Examiner’s report
P2 Corporate Reporting
March 2017

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 Corporate Reporting examination requires not only a deep understanding and knowledge of the Conceptual Framework, IFRSs and Code of Ethics, but also an ability then to apply this to a particular scenario. To be able to explain and apply this knowledge requires a candidate’s learning to extend beyond reliance on a single textbook or revision course. A well-prepared candidate should maintain their knowledge and keep up to date with topical issues, and this exam typically contains one question focusing on a current issue. Details on examinable content are available via the ACCA website. In preparing for the exam, candidates should have actively practiced past papers and exam-standard questions under timed conditions; this enables them to familiarise themselves with good exam technique (reading the scenario and requirements carefully before answering, preparing answer plans, and allocating time according to marks available).

As in previous examinations, this examination required candidates to display more than just a rote knowledge of accounting standards. Professional accountants are required to advise clients, and the Corporate Reporting examination tests the candidate’s ability to apply knowledge to a scenario: the ability to explain the correct accounting treatment, the principles that underpin the treatment, and the implications of this, in complex scenarios. A well-prepared candidate would approach this requirement by outlining knowledge specific to the issue, referring to the Conceptual Framework and appropriate reporting standard(s), and then applying this knowledge to the given situation. The less-prepared candidate might omit one of these two aspects, limiting their response to a listing of reporting requirements, or jumping directly to the application (the accounting treatment) without a clear explanation of why the method is appropriate.

Most examination questions include narrative that can often provide more guidance on the focus of an answer, so candidates should ensure they read the full question carefully. Candidates should ensure they meet the requirements in full to maximise their opportunities for gaining marks, and allocate their time appropriately: where the requirement asks for candidates to “prepare”, then there is no need to provide lengthy explanation beyond the workings needed as a part of the preparation process.

Specific Comment

Question One
This question was divided into three parts. The first part (Q1a) required the candidate to prepare a consolidated statement of financial position for a group with two subsidiaries acquired during the reporting year, one of which required translation from a foreign currency, and the other was affected by a partial disposal during the year, after which it remained a subsidiary. The second part (Q1b) questioned the effect of a group-wide change to a fair value model for properties on both individual and consolidated financial statements, and also questioned the appropriateness of a consistent treatment of exchange differences on monetary and non-monetary assets and liabilities. The third part (Q1c) tested the accounting and ethical implications of using an average rate of exchange to translate individual foreign transactions in the consolidated financial statements.

As in previous exams, the majority of the marks in question 1a were allocated to the group accounting part of the question. In addition to the typical consolidation workings in such a question, candidates were expected to prepare workings for goodwill on acquisition (with an impairment adjustment in one case, and translation impacts on the overseas company), the translation of the overseas subsidiary (identifying post-acquisition reserves and an overall exchange difference), and the impact of a partial disposal on equity and non-controlling interest. In addition to the consolidation requirements, the question required an accounting adjustment for share appreciation rights. Candidates performed relatively well in answering question 1a: workings for goodwill, and the general translation of the overseas subsidiary were answered well by most candidates. Workings for the partial disposal were, however, less well-answered.

Question 1b had two subsections. For 6 marks, part (bi) asked for advice on the effect of a group-wide change to a fair value model for properties on both individual and consolidated financial statements. The group contained both local and overseas entities, each with properties held for own use (PPE) and for investment purposes. Candidates were expected to cover the effect of a change in valuation on each, as well as the impact of translation of both for consolidation purposes. Answers to this part were generally quite weak, with relatively poor structuring. Candidates tended to focus on the treatment in individual financial statements (for both PPE and investment properties), but few explained the translation impact when a revaluation is made, and the treatment of exchange differences on either profit or loss, or equity. Better answers laid out the impact on individual and consolidated financial statements separately. For 3 marks, part (bii) asked for a discussion on whether there should be a consistent treatment of exchange differences between monetary and non-monetary assets and liabilities. Answers were generally weak: a significant minority of answers incorrectly stated that consistency is needed, without any further discussion of why; whilst many explained the difference between monetary and non-monetary without directly answering the question. Very few answers put forward an opinion, or considered the substance of the position.

Question 1c required a discussion of the accounting and ethical issues relating to using an average rate of exchange in translating individual foreign transactions in consolidated financial statements. The scenario further explained that the directors were to adopt a revaluation policy on all properties, and suggested that this would create excessive translations that would involve undue cost. Unfortunately, very few candidates discussed both accounting and ethical issues in sufficient detail. From the accounting perspective, better answers discussed the requirements of IAS 21 *The Effects of Changes in Foreign Exchange Rates*, and outlined where the use of average rates are appropriate. A range of possible points could have been raised by candidates relating to the ethical issues in the question, and candidates were given due credit for relevant opinions on these subject matters. However, as in previous diets, there was a tendency for candidates to provide ‘boiler plate’ answers on ethics with little reference to the situation (such as materiality/motivational aspects, or considering the argument about undue cost).

Question Two

This question required candidates to provide advice to a business on the accounting treatment of three issues relating to: a transfer of a formerly own-use property to investment property at fair value, the treatment of two intangible assets identified within the net assets of an acquired subsidiary, and the impairment of a cash generating unit (CGU).

The first issue examined the candidate's knowledge and application of IFRS 13 *Fair Value Measurement*, IAS 16 *Property, Plant and Equipment* and IAS 40 *Investment Property*. The fair value aspects required candidates to explain which of two possible values should be used: one based on the value of similar properties and another based on a disaggregated value of the property in conjunction with other properties. A significant number of candidates selected a fair value with little reference to, or discussion of, IFRS 13's fair value hierarchy. The aspects relating to a change from PPE to investment property were better answered, with most candidates calculating the appropriate carrying amount, and an appropriate adjustment to fair value under IAS 16 prior to conversion.

