



EDUCATORS' BRIEFING 2019/2020

PROFESSIONAL 2 – ADVANCED CORPORATE REPORTING

1. Comments on Performance in 2019 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 have 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
- communication skills, particularly in relation to the production of both internal memoranda and external financial reports for a wide variety of user groups.

April 2019 Examination

This case study addressed the financial reporting issues of General Security Services (GSS Plc). There were three sections to the case study. Sections (a) and (c) were discursive questions (20% of the paper) and Section (b) (80% of the paper) required the evaluation of accounting issues and preparation of a set of consolidated financial statements. The group comprised the parent company and two subsidiary holdings.

The pass rate in the April 2019 sitting was 53%. This was broadly in line with previous years (2018: 56% 2017: 57%). Candidates scored well in the discursive sections of the paper displaying a strong descriptive knowledge of the accounting standards. However, this did not always translate into strong application of the standards in section (b) and this was disappointing.

Section (b)(i) required candidates to address eight separate accounting scenarios. Candidates who scored well in this section were practiced in the application of accounting standard rules *and* presented answers in a concise and professional way. Others struggled with the application requirements and at times presented answers that were long, rambling and unclear. It is apparent that some candidates need to give more time to practicing computational questions rather than just 'learning' the rules of Accounting Standards.

Time management continues to be a problem. Some candidates failed to complete the paper usually because gave too much time to discussion and description and not enough time to financial statements preparation. Although the consolidation element was relatively straight forward in this case study, some candidates were rushed and failed to complete (or even attempt) this section.

Part (a)

Candidates were required to discuss the Five-Step-Approach of IFRS15. This section was well answered with candidates being well versed in the rules of IFRS15. The second part of this section (*reasons* for the change in the revenue Standard) produced mixed responses but overall candidates scored high marks in this section. The average score was 75% of available marks.

In some instances candidates spent too much time on this section, giving answers that spanned over a number of pages although only 10% of the total marks were allocated to this section. This generally led problems in completing the paper.

Furthermore, there was evidence that the descriptive knowledge of IFRS15 displayed in section (a) did not always spill over into section (b) (issue 1). In (b) (i) candidates were required to apply the provisions of IFRS15 to a practical scenario. The answers were very mixed with a significant number of candidates unable to produce relevant calculations despite giving lengthy and detailed descriptions in section (a).

Part (b) (i)

This section required candidates to recommend and justify the accounting treatment for eight separate outstanding issues.

The average score was 24 marks out of 50 (48%) for this section of the paper. High scoring candidates displayed a good working knowledge of the accounting standards and could put theory into practice. But other candidates displayed poor application skills.

Candidates performed well in relation to IAS40, IAS37, IFRS16 but there were difficulties in relation to IFRS15 and (surprisingly) IAS2, IAS12 and IAS20.

The common mistake (noted in the 2018 Examiners Report) of failing to provide relevant justification for accounting treatment applied continued to be evident in 2019. This poor application would suggest that candidates are learning the rules of the accounting standards but are not practicing computational questions to a professional level.

Part (b) (ii)

The consolidation issues presented in this case study were relatively straight forward and many candidates scored well on the calculation of goodwill in subsidiaries. Some attempts were made to complete the consolidated reserves and the non-controlling interest figures. Where reasonable attempts were made, candidates were justly rewarded.

However, this section was commonly left until last. Some candidates failed to complete or even *attempt* this section and lost substantial marks as a result. The overall impression of this examiner is that these candidates were just too rushed (and/or) exhausted to put these final workings together.

Section (b) (ii) was the lowest scoring section of the paper with candidates achieving an average of only 36% of the available marks.

Part (c)

Part (c) of the case was well answered with candidates scoring an average of 62% of the available marks on this section. The examiner was looking for opinion on three aspects: (i) financial reporting regulation in relation to a legal claim (ii) gearing implications of a financing decision and (iii) the ethical implications of non-disclosure.

Overall, candidates expressed their opinions in a professional, competent and ethical manner and the scores reflected this.

A minority of candidates were expecting a section on the Conceptual Framework and answered section (c) on what they would have liked the requirement to be rather than on what it actually was. Unfortunately no marks could be awarded for their efforts.

August 2019 Examination

The overall performance on this paper was lower than the April paper with an average score of 51% (April 2019: 53%). However the August 2019 results had improved on previous August sittings (2018: 48% 2017: 47%).

