



PROFESSIONAL 1 – CORPORATE REPORTING

EDUCATORS BRIEFING 2018/19

1. Comment on Performance in 2018 Examinations

Average percentage of marks awarded to candidates:

	Q1 (30 Marks)	Q2 (30 Marks)	Q3 (20 Marks)	Q4 (20 Marks)	Q5 (20 Marks)
April 2018	41.7%	58.1%	54.25%	60.2%	41.9%
August 2018	42.1%	36.9%	55.7%	41.25%	32.5%

General Comment

Students continue to demonstrate familiarity with the core syllabus areas and display good examination technique. Well prepared students are not showing excessive time pressures or poor time management. Students generally follow the advice and guidance given and it is pleasing to see the continuing positive evolution in student performance.

In 2018 there was a deterioration in candidates' performance in the consolidation question. The average mark in both sittings was significantly less than in 2017, and basic errors of principle were frequently noted. Candidates are referred for guidance to an article on this topic published in 2015. This can be accessed in the Study Support resource area for this subject.

A continuing source of concern is students' performance in the multiple-choice question. It is the intention of the examiner that this question continues to test primarily the understanding and application of concepts rather than the recall of facts. It is also a useful vehicle for examining areas of the syllabus which do not lend themselves easily to full questions.

There is still a noticeable difference in performance between the April and August papers. It might be advisable for candidates planning to sit in August to arrange to attend revision classes.

Review of April 2018 Examination

Question 1

This question required candidates to prepare a consolidated statement of financial position, including a subsidiary and an associate. A number of adjustments and issues were examined including deferred consideration, fair value NCI, fair value of net assets acquired, impairment of goodwill, intra-group balance outstanding, intra-group dividends and intra group trading.

One frequently-presented error is the confusion of intra-group balances with unrealised profits on intra-group trading. Students often eliminated the unrealised profit from receivables and payables, rather than from inventory. Students often could not explain the issues of deferred and contingent consideration.

Question 2

This question examined the preparation of financial statements, requiring adjustment for a range of accounting issues. The question was generally well answered.

Question 3

This question was relatively well answered in 2018. There is a steady improvement in the performance of candidates in this question. MCQs will continue to emphasise the understanding and application of principles rather than reproduction of pure knowledge.

Question 4

This question covered IFRS 15, Revenue from Contracts with Customers. This was the best answered question on the paper.

Question 5

This question examined IAS 23, Borrowing Costs. It was chosen by fewer candidates than Q4, and was poorly answered.

Review of August 2018

Question 1

This question required candidates to prepare a consolidated statement of financial position, including two subsidiaries. A number of adjustments and issues were examined including contingent consideration, additional reserves, fair value NCI, fair value of intangible asset acquired, impairment of goodwill, intra-group dividends and intra group trading.

As in the April paper, performance was disappointing. It is vital that this topic be well prepared by students. It is difficult to pass the paper without performing well in the two 30-mark questions.

Question 2

This consolidated statement of cash flows question was standard in structure, with a normal range of adjustments to be dealt with. Performance was very poor overall, suggesting students were question spotting and prepared for SPLOCI and SOFP preparation.

Question 3

This question consisted of multiple choice questions, similar to previous papers. Students' performance on this question was similar to April, and significantly better than previous years.

Question 4

This question was on IFRS 16, Leases, and included two scenarios. The well prepared student scored very well. Although the average mark was 41%, there was a wide disparity of marks with some students scoring very well, and others very badly.

Question 5

This question covered IFRS 11, Joint Arrangements, and was the worst scoring question on the paper.

2. Syllabus for 2018/19 and Recommended Reading List

There have been no changes to the syllabus and examinable material for 2018/19. The overall design and standard of the paper will not change.

Educators should continue to focus their efforts on ensuring that students have the requisite familiarity with the appropriate level of technical knowledge, and can apply their knowledge to a range of scenarios. The recommended texts provide a number of detailed examples, which should be studied carefully. Students should be encouraged to think their way through the scenarios presented. It is essential that students fully understand and are able to explain the accounting treatment of the various items / issues. As in previous years, the paper will continue to examine students on the preparation of financial statements. Students are advised to show their working on the answers in the examinations and to practice plenty of questions before the examination. Multiple choice questions will continue to examine a broad range of the topics on the syllabus.

