



EDUCATORS' BRIEFING 2020/21

PROFESSIONAL 2 – ADVANCED FINANCIAL REPORTING

1. Comments on Performance in 2020 Examinations

GENERAL

This is an open book examination with candidates permitted to consult hard copy material during the examination for this subject. Candidates were required to answer questions based on quantitative and narrative information provided in a case study.

This paper is the final test of candidates' ability to understand the theory of financial reporting and how to apply that knowledge to a number of practical accounting scenarios/issues. Candidates are expected to demonstrate an ability to implement financial reporting standards, have an awareness of accounting issues facing the professionally qualified accountant and have an ability to communicate effectively with a wide variety of user groups through both internal memoranda and external financial reports.

The examination approach is designed to test a candidate's:

- ability to apply in depth knowledge of the syllabus to practical accounting problems;
- understanding of the main accounting issues currently facing the professional qualified accountant in the field of financial accounting; and
- communication skills, particularly in relation to the production of both internal memoranda and external financial reports for a wide variety of user groups.

Candidates were faced with unprecedented challenges in completing the Advanced Corporate Reporting paper this year. In addition to the Coronavirus pandemic which upended the norms of examination preparation and execution, some candidates experienced technology and connectivity issues on the day of the exam. This can only have exasperated the situation. Some candidates experienced some technical issues during their examination which may have affected performance, however, a significant proportion of candidates completed the paper without any problems. In this examiner's opinion, a second attempt at the ACR case study for any failed candidates is a fair and equitable way to level the playing field once again.

August 2020 Examination

This case study addressed the financial reporting issues of ANKA Plc, a hotel group comprising the parent company ANKA and two subsidiaries SOPHIS and DEZIGN. There were three sections to the case study. Sections (a) (65 marks) required candidates to address eight outstanding accounting issues while section (b) (15 marks) was to complete the consolidated statement of financial position for the group. Section (c) was a discursive piece addressing some shareholders concerns about accounting issues and how they may be having a negative effect on shareholder values.

The pass rate in the August 2020 sitting was 46%. This was lower than in previous years (2019: 53% 2018: 56%). The average score *for those who attempted each section* was as follows: section (a) 30marks (46%), section (b) 6 marks (40%) and section (c) 13 marks (65%).

On a positive note, candidates continue to score well in the discursive sections of the paper. In this sitting, the answers to the discursive question were concise and succinct and this was welcome. Candidates did not waste time writing about the background of the accounting standards. The answers were generally focused.

However, consolidation continues to be a problem for students with some candidates by-passing the consolidation issues altogether or scoring very poorly on them. This specific issue was raised at the October Exam Board meeting. It was also interesting to hear the views of the P1 examiner on this very same issue. In this examiner's opinion, this is an area that warrants further investigation. It may arise from a 'fear' of consolidation or a perceived view that consolidation is 'very difficult' and to be avoided if at all possible.

In terms of future case studies, this examiner's intended approach is to incorporate a consolidation element into each case study but not to have the consolidation dominate the entire paper. This would not reflect the reality of business reporting and it would not be a fair examination of the ACR syllabus.

Time management continues to be a problem. It may be difficult to conclude from the August 2020 sitting whether the time management issues arose from poor organisation or from the challenges that some candidates had with the technology this year. It is safe to say that where papers were incomplete, it was generally the section (b) that was not addressed. In fact, 25% of total exam candidates did not attempt or scored zero in (b).

Part (a)

This section required candidates to recommend and justify the accounting treatment for eight separate outstanding issues.

The average score was 30 marks out of 65 (46%) for this section of the paper. This was very similar to 2019 (48%). Although some candidates scored very well across the board, other candidates performed poorly. On a positive note, there was a much wider use of the accounting journal in this sitting. There was a lot less background information given on each issue. This was a welcome change as the candidates' work was easier to follow. It is also an important skill for prospective financial accountants where the double entry journal continues to be the language of practice.

There was a strong performance in the areas of IAS16, IFRS15, IFRS9 and (in some cases) IFRS3. However, there were difficulties in relation to IFRS 2, IAS12. This examiner had expected that IAS12 answers would be more complete as the issue was well flagged in the teaching note published in late 2019. This teaching note included an example that was similar to the issue that was presented in the paper.

