



Examiners' report

P2 Corporate Reporting December 2007

Introduction

Overall, candidates performed quite well on the paper. There were some centres where the performance was excellent and others where the performance was quite poor. This variation probably reflects the nature and quality of the preparation for the examination.

General Paper Comments

The paper required candidates to answer the compulsory question 1 which carried 50 marks and then to choose 2 questions out of the remaining three questions which carried 25 marks each. There was some evidence that candidates spent too much time on question 1 with the result that the remaining questions were not given sufficient time allocation. Additionally some candidates did not write in sufficient detail on the discursive parts of the paper and others wrote too much in question 1 on the computational part. This part of the paper is designed to test candidates' computational skills and brief explanations are often useful to the marker but a detailed discussion of the relevant standard is not normally required. A significant part of the paper comprises discursive elements and candidates need to develop skills in this area.

Candidates should where possible make sure that they show all workings and start each question on a new page. Time management is critical and candidates should not spend a disproportionate amount of time on a single question. When the time allocated to a question is over, candidates should move on and start a new question, leaving sufficient space to come back and finish the question if time allows. It is not a good idea to spread the answer to the question across the whole answer booklet.

Question Reports

Question 1

This question required candidates to prepare a consolidated balance sheet, to describe the advantages to the company in question of an environmental report and to discuss the ethical and social responsibilities of the company, discussing whether a change in the company's attitude in this regard could improve business performance. The preparation of the group balance sheet involved dealing with:

- a step by step acquisition,
- an associate company,
- eliminating inter group profit,
- with foreign currency transactions,
- factored trade receivables
- share options
- environmental provisions
- operating leases

Thus there was a significant amount of detail in the question. The above elements could nearly all be dealt with in isolation from the group accounting aspects of the question so that candidates could score quite well even if the step acquisition was poorly answered. Candidates generally answered the step acquisition quite well.

However the effect of the above on the group reserves was poorly answered. Many candidates did not correctly deal with the elimination of inter group profit between the associate and the holding company generally taking out the whole of the profit rather than 30% thereof. Several candidates did not consider the impairment of the associate. Many candidates did not realise that if a payment to the supplier is a deposit and is refundable, then the amount is deemed to be a monetary amount which should be retranslated at the year end. Similarly, the

factored trade receivables should not have been derecognised and therefore should remain on the balance sheet. This point was not recognised by many candidates. The calculation of the share options was generally well done but the calculation of the minority interest was surprisingly poorly done considering that there was relatively little adjustment required to the subsidiary's closing reserves. Candidates often had differing views as to the nature of the environmental provision and markers were instructed to give credit for a well argued case. This is a good example of a case where a brief discussion of the issues would have been useful. Many candidates did not realise that leasehold improvements should be capitalised and depreciated and that a provision for the conversion of the building back to its original state was required.

Parts b/c required the use of the information in the question to discuss the advantages to the company of an environmental report and to discuss the ethical and social responsibilities of the company. The question was quite well answered although many candidates did not spend long enough on this part of the question, only writing a few lines. The main problem with the answers to this part was that many candidates did not consider the ethical issues involved. Two professional marks were awarded for the quality of the appraisal and analysis of the position of the company in respect of its environmental and social policy. This would mean not simply regurgitating the facts of the case but having the ability to conceptualise the facts and produce key conclusions from those facts.

Question 2

This question required candidates to discuss the differences between a defined benefit and defined contribution scheme, to show the accounting entries for such schemes and to discuss the principles and accounting for warranty claims. The question examined the fundamental principles behind certain employee benefits and provisioning. It was surprising that several candidates confused the two types of scheme. Also at this level, it is important that candidates have an in depth knowledge of the differences between the two schemes rather than just a general view of the differences. The question was quite well answered and candidates often produced good quality answers. Professional marks were awarded for the structure of the report and consideration of certain factors, that is:

- the intended purpose of the document
- its intended users and their needs
- the appropriate type of document
- logical and appropriate structure/format
- nature of background information and technical language
- detail required
- clear, concise and precise presentation

Question 3

This question required candidates to discuss the accounting treatment of certain items and set out the impact that these adjustments would have on ROCE.

The first part of the question dealt with IFRS 5 'Non current assets held for sale'. Candidates were required to discuss the accounting for a disposal group in a situation where there had been impairment and an increase in the value of the impaired disposal group. This part of the question was not well answered as many candidates did not realise that there was a disposal group as the two manufacturing units were being sold in a single transaction. The second part of the question dealt with deferred tax and the impact of a revaluation of property and vehicles for tax purposes. The question was quite well answered although many did not realise that the resultant balance was a deferred tax asset with the recognition issues that this represents. The third part of the question dealt with the impairment of equipment and the calculation thereof. Many candidates calculated the 'value in use' correctly of the equipment but failed to apply the principles which often had correctly been described earlier in the answer. The answers to the final part were quite good with candidates realising that the operating lease was now a finance lease but several candidates then could not outline the accounting treatment of an operating lease. The adjustments to ROCE were poorly done; in fact many candidates did not even attempt

this part of the question. The issues required a degree of thought and understanding of the impact on the financial statements of the adjustments and ROCE. For example there were instances (deferred tax) where profit before tax was not affected but the capital employed was affected. The professional marks were awarded for analysing the impact of the information, drawing conclusions and considering the implications for ROCE.

Question 4

This question required candidates to discuss the need for an agreed conceptual framework and the key issues to be addressed in determining the components of such a framework. Considering that the IASB and FASB, and the ASB see the current conceptual framework project as being a key current development, it was surprising that more candidates did not answer this question better as there has been a significant amount of coverage in the accountancy press. It is important that candidates read the accountancy press in order to gain an insight into current issues. The answers to part a) were often quite narrow with little discussion of the practical use of a framework. Candidates who considered the reasons for differences in accounting practice often produced a reasonable answer. The answers to part b) generally did not consider the key elements of a conceptual framework such as the objectives, recognition and derecognition, measurement etc. These key issues are those of all frameworks both local and international. The professional marks were awarded for considering, discussing and combining ideas and information to arrive at a broader understanding of the issues. Candidates found this process quite difficult.