Learning Resources:

Core Texts

Connolly, C. *International Financial Accounting and Reporting*, 6th edition. Dublin: Chartered Accountants Ireland [ISBN 9781912350025].

Elliot, B. & Elliot, J. *Financial Accounting and Reporting*, 18th edition. London: Pearson [ISBN 9781292162409].

Manuals

See the 2019 CPA syllabus document for supplementary texts, journals and useful websites. This can be found on the CPA website.

3. Format of the Examination Papers for 2018/19:

Time allowed

There will be no change from 2017/18. The exam will be 3.5 hours in length, and 10 additional minutes will be allowed to read the paper.

Number of questions

There will be no change from 2017/18. The paper will consist of five questions in total.

- Questions 1 & 2: Compulsory 30 Marks.
- Question 3: Compulsory MCQ 20 Marks.
- Questions 4 & 5: Optional 20 Marks - one of these should be attempted.

(See comments below under “time management”).

Either or both Question 1 and/or Question 2 may examine consolidated financial statements. Single entity financial statements, as well as the interpretation of financial statements, may be examined in these questions also.

Question 3 will consist of eight multiple-choice parts. Each part will carry 2.5 marks. Workings, essential elsewhere, are not marked in this question.

Questions 4 & 5 will examine issues from a theoretical and practical perspective. More than one topic may be examined within each question.

Style of question

The style of questions will remain similar to recent sittings. Underlying the Corporate Reporting syllabus is the need for students to understand and apply examinable accounting standards and it should be expected that questions will reflect this. It is important to note that, as in previous papers, students may be asked to explain their treatment of items / adjustments with respect to the relevant examinable accounting standards and conceptual framework.

Time Management

Where a student attempts both optional questions 4 and 5 the student must clearly and precisely indicate on the front of the answer booklet which of these questions is to be assessed. In the absence of any clear indication, the overall mark awarded will be based on the first solution encountered by the marker to either question 4 or 5 in strict sequential order. Any other attempt will not be marked. Where a student makes an attempt to answer either question 4 or 5 and wishes to change his/her mind, (s)he should clearly cross out the attempt that (s)he does not wish to be marked and then proceed with the attempt (s)he wishes to be assessed on.

The paper is designed to be completed in the time frame allowed and hence it is not in students' interest to attempt more than the requisite number of questions. Doing so means that they are effectively reducing their time allocation to the other questions (and hence their expectation of success). Students are advised to focus on correct question choice to optimise their results.

Extended Trial Balance

Where appropriate, an extended trial balance template may be provided. Use of the extended trial balance is not mandatory. As the formats for the Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position are already provided, an extended trial balance may assist students' time management.

4. Education Focus for 2018/19 – syllabus clarifications & guidance

As advised in section 3 above either or both Question 1 and/or Question 2 may examine consolidated financial statements. Other topics to be examined in these questions include preparation of financial statements for individual entities and interpretation of financial statements.

Compulsory Question 1 will focus on Group Accounting

- Q1 will cover Consolidated Statement of Financial Position **or** Consolidated Statement of Profit or Loss and Other Comprehensive Income. Consolidated Statement of Changes in Equity is also examinable in conjunction with either of the above statements.
- Consolidation of group companies (associates and subsidiaries) may be examined where the investment is held directly by the parent entity. Indirect holdings (sub-subsidiaries or sub-associates) will not be examined as they are specifically excluded from the syllabus.
- Associates are examinable as per IAS 28.
- The group accounting question may include a written element, which will test students' understanding of the principles of business combinations, for example the definition of a subsidiary or the treatment of intra-group items.
- Students should be aware of both methods of calculating goodwill under IFRS 3 (Revised) *Business Combinations* whereby non-controlling interest is measured either at fair value to include a share of goodwill, or at the proportionate share of identifiable net assets at acquisition (which by definition excludes goodwill).
- Foreign subsidiaries are no longer examinable in P1 Corporate Reporting.
- Step acquisitions or disposals **of any group companies** are no longer examinable in P1 Corporate Reporting.

