

Examiner's report

P2 Corporate Reporting

December 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. The subject lends itself to being assessed using a principles-based approach whereby candidates need to demonstrate that they understand the principles used in a range of accounting standards. Candidates are examined on concepts, theories, principles, and their ability to apply this knowledge to real life scenarios. The study guide sets out the nature of the competences required of candidates and these competences imply a high level of understanding of the subject matter. The examination requires some calculation but a significant part of it requires the application of knowledge and understanding. Questions are based upon real life scenarios and current practice and so candidates, who think critically about the information and relate it to practical examples, are rewarded in this examination. The Conceptual Framework sets out the concepts upon which International Financial Reporting Standards (IFRS) are based and therefore candidates should be able to discuss the consistency of the Framework (and the proposed Framework) with IFRSs.

It is extremely important for candidates to read the requirements of the question and not just simply answer the question that they wish to answer. Candidates will not obtain a pass mark on a question by setting out purely what is stated in a standard or without its application to the scenario. As regards the ethics question, candidates should demonstrate their understanding of the professional and moral judgments that accountants need to make in practice. Again, a pass mark will not be obtained in the ethics part of the paper by simply quoting ethical guidance. The current issues element of the syllabus does not simply relate to examinable exposure drafts or discussion papers but also to current debate in the accountancy press. Hence, there is a need to read more widely than just the tutor manuals.

Professional marks are awarded to the questions in Section B. These marks are given where the candidate exhibits professional characteristics in their answer. This means that all parts of the question should be answered. Thus, if a candidate does not complete a question, two professional marks will not be awarded. Candidates have to demonstrate a range of skills and abilities, which include relating professional issues to relevant concepts and practical situations.

It is important to look at examiner's reports and the reports from the learning providers' conferences in order to understand the examiner's views on various issues. Simply practising numerical questions does not result in success in this examination and written answers should be in sufficient depth to answer the question. Brief answers will not meet the requirement of the question even though the numerical content may be correct. However, the examination does contain a certain amount of technical material, which is based around the application of the fundamental principles within IFRS.

Specific Comment

Question One

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 required to be calculated using fair value (sometimes called the full goodwill method), or the NCI's proportionate share of net assets of the acquiree. In the main, candidates calculate goodwill correctly. Where goodwill relates to an overseas subsidiary, generally an exchange difference will arise in the year in question by comparing goodwill at the opening rate of exchange with goodwill at the closing rate of exchange. Candidates will gain marks for this calculation which will normally be based upon the own figure rule (OFR) as it is feasible that the candidate has calculated goodwill incorrectly in the first instance. Goodwill impairment often causes issues for candidates, however, if this impairment is based upon a percentage of the original goodwill calculation, then the OFR will be utilised.

Where an overseas subsidiary needs to be consolidated, exchange differences are likely to arise. Many candidates find the calculation of these exchange differences problematic. In order to gain marks, it is critical that candidates set out their calculations clearly. Marks are allocated for the use of the correct exchange rates and for the method used in the exchange difference calculation. If the candidate's workings cannot be understood by the marker, then marks cannot be allocated.

A step acquisition is a regular feature in question 1(a). The original investment should be measured at its acquisition date fair value with the recognition of any resulting gain or loss. Candidates should understand the principles behind this treatment and be capable of explaining them. However, this aspect of group accounting is generally not well understood and yet can carry up to four marks. The marks for this element of the question can vary according to its complexity.

The treatment of NCI can be tested in most group questions. For example, in a consolidated profit or loss and other comprehensive income question, the NCIs share of profit for the year will be required as well as their interest in total comprehensive income but candidates seldom calculate the profit for the year or total comprehensive income correctly. Therefore, marks are often awarded based upon the method used by the candidate. The treatment of NCI can bring relatively easy marks if a candidate sets out their answer clearly. Generally, candidates score well in this area but it is important that the principles behind the calculations are understood. There are no marks in a group profit or loss and other comprehensive income question, for simply adding together digits given in the question if there has been no adjustment to the original figures. There are marks, however, for showing those items, which may or may not be reclassified to profit or loss.

The remainder of the elements in question one centre around accounting for specific IFRSs. These adjustments which are required to the consolidated financial statements can vary from pension adjustments to deferred taxation or the revaluation of PPE. The marks for these adjustments would tend to be between three and four marks. For example, with pension scheme accounting, marks are likely to be awarded for the net finance cost, the service cost component, any cash contributions and the re-measurement element. However, the correct accounting treatment has to be used for marks to be allocated.

