

# Examiner's report

## P2 Corporate Reporting

### June 2017

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

#### General Comments

The examination consisted of two sections. Section A contained one question for 50 marks and Section B contained three questions of 25 marks each, from which candidates had to answer two questions.

To pass this examination, candidates must be conscious of time, they must have discipline and the energy to obtain the required level of knowledge and to apply it appropriately. The nature of the examination should dictate the approach to learning. There is a significant amount of information to be learned and understood and, as a result, candidates often adopt a superficial approach to learning, as it appears that their goal is simply to pass an exam and not prepare themselves for a career in accounting. However, this examination rewards personal understanding and not superficial learning. The verbs used in the examination are discuss, advise, explain and analyse which means that superficial learning is not sufficient to develop the professional skills required. It appears from the examination scripts that there is considerable diversity in how students approach their learning with many candidates focusing on the bare fundamentals. These candidates reproduce them through rote learning, rather than reading wider to engage with the subject. It appears that some candidates have a preconception that corporate reporting is a subject that does not require deep understanding. A deep approach to learning is positively associated with good performance in the P2 examination.

Candidates perceive and answer questions from a narrow perspective. It may be they feel that certain educational strategies (such as case studies) are not effective. However, it is important that both candidates and tutors think about how the learning process might be improved.

As mentioned in previous reports, IFRSs can be learned and taught through the medium of the Conceptual Framework. This method of learning and teaching can develop a critical approach to corporate reporting by demonstrating, for example, the inconsistency of the application of the fundamental principles of corporate reporting.

#### Specific Comments.

##### Question One a

This question requires candidates to prepare a consolidated financial statement; either cash flow, financial position or a statement of profit or loss and other comprehensive income. Invariably in all of the above financial statements, goodwill on acquisition has to be calculated using fair value (sometimes called the full goodwill method), or the NCI's proportionate share of net assets of the acquiree. Candidates in the main, calculate goodwill correctly. However, the calculation of goodwill normally only carries between 5-7 marks dependent on the number of subsidiaries and the complexity of the calculation. In addition, this calculation must be correct to gain full marks as seldom does the own figure rule apply. This is because the information for the calculation is generally obtained from the question.

Again, gains or losses on disposal of a subsidiary can be examined in the case of all three statements. Thus, candidates should understand the principles behind the disposal of part of the holding to the NCI, disposal of a controlling interest whilst retaining an associate holding and the disposal of the whole of the interest. These elements of the consolidated statements are not well answered and yet the disposal can carry between 3-5 marks.

The treatment of associates and joint ventures/arrangements can be asked in most group questions. The identification and accounting for associates is a regular examination topic and candidates generally do well in this area. However, the accounting for an investment prior to control being obtained is not well answered. The acquirer accounts for its investment in the equity interests of an acquiree in accordance with the nature of the investment by applying the relevant standard which could be for example, IFRS 9, IAS 28, or IFRS 11. As part of accounting for the business combination, the acquirer remeasures any previously held interest at fair value and takes this amount into account in the determination of goodwill. It is this last element that often is answered poorly. The marks for this element of the question can vary according to its complexity.

The treatment of NCI can be asked in most group questions. For example, in a cash flow question, the dividend paid to NCI will be required, in a statement of profit or loss and other comprehensive income, the NCI's share of profit will be required and obviously in a SOFP, the closing balance on the NCI account is required. The treatment of NCI can bring relatively easy marks to the candidate. Often the own figure rule (OFR) will be used because the reserves or profit figure used to determine NCI may have been calculated by the candidate. If the figures needed to calculate NCI are given in the question then the OFR will not be used. Generally, candidates score well in this area but it is important that the principle behind the calculations is understood. The NCI calculation can carry up to 4 marks.

In group SOFP questions, the group retained earnings calculation is extremely important from the viewpoint of accruing credit. This section can carry up to 6 marks. Again, the OFR rule will apply here on the same basis as above. Candidates generally score well in this area. Thus if one reviews this examiners report thus far, it can be seen that certain areas are critical to success. A good understanding of group accounting is essential but as set out in the opening paragraphs, this understanding must be deep, as it has to be applied to the many scenarios that the examiner can create. If candidates concentrate on the main facts with retention of information and technique being important, they will struggle with the different scenarios within the examination. If candidates only memorise the information, and do not understand the meaning, there will be a reduced chance of success in this examination.

Other comprehensive income (OCI) will normally carry up to 3 marks and be marked on the same basis as NCI. The remainder of the elements in question 1 centre around the IFRSs. The adjustments required to the consolidated statements can vary from pension adjustments to investment properties and leases. The marks for these adjustments would tend to be between 3 and 4 marks. The adjustments require not only an understanding of the IFRS but also an understanding of the accounting treatment.

The question usually asks for the preparation of a particular consolidated financial statement. In the case of group cash flow statements, the layout of the answer is quite important because of the specific requirements of IAS 7. However, there are no marks in a group SOFP for simply adding together digits given in the question if there has been no adjustment to the original figures.

