# Examiner's report P2 Corporate Reporting December 2009

## **General Comments**

The paper dealt with a wide range of issues and accounting standards. The paper was quite testing but candidates responded well resulting in a pleasing pass rate. The results reflect the benefit of the publication of articles in the Student Accountant on specific topics and the increasing expansion of the knowledge base in certain subject areas, particularly IFRS 3 (Revised) and financial instruments. Candidates also seem to have applied good examination techniques in answering the paper. There was less evidence of candidates only answering two questions rather than the three questions required. Finally candidates seem to be answering the 50 mark question better particularly with regards to the ethics question.

## **Specific Comments**

### **Question One**

The question required candidates to calculate a gain or loss on the disposal of an equity interest in a subsidiary, to prepare a consolidated statement of financial position and to discuss the relationship of ethical behaviour to professional rules. Candidates generally performed well in this question. The calculation of the loss arising on the disposal of the equity interest was extremely well answered with many candidates scoring full marks on this part of the question. The second part of the question additionally dealt with an acquisition of a further interest in a subsidiary and the disposal of a partial interest in a subsidiary as well as the treatment of contingent liabilities on consolidation, investment property, provisions for environmental claims, restructuring provisions and impairment. The breadth of topic areas was guite large. The main issues that candidates had were the calculations of the negative and positive movements in equity arising from the sale and purchase of equity holdings. Additionally the calculation of post acquisition reserves was quite complex and candidates did not always score well in this regard. However although candidates found it difficult to calculate post acquisition reserves, markers gave credit for the method and workings shown. The treatment of the nonconsolidation adjustments (investment property, provisions for environmental claims, restructuring provisions etc) was generally well answered although a major failing often involved the non-recognition of the restructuring provision, as a constructive obligation did not exist.

Part c of the question required candidates to discuss the relationship between ethical behaviour and professional rules. The question required candidates to comment on the ethical behaviour of a director where the director possessed confidential information. Candidates performed well on this part of the question but it must be emphasised that it is important to refer to the information in the question when writing the answer.

## **Question Two**

This question dealt with the subject of impairment. Candidates were asked to discuss the main considerations which an entity should take into account when impairment testing non-current assets in a climate where there were credit limitations. The second part of the question required candidates to set out how to account for any potential impairment in given circumstances. The first part of the question was very well answered although the main weakness in candidates' answers related to the fact that many candidates simply set out the rules of impairment testing without relating it to the economic climate set out in the question. The second part of the question was quite well answered. Candidates found some difficulties in discounting future cash flows and the treatment of the impairment loss and revaluation gain. Candidates did not discuss the key issues in sufficient depth.



The question asked for a discussion but many candidates simply calculated the accounting adjustments without sufficient discussion of the issues.

## **Question Three**

This question was a case study type question based around a company in the oil industry. It involved knowledge of revenue recognition principles, events after the reporting period, inventory, accounting for jointly controlled entities, decommissioning costs and intangible assets. The question was quite well answered with candidates setting out the principles of revenue recognition quite well. The application of the knowledge was not quite of the same standard. The answers to the second part of the question require determining the relationship between the entity and another entity. The interest in the entity was that of an equity interest but many candidates felt that the entity was jointly controlled and that proportionate consolidation could be used instead of equity accounting.

The accounting for decommissioning costs was quite well answered with many students gaining the correct answer for the decommissioning liability. The final part required candidates to apply IAS 38 *Intangible Assets* to a scenario. Again, the answers were of a good standard although the main weakness was in the application of the knowledge.

#### **Question Four**

This question required candidates to discuss the measurement issues relating to financial instruments and how these issues would be alleviated if fair value were used for all financial instruments. The second part of the question asked candidates to compare two loans which were to result in almost identical payments in the future but which were being carried at different amounts currently. Candidates answered the question quite well. Many candidates simply quoted the measurement rules relating to financial instruments without setting out how these rules created confusion and complexity for users. In addition, many candidates simply set out the advantages and disadvantages of fair value accounting rather than discussing how the use of fair value might result in less complexity in financial statements. The calculations in part b of the question were quite well done although very few candidates saw that the redemption amounts were the same but the carrying amounts were quite different.