Compulsory question 2

- Q2 will examine preparation, to published format, of financial statements for individual entities, interpretation of financial statements as well as Group Statements of Cash Flow.
- This question is likely to examine several accounting standards by way of adjustment and / or written question.
- The requirement could include preparation any or all of the following: Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, and Statement of Changes in Equity.
- If interpretation of accounts is examined, the emphasis will be on demonstrating understanding and ability to analyse the information presented. No more than 10 marks will be available for calculation of ratios.
- It is possible, for the avoidance of doubt, that consolidated financial statements are examined in question 1 and consolidated statements of cash flows in question 2.

Multi-Choice Question

- The multiple choice question (MCQ) allows a wide range of material to be examined and will continue to include computational style questions. Workings will not be marked due to the nature of MCQs. It is important to note that MCQs will attempt to assess understanding and application more than pure knowledge.

FRS 100-105

These standards are not examinable in P1 Corporate Reporting.

Other

- Articles on topics relevant to the syllabus will continue to be published by CPA. It is important that learners review such articles thoroughly, as they are likely to help navigate the syllabus. Please treat all recent articles with importance, rather than just the most recent.
- It is envisaged that every topic on the syllabus will be examined in some form during a three year cycle. However, it is important to note that once examined a topic may be examined several times within that cycle and even from one paper to another. Therefore, students must avoid 'question spotting'.
- Assessment of the following standards will be confined to the multiple choice question or as a small part (up to 6 marks) of another larger question:
 - IAS 34 *Interim financial reporting*;
 - IAS 41 *Agriculture*;
 - IFRS 1 *First Time Adoption of International Financial Reporting Standards*.
- Other standards may be examined in detail as part of a compulsory question or as part of an optional question. Specific notes on some of these follow:
 - IAS 12: Only current taxation is examinable. Deferred tax has been excluded from the syllabus.
 - IAS 33: Basic earnings per share is examinable. Fully diluted earnings per share is not examinable as it is specifically excluded from the syllabus.
 - Partnership accounting will not be examined in 2018/19.
 - IFRS 9 *Financial Instruments* is examinable in the following areas only:
 - Definitions and examples of financial instruments;
 - Presentation of financial instruments, in particular preference shares and compound instruments;
 - Initial recognition of financial instruments;
 - Initial measurement and subsequent measurement of financial assets and liabilities including treatment of gains and losses. This includes the fair value and amortised cost methods, as well as the option to take gains and losses on designated equity investments through Other Comprehensive Income;
 - Derecognition of financial instruments.
 - IAS 36 is examinable at knowledge level 1. Candidates should know that an impairment loss arises when the recoverable amount of an asset falls below its carrying value. They should also know how to account for such impairment. It is not planned to test the calculation of recoverable amount. For the avoidance of doubt, impairment of consolidated goodwill is likely to be examined.
 - IFRS 15 *Revenue from Contracts with Customers* is examinable from 2017/18, replacing IAS 11 *Construction Contracts* and IAS 18 *Revenue*.
 - IFRS 16 *Leases* is examinable from 2017/18, replacing IAS 17 *Leases*.

Journals / Justification / Presentation

- As in previous examinations students may be required to complete journal entries in any question. This will be specifically mentioned in the requirement if it is mandatory.

- Students may be asked to explain and / or justify their treatment of items or adjustments by reference to the relevant accounting standards.
- Marks will be awarded for presentation and this will continue to be noted clearly on the paper.

Revision

Students should be advised not to focus exclusively on computational aspects in their studies. Question practice from the core texts and past examination papers is highly recommended. Students should make “real” attempts at past paper questions, not simply “audit” the solutions. A good approach to question practice is to take them in three phases:

1. Attempt the question as fully as possible without notes or other assistance. Time management should play an increasing part of this as the exam draws nearer.
2. Attempt to enhance your answer using notes and textbooks.
3. Review the solution and learn from any errors and omissions.