



PROFESSIONAL 1 – CORPORATE REPORTING

EDUCATORS BRIEFING 2019-20

1. Comment on Performance in 2019 Examinations

Average percentage of marks awarded to candidates:

	Q1 (30 Marks)	Q2 (30 Marks)	Q3 (20 Marks)	Q4 (20 Marks)	Q5 (20 Marks)
April 2019	48%	61%	47%	66%	42%
August 2019	44%	48%	49%	20%	50%

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, I noted a deterioration in candidates' performance in the consolidation question. The average mark in both sittings has improved somewhat in 2019, which is pleasing to see. However basic errors of principle continue to be presented. 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 examination in other questions.

There remains 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 2019 examination

Question 1

This question required candidates to prepare a consolidated statement of profit or loss and other comprehensive income for a parent, a subsidiary and an associate company. A number of adjustments and issues were examined including fair value NCI, fair value adjustment at acquisition, impairment of goodwill, intra-group trading, intra-group dividends and intra group transfer of non-current assets.

The question required consideration of whether a company was an associate or not, based on circumstances as described in IAS 28. The conclusion was often correctly reached, but the reasoning (as required by part (b)) was not well addressed by candidates. The calculation of unrealised profit, particularly the working out of mark-up and margin, needs review by many candidates.

Question 2

This question examined the preparation of part of a single entity statement of cash flows, as well as some ratio analysis. Some students presented the full SOCF, which was not required. However this did not attract a penalty. The question was generally well answered. The quality of analysis was generally quite good, showing good understanding of the information presented.

Question 3

This question has maintained its average mark awarded at close to 50%. This has improved nicely over the past few years, although it would be nice to see it improve further. MCQs will continue to emphasise the understanding and application of principles rather than reproduction of pure knowledge.

Question 4

This question covered IAS 33, Earnings per Share. This was the best answered question on the paper, as would be expected following the publication of a recent article on the topic.

Question 5

This question examined aspects of IAS 16, Property, Plant and Equipment. The treatment of depreciation is well understood, but the actual IAS 16 requirements are not. Candidates should be aware of the scope entities have to apply their own estimates to the calculation of depreciation. Regarding revaluations, the level of understanding demonstrated by candidates was disappointing. The issue of revaluations and treatment of resulting gains and losses is fundamental to the P1 syllabus, and will continue to be examined going forward. However the low average mark awarded to candidates on this question probably overstates the problem, as fewer candidates attempted this question, and those that did tended to be poorer-performing overall. It is reasonable to assume the better prepared candidates studied the article on EPS and chose Q4 in preference to Q5.

Review of August 2019 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 contingent consideration, additional reserves, fair value NCI, fair value adjustments at acquisition, impairment of goodwill and intra group trading.

Performance was disappointing, with many errors of principle apparent. 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.

One point worth noting is that the candidates who used T-accounts for consolidation workings tended to show a poorer grasp of the principles. I'm not sure why this is the case, but perhaps it is an area that could be addressed by educators using this methodology. There is, of course, nothing wrong with the T-account method in principle, and students are free to use any method to arrive at the solution. However it is important that the method chosen be applied consistently and correctly.

If an adjustment is noted and applicable to the subsidiary, then the group reserves account needs to take the group's share of the adjustment, and the NCI account their share. If the adjustment applies to the parent, then the group reserves account takes it entirely. This split must be considered for every adjustment if using this method. Much inconsistency has been observed in this area. Proper allocation of adjustments is vital to show understanding of the principles involved.

Question 2

This question required the preparation of a Statement of Profit or Loss and Other Comprehensive Income, a Statement of Changes in Equity, and a Statement of Financial Position, as well as several adjustments. The average mark, at 48%, was below pass level.

If I were to pick out one issue causing most difficulty for well-prepared candidates, it would be the failure to follow through from workings to statements. This question requires a methodical approach to work out what needs to be done to solve each adjustment, and then do it. Many students worked out an adjustment pretty well, but failed to follow through to the statements. It is difficult to award high marks in this case as there may be 2 marks available for, say, calculating a warranty provision, calculating an increase or decrease on previous year, taking the increase to profit or loss, and taking the new provision to the current liabilities. Normally one mark would go for the SPLOCI entry, and one for the SOFP entry. However, if the working is done correctly, but the incorrect figure (or sometimes no figure) entered on the statements, it is difficult to give more than 1 mark out of 2. The requirement is, after all, to prepare the statements. Sometimes candidates lose marks not from lack of knowledge, but from lack of thoroughness.

As an approach, I find that it works well to draw up a solution template first, and enter the figures from the trial balance as bracketed workings. Then deal with each adjustment and transfer the appropriate figures immediately into the appropriate line in the appropriate statements. This removes the need to go back over every working when drafting the statements, and the risk of forgetting something when doing so.

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 9, Financial Instruments, and included two scenarios. The question was not widely attempted, and poorly answered in most cases. It is important that candidates are aware of the two methods of accounting for financial instruments, and can apply both.

Question 5

This question covered IFRS 38, Intangible assets, a very important P1 topic, and was pretty well answered by the well-prepared candidates.

2. Syllabus for 2019-20 and recommended reading list

There have been no changes to the syllabus and examinable material for 2019-20. 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 2020 CPA syllabus document for supplementary texts, journals and useful websites. This can be found on the CPA website www.cpaireland.ie

3. Format of the Examination Papers for 2019-20:

Time allowed

There will be no change from 2018-19. 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 2018-19. 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 2019-20: 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 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, in a departure from previous years, one, two or all three of the above statements may 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

- Q2 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.

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 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 2019/20.
- 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.