



PROFESSIONAL 2 – ADVANCED CORPORATE REPORTING

EDUCATORS BRIEFING 2018/19

1. Comments on Performance in 2018 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 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
- communications skills particularly in relation to the production of both internal memoranda and external financial reports for a wide variety of user groups.

April 2018 Examination

All four questions were based, to a greater or lesser extent, on the background information provided within the case study (Doddergate).

Well prepared candidates should have been able to achieve a pass, and did, in this challenging paper. The pass rate for 2018 at 56% was similar to that of 2017 (57%) which is satisfactory. As in prior examinations candidates that failed to achieve the pass-mark of 50% were unable to demonstrate the ability to apply the requisite professional and technical knowledge to the information presented in the case study, and were not adequately prepared for an open book type examination. Candidates should note that there is not one perfectly correct answer to case study type questions and they are expected to justify, where relevant, their approach to the issues posed. The ethical component of the examination was addressed well and in general so were the narrative components. Some candidates were poorly prepared for the consolidation element of the case. While the majority of candidates attempted all questions, some suggested answers were low in standard.

Question 1

Candidates were required to prepare consolidated financial statements based on information supplied. Some candidates' attempts at this question were very poor. On average candidates that passed this examination achieved 2.3 times more marks in this question than those that failed. Disappointingly, too many candidates were unable to apply the basic steps of consolidation. This was the poorest answered question on the paper.

Question 2

This question required candidates to discuss and justify the accounting treatment of a range of accounting issues presented in the case. Some candidates performed very well. However, as in question 1 there was a great disparity between the marks earned by those that passed this examination and those that failed. Common mistakes included:

- Not providing relevant justification for the accounting treatment applied, and / or
- Failing to provide journal entries as requested.

Question 3

Candidates were required to analyse the implications of any accounting adjustments arising from question 2 on Doddergate's loan covenants. Some candidates incorrectly advised that the capitalisation of the borrowing costs had adverse implications on the loan covenants. Others did not refer to Doddergate's solvency and the implications of this in relation to necessary discussions with its bankers.

Question 4

A number of ethical issues were embedded in the case presented to candidates. This was the best answered question on the paper, with candidates achieving an average of 62% of the available marks. As with all the other questions, there was large margin between the average marks achieved by candidates that passed this examination and those that failed. While candidates identified most of the issues some of them did not provide recommendations as to appropriate courses of action.

August 2018 Examination

The standard of answers at this session was disappointing, approximately 48% of candidates achieved a pass (in 2017 47% passed).

Question 1

This required candidates to advise the Managing Director of Satfar Ltd. on the appropriate treatment of a number of outstanding accounting issues relevant to the case study. The performance in this question was disappointing, with on average candidates achieving 43% of the marks. Performance was poorest with relation to the lease, investment in shares and the defined benefit pension plan. In some cases candidates advised of the accounting treatment but did not provide the requested justification and or journal entries.

Question 2

This question required candidates to prepare the consolidated financial statements of Satfar. Those candidates that passed this examination scored more than twice the number of marks in this question than those who failed. As in the April examination many candidates were unable to apply the rule of consolidation to an appropriate standard. As a consequence the standard of candidates' answer to this question was the poorest of the examination.

Question 3

This question required candidates to evaluate three areas of the financial statement s that the financial advisors would be likely to focus on when next meeting the managing director. While some candidates were able to identify three areas, fewer provided Orla with an appropriate evaluation of those identified. Only in question 2 did candidates score lower than in this question.

Question 4

This question had the highest average percentage of the available marks achieved by candidates. However, there were few outstandingly good or poor answers.

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. Excellent communication skills are essential for anyone entering the accountancy profession and it is important that future candidates ensure they pay attention to presentation requirements which specifically ask for reports/memoranda etc.

In an open book examination, candidates are expected to be familiar with the current developments in corporate reporting and to be able to demonstrate wider reading beyond the textbook/manual and demonstrate a deep understanding of the topics being examined. Candidates should ensure that they are able to do more than 'crunch the numbers'. They must be prepared for questions which require them to apply, appraise, evaluate and use their professional judgement in relation to a range of issues relevant to corporate reporting. In terms of time management, candidates should apportion their time according to the marks available.

2. Learning Outcomes

On successful completion of this subject, candidates should be able to:

- Prepare the financial statements of companies, groups and associated undertakings, including overseas subsidiary undertakings, in accordance with International Financial Reporting Standards (IFRSs), company law and EU law. These include: Statements of Profit or Loss and Other Comprehensive Income; Statements of Financial Position; Statements of Changes in Equity; and Cash Flow Statements.
- Discuss the circumstances under which organisations may, or must, apply IFRS and / or local UK and Irish GAAP demonstrating an understanding of the key accounting and presentation differences between them if Local GAAP were to be applied.
- Appraise and Apply the acquisition method of accounting and related disclosure requirements in financial statements and notes;
- Interpret and apply IFRS's and interpretations adopted by the International Accounting Standards Board, and select the appropriate accounting treatment for transactions and events;
- Analyse and evaluate financial statements;
- Write detailed reports, tailored to the technical understanding of the different user groups;
- Critically evaluate the main accounting issues currently in the field of corporate reporting; and
- Demonstrate appropriate professional judgement and ethical sensitivity.

3. Syllabus Changes

Details of the Examinable Material applicable to this examination are provided on pages 92-99 of the 2019 Syllabus.

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 2019.

4. Format of the Examination Papers for 2019

The Advanced Corporate 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 Corporate 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, revenue recognition, accounting for sustainability and Integrated Reporting.

5. Education Focus for 2019

As per previous years, it is the intention to set papers that reflect the P2 Advanced Corporate Reporting syllabus and learning outcomes as outlined in pages 64-67 of the CPA Syllabus for 2019. The assessment strategy and examination format are also set out on page 66 of the CPA Syllabus for 2019.

