Examiner's report
P2 Corporate Reporting
December 2015

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 Conceptual Framework describes the objective of, and the concepts for, general purpose financial reporting. It is used by the IASB to develop standards and therefore, it assists in the understanding and interpretations of standards. The IASB is currently spending a considerable amount of time updating and improving all aspects of the Conceptual Framework. Therefore, given the fundamental importance of the Framework, it makes sense for candidates to have a good knowledge of it. When marking the examination, credit is given for the application of the Framework to the questions asked. As an example, an understanding of the qualitative characteristics is very useful in answering many questions

Besides understanding the Framework, candidates need to have a working knowledge of the fundamental principles of the standards set out in the examinable documents and be able to apply them. At the same time, if candidates have knowledge of the Framework, they will then be able to see the inconsistencies in the standards. This may not be the approach taken by a candidate's tutor but as stated in previous reports, candidates should manage their own learning and not be totally reliant on their tutor for knowledge. A short revision course will not guarantee success unless a significant amount of pre-course study has been undertaken by the candidate.

Knowledge and understanding does not come through rote learning but application and thought. The principles approach set out above will assist a candidate in having a critical appreciation of the subject area. The examination contains a significant amount of technical material but at the same time, many questions are based around the application of the fundamental principles within IFRS.
Finally, there is often confusion over what constitutes 'current issues'. Current issues are not simply the Exposure Drafts set out in the examinable documents. They also include problems with current accounting standards, recent IFRSs and practice and regulatory issues. However, if a new accounting standard is issued and is included in the examinable documents, it is likely to be dealt with as a current issue topic. A surprising aspect of this examination was the lack of detailed knowledge of IFRS 15 in question 4.It is important for tutors and candidates to always review the examinable documents for recent additions such as IFRS 15.

Specific Comments

Question One
This question required the candidates to prepare a consolidated statement of financial position of a group with an overseas subsidiary. In this question candidates were required to deal with the impairment of goodwill in the overseas subsidiary, an interest free loan to the overseas subsidiary, the purchase of an overseas property and a defined benefit pension scheme.

When completing an answer to such a question, clear workings are extremely important. The translation and goodwill of the overseas subsidiary constituted an important part of the answer and carried a significant number of marks. Therefore it is important to ensure that the workings are laid out in a comprehensible manner. Candidates generally answered this part of the question quite well

Another significant element of the answer is the retained earnings working. It is important that candidates show or reference their workings for post-acquisition reserves both in this working and in NCI/OCE as it is a principle of ACCA's marking that marks are allocated for candidates own figures where there has been a previous working to arrive at, for example post acquisition profits. If there has not been a previous working then the own figure rule cannot be applied. In a foreign currency translation question, more than half of the marks are normally allocated to the group accounting part of the question. Therefore candidates should not only understand the accounting techniques but also complete the workings for goodwill, retained earnings, other components of equity (OCE) and NCI.

Candidates generally performed quite well in dealing with the purchase of an overseas property and the defined benefit scheme. Candidates seemed to be able to show a statement reconciling the opening and closing liability for the defined benefit scheme but then found the detailed accounting problematical. Also, candidates often calculated the net interest cost on the defined benefit liability using the closing instead of opening rate of interest.

Question 1b this question required candidates to advise the directors of an entity on how exchange differences should be recorded on both monetary and non-monetary assets in the financial statements and how these differ from the requirements for the translation of an overseas entity. Further, candidates had to advise the directors on what would happen to exchange differences on the sale of the equity holding in the overseas subsidiary and any practical issues, which might arise on monitoring exchange differences. This question required knowledge of IAS 21 *The Effects of Changes in Foreign Exchange Rates*. Although most questions require application of an IFRS, this question mainly required knowledge and understanding of IAS 21.Many candidates did not read the question properly and did not discuss the treatment of monetary and non-monetary items but simply wrote about the translation of an overseas entity. Several candidates did not even attempt to answer the part of the question dealing with the sale of the equity holding even though this knowledge is fundamental to IAS 21.

