Examiner's report
P2 Corporate Reporting
December 2014

General Comments
The examination paper consisted of four questions. Section A contained a compulsory question for 50 marks and Section B contained three questions of 25 marks each. Candidates had to answer two questions from Section B. The majority of candidates attempted three questions, and it appeared that there was less evidence of time pressure in this examination.

The performance of candidates in this paper was good. Question 1 often determines whether a candidate is successful in the examination because of the detailed and complex nature of the question. Therefore, it is important for candidates to answer all parts of the question. It is often the case in question 1c, which is based around ethical knowledge and application, that candidates do not attempt the question even though marks can readily be gained for a well-argued answer to this part of the question.

Feedback from various quarters seemed to indicate that the paper was quite demanding .Therefore this report will break down the paper and give candidates an insight into how they can be successful in this examination. The normal problems of providing irrelevant answers, poor time management and lack of application of knowledge to the scenario are generally evident in every examination from an increasingly smaller number of candidates. There was some criticism of the nature of the questions and one observer called the questions theoretical and academic. This is not the case as most of the questions are based around real life scenarios, which means that candidates will need to apply their knowledge. For example, question 4 on impairment was based upon factors identified by regulators as being key when conducting an impairment test. Similarly question 3 is based upon a real life scenario. A candidate is required to apply their knowledge to scenarios affecting issuers of financial statements in an international context and therefore the scenarios are not necessarily going to be typical of a particular region of the world. Further, the questions are not designed as purely an academic exercise.

There was comment that the paper was too difficult but the pass rate is consistent and in fact slightly higher than in previous diets, which would tend to indicate that the degree of difficulty was consistent with past examinations. The feedback from the marking team was that candidates who had prepared well for the examination found little difficulty in passing the examination. Finally, there was a view that the paper was narrow in terms of the number of accounting standards that were dealt with in the exam. There were 11 accounting standards examined in the paper, which is quite wide in terms of coverage!

Specific Comments

Question One
This question required candidates to prepare a consolidated statement of financial position for a group,
.Candidates had to deal with a step acquisition, an unrecognised contingent liability, a revision of the fair values on acquisition, 'negative' goodwill, a joint arrangement and an asset held for sale. Candidates dealt with the group structure quite well and the calculations of goodwill /'negative goodwill 'arising on acquisition were generally accurate. Candidates invariably calculate retained earnings and non controlling interest inaccurately but the marking guide gives credit for candidates own figures as long as the principle is correct. For example, marks are allocated for calculating NCI as long as candidates are using the correct share of the subsidiaries' post acquisition earnings. Additionally, if a candidate makes an error early in a calculation, then candidates can gain marks for their own figures. This latter point also enhances the importance of candidates showing full and clear workings.
The main area that candidates found difficult was dealing with the joint arrangement. For the first half of the year, the arrangement was a joint operation where the holding company only accounted for its direct rights to the underlying results and assets. In the second half of the year, the arrangement was a joint venture and the holding company accounted for the arrangement as a joint venture using equity accounting. It is important that where

candidates meet an accounting problem, which is not familiar to them, they should realise that there are marks available for the correct identification of the issue even if their accounting treatment is not totally accurate. In other words, it is important that candidates attempt the element of the question as often a pass mark can be gained for a reasonable attempt.

In question 1b, the holding company granted share options to the employees of the subsidiaries over its own shares and the awards vested immediately. Candidates were asked to show the accounting for this transaction in its own, the subsidiaries, and the group financial statements. The answer to this part of the question was relatively straightforward as it relied upon knowledge of group accounting principles and double entry bookkeeping. In the group accounts, there would be a debit for the expense in the group statement of profit or loss and a credit in equity. In the subsidiaries' accounts, there will be a debit for the expense charged in the subsidiaries' statements of profit or loss and a credit in equity and in the separate accounts of the holding company, there would be a debit to its investment in the subsidiaries and a credit to equity. The accounting for this part was not reliant upon detailed knowledge of IFRS 2 but on application of principles.

Part 1c required candidates to discuss the potential ethical conflicts where an accountant is placed under undue pressure by directors and to discuss the ethical principles, which would guide how a professional accountant should respond in this situation. Generally, in this type of question, marks are awarded for the principles and the application of those principles. If a candidate simply lists the ethical guidance then it is impossible to gain full marks. Candidates must apply the principles to the scenario.

