



Examiners' report

P2 Corporate Reporting December 2008

Introduction and general paper comments

The performance of candidates was quite pleasing with good marks being achieved in all aspects of the paper. The approach to the examination seems to be improving with little evidence of time pressure although some candidates are still failing to produce answers to all parts of the paper and appear to be spending too much time on question 1. Also candidates are often not using the information in the question to develop their answers even when the question requires the information to be used. There is a minimum amount of information required in each question in order to gain a pass standard and candidates do sometimes not appreciate this.

The paper requires candidates to answer 3 questions out of 4 questions with question 1 being worth 50 marks and being compulsory. Candidates have to answer 2 out of the remaining 3 questions for 25 marks each.

Question paper analysis

Question 1

This question required candidates to produce a statement of cash flows which involved adjusting for an incorrect accounting procedure re available for sale financial assets, dealing with the cash consequences of a retirement benefit liability, adjusting for the purchase of a subsidiary and the purchase of property, plant and equipment (PPE) from overseas as well as the normal adjustments required to produce a statement of cash flows.

Candidates generally performed well on part a of the question producing good answers, which were rewarded with good marks on this part. The main issues, which caused problems, were the new IAS 1 format of the financial statements, which many candidates were not familiar with and the treatment of the benefits paid by the trustees of the defined benefit scheme, which had no cash flow effect. The calculation of the exchange loss on the PPE was problematical for some candidates from the viewpoint of how to treat it in the statement of cash flows. Also the calculation of trade payables often failed to take into account the creditor for the purchase of plant.

Part b of the question required a discussion of the key issues, which the cash flow statement highlighted. Candidates were required to use the information in their answers to part a of the question in order to determine the cash flow problems which the company had such as the use of working capital to finance the investing activities of the company. Many candidates did not use the information in the first part of the question in answering this part but gave general advantages and disadvantages of statements of cash flows. This did attract some credit but in questions such as this one, candidates should be prepared to use the information, which they have generated. Some candidates answered part b before part a and thus failed to gain marks for as they failed to relate their answers to part a

Part c of the question required candidates to discuss the ethical responsibilities of an accountant when the directors have made suggestions of unethical practices. Candidates needed to discuss the nature of ethical good practice and integrity and what is acceptable practice in terms of deliberate misrepresentation and presentation. This part of the question was quite well answered. However, candidates should develop a greater understanding of ethical principles rather than simply the ability to reiterate the ethical codes.

Question 2

This question required candidates to discuss the accounting practice and principles relating mainly to business combinations. The question was based around a case study which included acquisition accounting, equity accounting, share based payment and provisioning. In most jurisdictions, this involved dealing with IFRS 3 (Revised) and the amended IAS 27. The question required knowledge of accounting for purchase consideration, transaction costs, contingent consideration, intangible assets, non –controlling interests and reorganisation provisions.

Candidates generally gave quite good answers to the question but the main issue was that candidates found it difficult to assimilate relevant information. If the question outlines the specific information, which is required,

then candidates seem to be able to construct good answers. However when candidates are asked to essentially advise a client given certain information, then the quality of the answers deteriorates.

Candidates should practice questions where advice to clients is required. It is also important for candidates to keep up to date with current developments by reading relevant articles in on line journals and other publications. Particular issues included failing to recognise that the existing 30% interest in the associate should be fair valued when control of the subsidiary is gained, also dealing with the payments to the subsidiary's directors created a problem and a minority of candidates stated that the full goodwill method was mandatory.

Question 3

This question required candidates to discuss the issues and accounting practices relating to the telecommunications industry. The case study did not involve relevant knowledge of the industry or require discussion of complex technical issues but the application of fundamental accounting knowledge to the case in question. The key knowledge areas were intangible assets, impairment, PPE, leases, inventories, and revenue recognition.

The question was not well answered with candidates failing to recognise the key accounting principles required. Again the question was framed as if candidates were giving general advice to a client but in this case the requirements were broken down into sections to facilitate candidates' answers. This question was not well answered by candidates because of the lack of a capability to apply knowledge.

The main areas where candidates had problems was determining when the intangible asset should be recognised, determining the amortisation period for the asset, recognising that there was a lease and not a contingent liability, allocating the lease premium, determining when the revenue should be recognised on the sale of the handsets on the agency agreement and recognising the write down of inventory.

This type of question will continue in the future and therefore candidates should again practice the application of fundamental knowledge to a particular industry. One of the issues seemed to be that candidates did not appear to be able to draft answers where the main purpose of the question is to advise clients. Candidates seemed to be able to produce definitions without having the capability of applying those definitions.

Question 4

This question required candidates to discuss the reason why accounting standards are required to keep the market mechanism working effectively and additionally to discuss the costs and benefits to users of financial information of increased disclosure in financial statements.

There were a variety of answers from candidates, which were quite good, but very few candidates made reference to the Framework. The Framework is always a useful reference point for answers to discursive questions. In answering the part of the question dealing with the costs and benefits of disclosure, very few candidates mentioned possible litigation and competitive disadvantage and advantage. Also information asymmetry and its link with the liquidity of the market were seldom mentioned. Particularly in these current times, this point has particular relevance.

Future questions in this area may have a calculation element. Candidates answered this question very well producing answers which demonstrated a good understanding of the usefulness of accounting standards and the cost and benefits of disclosure.

Conclusion

The paper was generally well answered and the pass rate was pleasing. However candidates must learn to apply their knowledge and not simply reiterate definitions.