Question 1(b) and 1(c) generally refer to the scenario in question 1 and focus on IFRS and in the case of 1(c), ethical requirements. Normally, the questions require a discussion of the issues concerned. In question 1(b), the marks are likely to be split between the knowledge of an IFRS and

the application of that IFRS to the scenario. For example, when a question on IFRS 8 is asked, many candidates spend a considerable amount of time setting out what constitutes an operating segment and very little time in applying the criteria to the information provided in the question.

Over recent diets, candidates have focused on the accounting issues in question 1(c) to the detriment of a discussion of the ethical issues. The discussion of the ethical issues is very important with application of ACCA's ethical framework being more important than a rule-based answer.

Question Two

This question can be based upon a theme, for example the control principle, or can simply be based upon three specific scenarios. It can also require a limited amount of calculation. For example, a discussion of control as set out in IFRS 10, IFRS 9, and IFRS 15.

Where a question requires a discussion as to whether or not a holding constitutes a subsidiary or associate or joint venture, it is important for candidates to use the scenario as well as setting out the principles used to determine the relationship. If a candidate comes to an incorrect conclusion about the holding, then all of the marks would not be lost if the previous discussion reflects the circumstances in the scenario.

Questions concerning IFRS 15 will occur regularly in the examination. Candidates tend to always set out the five step model framework for any question on IFRS 15. This approach is not necessarily applicable in its entirety to all questions on the subject and therefore, candidates will be wasting their time if the five step rule is not required. In any event, a minimum number of marks will be awarded for simply setting out the five steps.

The application of IFRS 9 is still a problem for candidates. Although, financial instruments are often assessed using accounting principles, it seems that the key elements of the standard are not fully understood. For example, in recent diets the recognition and de-recognition of financial instruments has caused problems for candidates. Consideration of the contractual rights to cash flows, the risks and rewards of ownership and the retention of a residual interest are just some of the issues which should be understood by candidates.

The existing Conceptual Framework does not define 'control', although the ED on the same subject states that control links the economic resource to the entity. These two documents are very important when answering questions in this examination. Even if a question does not refer to the Conceptual Framework or the ED, any correct application of the Framework is likely to gain marks. However, very few candidates actually refer to the Framework in their answers unless they are prompted by the question.

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 significantly and can often relate to standards that have already been examined in question 1. For example, in recent diets, impairment has appeared in relation to goodwill in question 1 and as regards PPE in question 3. Candidates seem to be able to carry out the calculations in question 1 better than discussing the application of the principles in question 3. The marks are split between principles underpinning the scenarios and the application of those principles to that scenario.

Generally speaking, if a calculation is required, then some discussion of the implications for the entity will be required. In recent diets, candidates' answers on PPE have been quite good. Componentisation seems to be well understood by candidates even though their application of the principles varies. Questions on dealing with a major overhaul and the related impact on depreciation are generally well answered by candidates.

As IFRS 16 is a recent addition to the examinable documents, there is inevitably going to be performance issues for candidates who try and answer questions using the previous standard (IAS 17). Although some of the principles are quite similar, for example accounting by lessors, the accounting required by lessees has fundamentally changed and candidates need to ensure that they understand and can apply the new IFRS. As a result, recent answers have demonstrated a degree of confusion over the principles embodied in IFRS 16.

Question Four

This question generally deals with 'current issues'. Current issues can vary according to contemporary debate concerning problems with IFRS, the publication of a new IFRS or regulatory issues. In addition, users have to deal with many uncertainties that surround the preparation of financial statements. Thus, the interpretation of published information from a user's viewpoint is also an important issue for an accountant. A recent diet required candidates to explain the importance of a company's capital to investors. The same question also required candidates to adjust a capitalisation table. This question was assessed from a user's perspective of a typical disclosure utilised by entities. A capitalisation table is a common feature of published financial statements, however, even if a candidate had never seen a capitalisation table before, they still should have been able to understand the information it contained and use it to help them answer the question. Additionally, integrated reporting, as a topic area, can be linked to a question on current issues, even though the area might not be the subject of a full question.

The question usually requires the candidate to apply the principles contained in the first part of the question to the scenario presented in the second part of the question. For example, in the question that assessed capital, the second part of the question required candidates to adjust the capitalisation table for changes in an entity's capital due to misclassifications and errors under IFRS 2. Candidates seemed to find the adjustment of the capitalisation table quite difficult, even though they appeared to understand the nature of the errors. Again, it seems that it is the application of principles, which causes the problem for candidates. The marks allocated to parts (a) and (b) of this question vary but will total 25 marks. This question requires candidates to be widely read and demonstrate understanding in order to be successful.

Overall, the main issue with section B of the exam is the inconsistency of some answers over the various questions. Many candidates produce good answers to specific parts of the section B questions but not every part. The question paper requires candidates to answer two questions in Section B and this essentially means two 'full' questions.