This case study addressed the financial reporting issues of an international football club, Hometown plc. The requirements of the case necessitated both discursive and computational answers. 75% of the marks were allocated to computations and justification. Although some candidates found this challenging it should be noted that the ratio of discussion to computation may vary from sitting to sitting. Candidates, at this professional level, are expected to be comfortable with either form of requirement.

There were some positive aspects to candidates' performance at this sitting. It was encouraging to observe that many candidates appeared unphased by the specific industry focus of this case study and skillfully applied general purpose accounting standards to this somewhat 'alternative' industry. This is an important skill in professional practice.

In general those candidates who managed their time, and attempted all sections of the case study, performed best on this paper. Poor time management has been cited as an issue in previous examiner reports so it is encouraging to note that a percentage of candidates may now be mindful of this. Attempting all sections of the paper, rather than answering specific sections exceptionally well and omitting other parts, will generally result in a higher score.

Finally, candidates continue to perform strongly on the discursive elements of the case study with an average of 62% of available marks achieved in these sections. This compares to the computational sections where candidates scored approximately 43% of available marks.

However there were significant problems with the general performance. As noted above (and in the April session) candidates preference for the discursive over the computational continues to be a problem. This was evident through-out the paper and specifically in relation to the answers to section (a)(i) of case study where candidates were required to apply the provisions of accounting standards to nine separate issues. Some candidates produced long answers describing the background to accounting standards and the accounting treatment but failed to back it up with appropriate numbers.

Future candidates should be mindful of this recurring issue. Candidates need to dedicate significant time to practicing computational questions rather than just 'learning' the rules of Accounting Standards when preparing for this exam.

Section (a) (i)

This section required candidates to evaluate and report on the appropriate treatment of a number of outstanding accounting issues relevant to the case study. The average score on this section of the paper was 51% of the available marks. Candidates performed well in relation to IFRS15, IAS19, IAS20 and at times IAS38. There were difficulties in relation to leases, fair value in business combinations and financial bonds.

However the predominant problem, as outlined above, was the excessive time some candidates devoted to *explaining* the background and *describing* the accounting treatment without providing the requested justification and/or journal entries. This is an area that must be addressed by candidates preparing for this paper.

Section (a) (ii)

This section required candidates to prepare the consolidated financial statements of Hometown plc. The average marks scored in this section was a disappointing 10 out of a possible 30 marks (33%). Many candidates were unable to apply the rules of consolidation to an appropriate standard. However, and as noted in the April report, this section was commonly left until last and some candidates were either just too rushed (and/or) exhausted to put these final working together.

As a consequence the standard of candidates' answer to this question was the poorest of the examination.

Section (b)

Candidates scored well in this discursive section of the paper with an average mark of 15 out of 25. There were two parts to this section. The first part required candidates to explain how two recently issued accounting standards have contributed to an improvement in the quality of financial reporting. This was generally well answered with candidates giving reasoned opinions on how the standards had improved financial reporting.

The second part of the section required candidates to comment on the concept of prudence in financial reporting and to address the concerns of the CEO of the effect of prudence on fair value reporting. There were some considered answers although some candidates diverted into a discussion about the value of the Conceptual Framework as a whole. No marks were awarded for this.

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.

However, recurring problems persist. The over-riding issue in 2019 was the focus on the written description rather than the journal/justification. Long rambling explanations are an inefficient use of time yielding little reward. Candidate must find a way to present answers that are relevant and concise. Although not always specifically requested, (as it can depend on whom you are addressing) journals are strongly advised. Journals are a powerful tool. They can sum up the candidates understanding of an accounting issue *and* demonstrate knowledge of IFRS accounting treatment all in a couple of lines. They are the presentation method used in practice. A journal followed by a short explanation is probably the most effective way to achieve maximum marks in the Advanced Corporate Reporting paper. Its use should be encouraged.

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.

2. Syllabus Changes

Details of the Examinable Material applicable to this examination are provided on pages 92-99 of the 2020 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 2020.

3. Format of the Examination Papers for 2020

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.

4. Education Focus for 2020

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 2020. The assessment strategy and examination format are also set out on page 66 of the CPA Syllabus for 2020.

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 2020. 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 2020). The level of knowledge and depth required will correspond to knowledge level 1.