Question 1c required a discussion of a situation where the directors of a company were considering boosting the retained earnings of a group by transferring a proportion of the exchange differences on translation of the subsidiary to group retained earnings, knowing that this was contrary to accounting standards. Candidates generally realised that this was an incorrect accounting practice, which actually was detailed in the question. The main issue in the answers to this question was that candidates did not spend sufficient time discussing the ethical requirements of the question. Question 1c is an ethics based question and therefore candidates must spend time discussing the ethical problem in the question if they are to gain good marks.

Question Two

This question dealt with the practical application of several accounting standards.
Part a dealt with the application of IFRS 5 *Non-current Assets Held For Sale and Discontinued Operations*. The IFRS needed to be applied to the sale of part of the business, which in fact was not a major line of business of the entity. The second element to this part of the question dealt with the allocation of goodwill to cash generating units on their disposal. IAS 36 *Impairment of Assets* states that goodwill should be allocated on the disposal of a CGU on the basis of the relative values of the operation disposed of. Candidates answered this part of the question quite well, realising that the part of the business disposed of was not a major line of business and that the allocation of goodwill by the entity was inaccurate.

Part b of the question required the application of IFRS 13, *Fair Value Measurement*, to the valuation of a warranty. The question required an explanation of the relevant principles involved and an application to the data in the question. Candidates generally found the question difficult and did not often take into account the fact that the calculation was based upon the value that would be placed on the warranty by a market participant. Hence a profit margin should have been included in the calculation.

Part c of the question required a discussion of whether a particular lease of land was s a finance lease or an operating lease. It involved an application of the principles of IAS 17 *Leases* to the scenario. There are several principles involved in determining whether a lease is a finance lease or operating lease and most of these principles were tested in the question. There is not always a definitive answer possible and so candidates were given marks principally for the discussion and application of the principles. Candidates performed quite well on this part of the question.

Question Three
Question 3 was a case study question, which looked at issues in the gas and oil industry.
Part required candidates to deal with the treatment of a joint arrangement, the decommissioning of a site and the accounting for irrecoverable gas. Many candidates realised that there was a joint arrangement but could not distinguish between joint control and a joint venture, often using the terms interchangeably. Many candidates did not recognise the fact there would be a contingent liability to the other party to a joint arrangement arising on the decommissioning a site and also few were able to determine that the irrecoverable gas should be treated as PPE as it is a permanent asset until the site is decommissioned.

Part b of the question required candidates to determine whether a contract should be accounted for under IFRS 9 *Financial Instruments*. In this type of question, candidates can score marks by setting out the principles underpinning whether a contract is a financial contract or an executory contract for the purchase of goods. These principles are fundamental as if one cannot distinguish between types of contract then the accounting for the contract could be flawed. This part of the question was not answered well by candidates.

Part c of the question required knowledge of IAS 16 Property, Plant and Equipment as regards the treatment of the costs of overhauling a refinery. Such costs are recognised as part of the carrying amount of the PPE.The second part of the question required knowledge of *IAS 10 Events after the Reporting period*. This part of the question was quite well answered by candidates although there was some confusion over whether the overhaul component should be depreciated and over what time period.

Question Four
This question is normally the current issues question. The first part of the question will often deal with the principles relating to the issue and the second part of the question with the application of those principles. This question dealt with IFRS 15 *Revenue from Contracts with Customers* and required candidates to discuss the criteria, which must be met for a contract with a customer to fall within the scope of IFRS 15 and to discuss the four remaining steps which lead to revenue recognition after a contract has been identified as falling within the scope of IFRS 15.This question required a reasonable knowledge of IFRS 15 but many candidates could only recite the 5 steps to revenue recognition without being able to elaborate on them. It is important that students read Student Accountant as articles on such topics as IFRS 15 appear regularly.

Part(b) required the application of part (a) in terms of determining the impact of a significant financing component on a contract and also contract modifications. Candidates did not answer this part of the question very well. It is difficult when new standards are issued but there is a wealth of information available to tutors and students on such topics as IFRS 15, so it is important that candidates read widely on such a topic.