



## PROFESSIONAL LEVEL – FINANCIAL REPORTING

### EDUCATORS BRIEFING 2020/21

#### 1. Comment on Performance in 2020 Examinations

Average percentage of marks awarded to candidates:

	<b>Q1 (30 Marks)</b>	<b>Q2 (30 Marks)</b>	<b>Q3 (20 Marks)</b>	<b>Q4 (20 Marks)</b>	<b>Q5 (20 Marks)</b>
<b>August 2020</b>	49%	31%	49%	51%	43%

#### **General Comment**

Students are to be commended for the standard of answering on the new and unfamiliar web-based format. Given the unprecedented circumstances of 2020 answers were easy to read and understand. Time pressure was not in evidence. Marking was not a problem.

Notwithstanding the above, the level of syllabus knowledge demonstrated by a majority of candidates was not acceptable. It had been hoped that the additional time to examination would have led to an increase in knowledge, but it seems that in this subject at least, the opposite occurred.

The overall pass rate of 43% was the lowest in quite some time. The most obvious reason for this was twofold. Firstly, continued weakness in the consolidation question (Q1) and secondly widespread lack of preparation for a question on the statement of cash flows (Q2). Q2 has normally been the highest scoring in past sessions but was the lowest scoring in this exam.

#### **Review of August 2020 Examination**

##### **Question 1**

This question required candidates to prepare a consolidated statement of profit or loss (SPLOCI) and a statement of financial position (SOFP), including one subsidiary acquired mid-year. A number of simpler adjustments were examined including, fair value NCI, fair value of net assets acquired, impairment of goodwill, intra-group dividends and intra group trading.

Goodwill was well calculated, and the impairment dealt with properly in most cases. Many of the adjustments were well handled, but in some cases the follow-through (to actually adjust the correct lines in the correct statements) was weak. Only partial marks will be awarded in this case.

One elementary error that candidates should eliminate early in their studies is the misuse of time apportionment. The line items in the SPLOCI should be time apportioned only in the case of the subsidiary when acquired during the financial period. The proportion included should be that portion corresponding to the proportion of the period the subsidiary was under group control. In this case, 8/12 of the subsidiary's results should have been included. SOFP line items are NEVER time apportioned for subsidiaries. Neither statement's line items should be consolidated based on the percentage of ownership.

Many students miscounted the number of months post-consolidation, using 6/12, 7/12 and even 9/12. Other basic errors included adding equity accounts in the consolidated SOFP. Assets and liabilities should be added 100% (provided control exists at the reporting date), but equity accounts are calculated differently. Many marks are allocated to these calculations, and it is important to master the principles of these calculations.

Generally speaking, candidates who had done the preparation and practiced past questions did well in Question 1. The average is skewed by a sizeable minority of candidates who had no idea what they were doing.

## **Question 2**

This question examined the preparation of a consolidated statement of cash flows (SOCF), as well as the interpretation of the statement of cash flows.

It was clear that many candidates had not the slightest idea how to prepare a statement of cash flows, with many others relying on a flawed recollection of covering it in past modules. This suggests to me that candidates were question spotting and may have been expecting the more frequently asked published financial statements or ratio analysis topics. It is particularly disappointing that the syllabus was not completely covered given the additional time afforded by the Covid-19 situation.

An additional observation worth noting is that the interpretation required was to be based on the statement of cash flows. Candidates who offered a more traditional ratio analysis were given some credit, as certain parts of this analysis would be deemed relevant. However, many candidates offered only a superficial analysis, insufficient for a professional paper in Corporate Reporting. This part of the question is trying to assess candidates' understanding of the numbers, and simple calculations and rote commentary learned by heart will not gain high marks.

**Question 3**

This question was relatively well answered in 2020. There is a steady improvement in the performance of candidates in this question. MCQs will continue to emphasise the understanding of principles rather than reproduction of pure knowledge.

**Question 4**

This question covered the revised conceptual framework, a topic that had been covered by the most recent article written by the examiner. This was the best answered question on the paper, to the credit of candidates. However, the depth of answers was insufficient in many cases to win higher marks.

**Question 5**

This question examined IFRS 16, Leases, in the context of the concept of substance over form. It was chosen by fewer candidates than Question 4 but was well answered by those who did choose it.

**Conclusion**

On a personal note, 2020 was the last exam session under my examinership. I would like to thank CPA Ireland and its staff past and present for the opportunity to serve the profession in this way. Thanks also to the community of educators and students without whom my job would have been impossible and unnecessary. I extend every best wish to you all going forward.

**2. Syllabus for 2020/21 and Recommended Reading List**

There have been no changes to the syllabus and examinable material for 2020/21. 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*, 6<sup>th</sup> edition. Dublin: Chartered Accountants Ireland [ISBN 9781912350025].

Elliot, B. & Elliot, J. *Financial Accounting and Reporting*, 19<sup>th</sup> edition. London: Pearson [ISBN 9781292162409].

### **Manuals**

See the 2021 CPA syllabus document for supplementary texts, journals and useful websites. This can be found on the CPA website [www.cpaireland.ie](http://www.cpaireland.ie)

## **3. Format of the Examination Papers for 2021:**

### **Time allowed**

There will be no change from 2020. 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 2020. 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 2020-2021: 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**

- Question 1 will cover Consolidated Statement of Financial Position and 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. **Please note one, two or all three of the above statements will be examined in the same question.**
- 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 able to apply 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 not examinable in P1 Corporate Reporting.
- Step acquisitions or disposals **of any group companies** are not examinable in P1 Corporate Reporting.

### **Compulsory question 2**

- Question 2 will examine preparation, in a format suitable for publication, of financial statements for individual entities. It may also test 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 short 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 flow 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.

### **Emerging & disruptive technologies in corporate reporting**

This is a new area on the syllabus. Exam questions on this area would be based on showing a basic understanding relative to these areas.

### **FRS 100-105**

These standards are examinable. For FRS 102 the focus will be on the key differences in the following areas PPE, Inventory, accounting for government grants, borrowing costs and intangible assets.

### **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 may be examined 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 2020/21.
  - 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.

### **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 allocations should be strictly adhered to, especially as the exam draws nearer.
2. Attempt to enhance your answer using notes and textbooks.
3. Review the solution, correct your answer if necessary, and learn from any errors or omissions you encounter.