While the examination is open book, and candidates are permitted to bring reference material into the examination hall (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 be brought into the examination 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 P2 paper in Advanced Corporate 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 should note the following:

Consolidated Financial Statements

Examinable Material

1. Key definitions, principles and disclosures as outlined in IAS 27 *Separate Financial Statements*, IFRS10 *Consolidated Financial Statements* and IFRS 3 *Business Combinations*.
2. Preparation of consolidated financial statements in accordance with the relevant standards.
3. Preparation of (single company and) consolidated statement of cash flows in accordance with IAS 7 *Statement of Cash Flows*.
4. Accounting for Joint Arrangements in accordance with IFRS11 *Joint Arrangements* (examinable at Competency Level 3).
5. Overseas transactions, including foreign currency translation in individual company accounts and consolidated financial statements in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates* (note: closing rate only is examinable).

Other related standards include:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- IAS 36 *Impairment of Assets*; and
- IAS 38 *Intangible Assets*.

Non Examinable Material

1. Consolidation of complex structures. For example sub-subsidiaries.
2. Changes in group composition, including direct ownership. For example, piecemeal acquisitions and disposals, bonus issues and capital reductions, demergers and group reorganisations.

Other Financial Statements

1. IAS 19 *Employee Benefits*
Accounting for, and the disclosure of, employee benefits by employers is examinable at Competency Level 2. The measurement of defined benefit obligations and the assessment of actuarial assumptions are NOT examinable.

2. IAS 32 *Financial Instruments: Presentation*

IAS 32 is examinable at Competency Level 2. Candidates will therefore be required to demonstrate an ability to apply the more common, universal aspects of the standard rather than the more specialised, sophisticated areas. In broad terms, the focus will be on primary financial instruments rather than the various forms of derivatives. In this context, the following elements of IAS 32 are examinable:

- Objective;
- Scope;
- Key definitions; and
- Presentation;
 - Liabilities and equity,
 - Interest, dividends, losses and gains, and
 - Offsetting of a financial asset and a financial liability.

The following elements of IAS 32 are NOT examinable:

- Derivative instruments;
- Compound instruments;
- Puttable instruments; and
- Transactions in an entity's own equity instruments e.g. treasury shares, derivatives based on an entity's own equity instruments.

3. IAS 39 *Financial Instruments: Recognition and Measurement*,

IAS 39 is examinable at Competency Level 2. Candidates will be required to demonstrate an ability to apply the more universal aspects of the standard rather than the more specialised, sophisticated areas. In this context, the focus will be on:

- Objective;
- Scope;
- Key definitions;
- Recognition and de-recognition; and
- Measurement.

The following elements of IAS 39 are NOT examinable:

- Hedging instruments (excluding standard foreign currency forward contracts);
- Embedded derivatives; and
- Accounting for various types of complex financing arrangements.

4. IFRS 7 *Financial Instruments: Disclosures*

IFRS 7 is examinable at Competency Level 2. Candidates should be able to provide the appropriate disclosures (both qualitative and quantitative) for those items examinable under IAS 32 and IAS 39. This includes information about: the significance of the financial instruments; and the nature and extent of the risks (credit, liquidity and market) arising from financial instruments.

5. IFRS 9 *Financial Instruments*

IFRS 9 is examinable at Competency Level 2. Candidates will be required to demonstrate an ability to apply the more universal aspects of the standard rather than the more specialised, sophisticated areas. In this context, the focus will be on:

- Objective;
- Scope;
- Key definitions;
- Classification and measurement;
- Recognition and de-recognition; and
- Impairment.

Derivatives treated as hedging instruments (in accordance with IAS 39) and embedded derivatives are NOT examinable.

6. IFRS 16 Leases is examinable

7. IFRS 1 will not be asked as a practical question and that under IFRS 2 'choice of settlement' payments would not be examinable.

8. FRS 100, FRS101 and FRS102 are now examinable.

The syllabus includes FRS 100, 101 and 102 as examinable documents. For the purposes of the syllabus in general, the following is the scope of these documents' inclusion:

FRS 100 & 101 - Understand the differences between FRS 100/101 and IFRS with particular reference to the scope of the document, terminology used, and the layout of financial statements.

FRS 102: Understand the key differences between the requirements of IFRS as pertaining to the P2 Advanced Corporate Reporting syllabus and the equivalent requirement in FRS 102.

9. Other issues include

- a. The Strategic Report - the integration of non-financial information into the strategic report, and
- b. Integrated Reporting
- c. Convergence of IFRS and US GAAP.

10. It is acknowledged that there are a large number of requirements in FRS 102. Hence it is proposed that the topic areas in FRS 102 will become examinable on a phased basis. It is proposed to include chapters 16-19 of this document in the examinable material for 2019. Other chapters will be phased in over time. These chapters cover the following topics:

- Chapter 16 - Investment Properties,
- Chapter 17 - Property, Plant & Equipment,
- Chapter 18 - Intangible Assets Other than Goodwill, and
- Chapter 19 - Business Combinations and Goodwill.

Candidates may be asked to identify the differences between the accounting treatment of a particular topic under IFRS and that required under FRS 102. This could be as an

add-on to an IFRS requirement. For example, if goodwill is calculated in respect of an acquisition, and subsequently impaired under IFRS, the candidate may be asked how this would be dealt with if the financial statements were prepared under FRS 102.

Straightforward calculations may be required as well as descriptive answers. The mark allocation will remain a small proportion of the overall marks allocated to the question (5-6 marks in total across one or more questions in 2019). The level of knowledge and depth required will correspond to knowledge level 1.