Question Two

This question dealt with two main topics-financial instruments and related parties.
Part a of the question required candidates to discuss the general principles underpinning the accounting for related party transactions and then advise on the disclosure of related party relationships between government-related entities and the government,. Inevitably, the model answers to the questions are more detailed than what is expected of candidates. There were only 5 marks available for this question.Therefore the number of marks available for the second part of the requirement was naturally quite small .Candidates who did not know the specific answer to this part of the question were given credit for discussion of the related principles and many candidates were scoring 4 out of 5 marks for this part of the question

Part b of the question required candidates to show how a financial guarantee contract should be dealt with in the financial statements together with a discussion of the principles involved. Candidates were told that the guarantee was measured at fair value through profit or loss.

The question was not well answered by candidates but a client would expect a qualified member of a profession to understand the difference between a provision and a financial guarantee. It appeared from the answers that this distinction was not understood by many candidates even though the question did say that the guarantee was being measured at fair value through profit or loss, which would tend to indicate that the guarantee was a financial instrument.

Part c set out a standard set of circumstances, which related to the use of hedge accounting .The entity required advice on the use of hedge accounting for the transactions in the question. This part was really quite textbook orientated and should have been well answered by candidates. However, it seems that hedging and hedge effectiveness are topics that candidates find quite difficult even in relatively straightforward situations.
The final part of the question dealt with a fair value increase in a financial liability, part of which related to the reduction in the entity's creditworthiness. This part of the question was quite well answered with candidates gaining marks for a discussion of the principles involved and for the accounting for the increase in the value of the liability

Question Three

This question was based upon a real scenario in the shipping industry and focused in the first part on IFRS 3 *Business Combinations* and IFRS 10 *Consolidated Financial Statements.* Candidates did not need to identify the relevant IFRSs as they were set out in this part of the question. The question examined two basic fundamental concepts in these two standards. Firstly, an entity should determine whether a transaction is a business combination by applying the definition of a business in IFRS 3. Secondly, IFRS 10 *Consolidated Financial Statements* sets out the situation where an investor controls an investee. The question required candidates to discuss and apply these two concepts to the scenario. As set out before in these reports, candidates can score well in these types of questions but only if they apply the principles to the information in the case study. The question was quite well answered with the main problem being the identification of the fact the acquisition included all the elements, which constitute a business.

The second part of the question dealt with accounting under IAS 16 *PropertyPlant and Equipment*. In particular, it required candidates to apply their knowledge of IAS 16 to a scenario where there were differences in the estimates of residual value and to the componentisation of certain vessels. Generally candidates answered the question quite well.Componentisation regularly features in this examination as it is a major problem for entities worldwide. Marks were allocated on a basis of one mark per valid point which indicates that there is a minimum amount which candidates need to write in order to gain a pass mark in this question

Question Four

Part a of the question required candidates to discuss the importance and significance of the certain factors when conducting an impairment test under IAS 36 *Impairment of Assets*. The factors were set out in the question and included changes in circumstance in the reporting period, the market capitalisation of the entity, the allocation of goodwill to cash generating units, valuation issues and the nature of the disclosures. These factors have been identified by regulators as key factors in determining whether impairment has occurred. They are not academic in any way but real factors identified by transnational regulators. Candidates scored well on this part of the question. Marks were gained for discussion of each of the issues based on one mark per point, which meant that candidates could score 10 marks by discussing only 2 points per issue.

Part b of the question required candidates to apply the principles in IAS 36 to two scenarios. The first one dealt with the use of the correct discount rate and the second dealt with the accuracy of cash flow projections. Both of these issues have been identified by the IASB as being extremely judgemental and the cause of subjectivity in financial statements. The question was quite well answered by candidates.

The paper required candidates to demonstrate knowledge and application. The knowledge level was that expected of a candidate at this level of a professional qualification. Marks are lost if candidates do not demonstrate the application of knowledge. Group accounts questions are by definition quite difficult in an examination context but there are many marks for 'method' and therefore candidates needed to ensure that their calculations are clearly laid out. Candidates should always think that the marks are allocated for knowledge and application, and draft their answers accordingly. Current issues can be based around extant standards as well as new IFRSs. Candidates cannot rely purely upon their tutors to provide them with their entire reading material. Success in this exam is based around the accretion of knowledge and understanding not short-term learning.