Part (b)

The consolidation section was the least answered (only 75% attempted this section) and the lowest scoring section (average mark 40%). The majority of candidates attempted the goodwill calculation, but many avoided the other workings that made up the significant of marks for this section including Consolidated Retained Earnings and NCI. As mentioned above, whether this is from a perceived view of difficulty of consolidation or just sheer exhaustion at the end of a long paper, consolidation continues to be a challenge for many candidates. Corona virus *could* also be listed as a factor, but it is this examiners view, that the issues are wider than that.

Part (c)

Part (c) of the case was well answered with candidates scoring an average of 65% of the available marks on this section (2019: 62%). Candidates were asked to prepare a report responding to queries of the managing director. In general, answers relating to IAS38 and IAS40 were good, IAS12 less so. The examiner was assessing, not only candidates' technical knowledge, but also an ability to communicate effectively. Some IAS12 responses were copied directly from the teaching note rather than being tailored to a managing director who was somewhat exercised about the notion of having to account for deferred taxation. High scoring answers were those that referred specifically to the

managing director's queries and did not just repeat the wording of the accounting Standard. This can be a difficult skill to master.

Conclusion

At P2 level, candidates are expected to apply their professional judgement and technical ability in the preparation and analysis of financial statements for a range of business entities. As in previous years, well prepared candidates were able to demonstrate both their technical competence and their skills in applying, and communicating, their professional judgement to a variety of accounting issues. This year's candidates faced inordinate challenges in sitting final examinations in the middle of a public health pandemic. I do commend one and all for taking on the challenge.

The widespread use of the accounting journal is a welcome improvement in the presentation of ACR scripts. As mentioned above (and last year) the accounting journal is the presentation method of practice and this should be reflected in ACR. In addition, and also on a positive note, there are indications that candidates are reasonably comfortable with the provisions of many of the accounting standards.

However, time management remains an issue. It is difficult to form a conclusion on time management for the August 2020 sitting due to the extraordinary nature of examination conditions faced by candidates. Whether this was due to poor organisation, exhaustion or the effects of the Coronavirus pandemic, many students did not complete the paper. The consolidation part (section b) was the casualty with up to 25% of candidates failing to attempt this part of the paper. This is not just a 2020 practice but appears to be the section that is left to the very end of the paper at every sitting. Perhaps, candidates need to be more stringent with timekeeping to ensure that they complete all aspects of the paper. However, as mentioned above, consolidation is an ongoing problem for candidates and one that may warrant further review.

2. CPA STRATEGIC: ADVANCED FINANCIAL REPORTING 2021

AFR Minimum Intended Learning Outcomes

On successful completion of this module, students will be able to:

- Critically appraise given scenarios for ethical dilemmas. Select and justify responses to each that uphold the ethics of the profession.
- Assess complex financial accounting transactions and events. Interpret and apply the relevant accounting standards using professional judgment to determine the appropriate accounting treatment of those events and transactions.
- Construct financial statements in accordance with Irish Law, International Financial Reporting Standards (IFRS) and interpretations adopted by the IASB.
- Interpret corporate reports to evaluate, and prepare commentary on, an entity's Performance.
- Advise the circumstances under which, and the advantages of an entity adopting local GAAP (FRS 100 – 102, FRS 105), and the key differences between local GAAP and IFRS.
- Critically evaluate the current issues in corporate reporting, including Sustainability Reporting, and proposals to address them.

3. Syllabus Changes

Details of the Examinable Material applicable to this examination are provided on pages 84 - 89 of the 2021 Examinable Material Document and pages 55-58 of CPA Syllabus 2021 document.

It is important to note the 'issued/revised' date provided for each standard in the Examinable Material Document, as it is the 'current' version of the standard that is examinable in 2021.