Answers to the second issue, relating to the intangible assets were, were not as good. The scenario explained that the assets in the question formed part of the net assets of an acquired subsidiary, so candidates should have considered whether such assets meet the recognition requirements under IFRS 3 *Business Combinations* of being separable from goodwill. Very few candidates considered this, with most answers focusing, in general terms, on the conditions of identifiability outlined in IAS 38 *Intangible Assets*. In most cases, the standard was not applied to the scenario: very few recognised that the contractual-legal criteria was met for one of the assets, nor that the other asset was not separable (despite the question stating that the business was unable to operate without it, nor sell it separately). Some answers suggested that the asset should be written off, rather than be subsumed into goodwill at the acquisition date, because it was not separable.

Candidates answered the third issue on impairment of a CGU relatively well, with appropriate reference to, and application of, IAS 36 *Impairment of Assets*. Most candidates worked out the correct fair value less costs to sell from the information provided, although a significant number of candidates were less sure on whether a pre-tax or post-tax cashflow and discount rate should be used as the basis for the value in use calculation. The allocation of the impairment loss between assets within the CGU was well-answered.

Question Three

Question 3 required advice on the application of relevant reporting standards to three issues. In part (a), candidates were required to provide advise on how to account for agreements in which the business leased motor vehicles to the public. The scenario outlined a number of conditions attached to each agreement, which most candidates correctly identified to be an operating lease. Whilst most candidates answered this part very well, some could not avoid the temptation to list out in full the conditions that are required under IAS 17 *Leases* for recognition as a finance lease. More concise, and more time-efficient, answers related the conditions outlined in the scenario to the standard to come to the appropriate conclusion.

Part (b) required a discussion on the accounting treatment (up to disposal) of an investment in a debt instrument which was aligned with the fair value through other comprehensive income business model. An effective rate was provided, as was a quoted active market value and an in-house fair value. The directors wanted to use the latter value arguing this was a Level 1 measurement under IFRS 13 Fair Value Measurement; expected 12-month credit losses were also provided. Most answers correctly accounted for the interest earned, and most determined the correct fair value according to the fair value hierarchy; yet few candidates outlined the impact on profit and loss or equity of the credit losses and fair value movement, and many answers had little or no explanation of the accounting treatment under fair value through other comprehensive income.

Part (c) required a discussion on the accounting treatment of contracts with customers in the construction of buildings, containing penalty terms on both sides (delays being the fault of the provider or of the customer restricting access). Candidates were asked to explain how the account for penalty claims from both parties, additional costs relating to administration and wasted materials, and a modified contract with a distinct new performance obligation, in accordance with IFRS 15 *Revenue from Contracts with Customers*. Although the requirement specified IFRS 15, many candidates listed out irrelevant recognition requirements under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Knowledge of IFRS 15 in many cases was limited to a list of the recognition steps. Candidates at professional level should to be able to apply IFRS 15; however few answers considered the specific issues in sufficient detail. Better answers assessed whether the additional costs (penalties or otherwise) incurred in fulfilling the contract were expected to be recovered, or assessed the impact of a contract modification (and whether a distinct performance obligation was created as a result).

Question Four

Part (a) required a discussion on fair presentation, recognition and the market demands for increased disclosure, whilst part (b) required an application of IFRS to a scenario. Part (a) had three sections. The narrative to the question referred to the Exposure Draft on the *Conceptual Framework* and the growing importance of the qualitative characteristics of financial information in providing information to assess management stewardship.

Under (ai), candidates were required to discuss how an entity determines "fair presentation". Answers were varied: most candidates mentioned the importance of compliance with IFRSs, with some referencing the qualitative characteristics, but in the absence of an applicable IFRS, few candidates referred to the guidance provided in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

In (aii), candidates were asked to outline the recognition criteria in the Conceptual Framework, and the proposed changes under the Exposure Draft. The majority of answers were relatively brief, with weaker answers merely stating definitions of the elements of financial statements (e.g. assets, liabilities) rather than directly citing the Framework's recognition criteria. Very few answers extended to a discussion of the reasons for the exposure draft, such as the inconsistent application in IFRSs of the probability recognition criterion in assessing the flow of economic benefit, or the impact of uncertainty in the revised Framework's recognition criteria (based on the qualitative characteristics of useful financial information).

Section (aiii) of the question asked for a discussionn on the benefits of Integrated Reporting (IR) in meeting the market's demands for increased disclosure. Answers to this section were generally brief. Despite the inclusion of IR in the June 2016 P2 exam (Q1b), and again in September 2016 (Q4), some answers showed a lack of knowledge of its key aspects. Candidates with a knowledge of IR were able to explain the benefits that Integrated Reporting provides in terms of disclosure, including the focus on value creation, non-financial information and long-term prospects.

Part (b) described a scenario with three accounting issues.

In the first issue, a business held contracts with late delivery clauses with two suppliers. In the first case, a penalty payment was received and the asset ultimately delivered; in the second case a reimbursement claim was raised for costs incurred during the delay, but was unpaid, with the asset also undelivered. Relatively few candidates identified the penalty received as a reduction in the cost of the asset acquired, although most applied IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to the pending reimbursement. Weak answers listed out the recognition requirements for IAS 37 without application.

In the second issue, the directors had considered ceasing trading of a subsidiary which had prepared its financial statements as a going concern. Surprisingly few candidates identified this as an impairment indicator raising a need for an impairment review.

In the third issue, a bank loan by this subsidiary was shown as non-current when the bank had a right to call for repayment on demand. This issue was well-answered.

Overall, the results of this diet were consistent with past performance.