Question 1b and c generally extend the scenario in question 1 and focus on IFRS and in the case of 1c, ethical requirements. There are wide ranges of topic areas, which have been asked in this part of the question, and generally, candidates struggle to discuss the issues involved. The reasons for this have been set out in the introduction to this report.

Normally, there is very little accounting required in this part of the question and the questions generally require a discussion of the issues. Over recent diets, candidates have focused on the accounting issues in question 1c to the detriment of the discussion of the ethical issues. Additionally, the discussion of the ethical issues is very

superficial. There seems to be very little application of ACCA's ethical framework approach in the resolution of the ethical dilemma set out in the question.

### **Question Two**

This question can be based upon a theme, for example fair valuation, or can simply be based upon 3 specific scenarios. It can also require a certain amount of calculation. Examples of the above would be discussion of IFRS 13, IFRS 9, IAS 21 and IFRS 2. Generally speaking if a calculation is required, and then some discussion of the implications for the entity will be required.

In recent diets, the calculations have been quite well answered but what has become apparent is that candidates are actually learning how to calculate for example share based payment amounts by rote, so that if there is any change in the timing or valuation of the payments, candidates really struggle to adapt their rote learned knowledge. Candidates have to ask themselves why they are calculating these amounts.

Foreign currency translation questions will usually require some calculation and some discussion. Candidates seem to know the basic steps for translating foreign currency amounts into the functional currency, the translation from the functional currency to the presentation currency but struggle with any explanation of the process. In addition, candidates seem to feel that the definition of functional currency and presentation currency is required at all times. This is just wasting time for the candidate unless the definition is asked for. A maximum of 1 mark would be given for such definitions generally. The same is true of IFRS 13 where the three input levels are defined even when they are not asked for. Rote learned definitions will not score marks unless they are asked for and even then only one mark is likely to be scored. Candidates should understand that accounting principles are different to definitions.

The marking of this question is often split into principles and application with a maximum mark of 3 to 4 for the principles, dependent upon the size of the mini case study.

Generally, the answers to this question are quite weak. It is thought that the most significant influence on students' learning is their perception of the assessment. Assessment is possibly the most important of all the variables that affect a candidate's learning approach. Therefore, it is surprising that these examination reports repeatedly set out the lack of understanding in candidates answers and yet there has not been any discernable improvement in this area.

### **Question Three**

This question is normally based around a particular industry. No specific knowledge is required of the industry. The standards examined in this question can vary and can include IFRS 3, IFRS 10, IFRS 11, IAS 7, IAS 27 and IAS 28, even though some of the calculations relating to these standards have been examined in question 1. Thus, for example, the application of the definition of a business for consolidation purposes could easily be examined as part of this question.

The candidate needs to discuss the scenario in the mini case study in order to gain marks. Again the marks will be split between principles and application. Application simply means the application of the principles to the scenario. Even if the candidate reaches the wrong conclusion, marks will be awarded for the discussion. Candidates seem to believe that these questions possess a correct answer. Corporate reporting requires judgement and candidates should consider that real life accounting issues provide accountants with difficulties in trying to identify their solutions.

In recent diets, several IFRSs have been examined, for example, IAS 38, IFRS 5, IFRS 10, IFRS 15, and IFRS 16. The knowledge of the most recent standards seems to be limited to the fundamental principles, which at present is adequate. However as the standards are implemented, the extent of their application in the examination will increase. Simply, setting out the 5 step method in IFRS 15, without any application of the IFRS, is not sufficient.

The application of IFRS 9 is still a problem for candidates. There are certain key elements of the standard, which must be understood. For example, recognition and initial and subsequent measurement of financial assets and liabilities. Other key areas include de-recognition of financial instruments and hedging relationships. The scenarios will not require extensive knowledge of the IFRS but will require practical application. Knowing the difference between an executory contract and a financial instrument is fundamental to corporate reporting.

#### **Question Four**

This question generally deals with 'current issues', which can vary according to the current problems with IFRS, the IASB's work plan, the publication of a new IFRS or regulatory issues. There are general problems of consistency with the Framework that most standards face as well as assumptions used in estimates, judgements used by directors, measurement issues, and lack of clarity in the standard.

Users have to deal with many uncertainties that surround the preparation of financial statements and often these uncertainties are not necessarily clarified by disclosure. Thus, this area is often a good source of topics for this type of question. Additionally, integrated reporting, as a topic area, can be linked with a question on current issues, even though the area might not be the subject of a full question.

The IASB's work on the Conceptual Framework, including prudence, and de-recognition has been the subject of questions in the recent examinations. Candidates seemed to have a grasp of the issues with prudence but not de-recognition.

The question usually requires the application of the principles set out in the first part of the question. Invariably, candidates find this quite difficult. The marks allocated to parts a and b of this question will vary but will total 25 marks. Generally, candidates will gain one mark per valid point in their answer. It is an area, which requires wider reading and understanding by candidates in order to be successful. It requires candidates to manage their own learning and make sure that they have a wide knowledge base.