4. Format of the Examination Papers for 2021

The Advanced Financial Reporting paper is the final test of candidates' ability to understand and apply the theory of financial reporting to a number of practical accounting issues. It will comprise a single case study designed to test candidates' ability to digest a considerable amount of detailed information about the affairs of a single company or group of companies. From that data, candidates will be required to prepare and/or interpret the primary financial statements and related disclosure notes. There will be a substantial narrative element, requiring candidates to prepare both internal and external reports.

The assessment will be designed to weight the marks towards the presentational element of both the narrative and computational parts of the case study. There will also be a considerable body of marks available for the display of sound technical judgement. The case study will include a wide range of technical issues requiring, in many situations, substantial adjustments to the draft figures provided in the case study. Candidates will therefore have to demonstrate a strong technical understanding of how to solve external financial reporting issues and display sound professional judgement and ethical sensitivity. They will also be required to write reports or memos tailored to the technical skills and understanding of various user groups in order to assess their presentation and communication skills.

Candidates must read the requirement carefully to ensure that they answer what is being asked, and only what is asked. The syllabus examines professional competences within the corporate reporting environment. A wide range of current technical issues will be included in each case study, and candidates will need to display a sound knowledge of all relevant extant international accounting standards. Finally, the syllabus for Advanced Financial Reporting also covers the evaluation of current developments and their implications for financial reporting. It is important that candidates pay attention to any relevant developments in financial reporting by paying attention to any relevant articles/updates (including candidate articles authored by examiners in recent years) included within CPA Ireland website and other relevant publications. Examples of areas that have been examined in previous sittings include fair value accounting, conceptual framework, and social and environmental accounting, leasing, integrated reporting and revenue recognition. Sustainability reporting will be examined at competency level 1 in accordance with the detail on page 57 of the syllabus, and based around the content of the [IFAC Sustainability Framework 2.0: Accounting for sustainability and Integrated Reporting](#).

5. Education Focus for 2021

It is the intention to set papers that reflect CPA Strategic: Advanced Financial Reporting syllabus and learning outcomes as outlined in pages 55- 58 of the CPA Syllabus for 2021. The assessment strategy and examination format are also set out on page 55 of the CPA Syllabus for 2021.

While the examination is open book, and candidates are permitted to use any reference material they wish (subject to the advised guidelines), it is important to be very selective with regard to this material as experience in prior years has shown that an over reliance on it is likely to be time consuming and unproductive. The emphasis in the examination will be on application of knowledge and skills, and marks will not be awarded for direct transcription, or close paraphrase, of reference material. Marks will be awarded for analysis, application of knowledge synthesis and evaluation. As in previous sittings candidates will be expected to be familiar with current topical issues in financial reporting.

The fact that the examination is open book does not alleviate the need for traditional study. In fact, there is arguably a greater demand on candidates since, because of the reduction in the need to recall factual data, the focus of the examination becomes to assess how complete is a candidate's understanding and whether he/she has sufficiently internalised the concepts.

Time is (always) limited, so the key is proper organisation in order to quickly find the information that may need to be checked. Carefully select the reference materials that will you have to hand as soon as possible and then begin to organise them. For example, make the reference materials as user-friendly as possible so that time is not lost locating information. For example, develop a system of tabs / sticky notes, colour coding, concept maps etc. to mark important summaries, headings, sections.

Notwithstanding the above, many candidates appear not to trust themselves, believing that there is always a 'right' answer and it is somewhere in their reference material. Consequently, they 'waste' time searching the material for the answer or, at least, for a similar answer (that does not exist). Candidates must have confidence in themselves to develop the answer through the synthesis of the knowledge they have acquired and their own ability to analyse and evaluate the questions.

As per previous educators' briefings, it would be expected that all candidates completing the CPA Strategic: Advanced Financial Reporting would have the ability to prepare journals.

Finally, the examiner would like to highlight that too often candidates do not attempt all questions/parts of questions and, therefore, miss the opportunity to gain marks and maximise their chances of being successful. Furthermore, topics relevant to corporate reporting are well discussed within various newsletters/candidate articles, webinars issued by CPA Ireland.

Candidates are expected to demonstrate an ability to implement financial reporting standards, have an awareness of accounting issues facing the professionally qualified accountant and have an ability to communicate effectively with a wide variety of user groups through both internal memoranda and external financial reports.