply defined the nature of a defined benefit and defined contribution scheme. The setting of

discount rates is fraught with difficulties whether or not the discount rates are linked to post –employment benefits or not. Thus again candidates should be able to attempt answer a question that deals with such issues by simply using principles. Obviously a degree of specific knowledge is required to answer the question but knowledge of principles would enable candidates to produce at least a pass standard answer.

Part c of the question compared two companies with the same opening fair value of assets, same contributions in the year and the same benefits paid but different fair values of asserts at the year end. Despite very different performance, the amount shown as expected return on plan assets in the statement of comprehensive income was identical for both companies and the actuarial gains and losses were not to be recognised in the current period. Very few candidates recognised this fact, although many candidates could account for the scheme during the period.