General Comments
The examination consisted of four questions. Section A contained the compulsory question 1 for 50 marks and section B comprised three further questions of 25 marks from which the candidate had to choose 2 questions. Most candidates attempted three questions, and there was little evidence of time pressure. Where questions were left unanswered by candidates, this appeared to be due to a lack of knowledge or poor exam technique and limited the marks available for that candidate. In previous diets, there have been comments about the importance of answering all parts of all questions. Many candidates answered question 1 first but there is no real ideal way of answering the paper other than completing all parts in a way, which suits the candidate's learning style.

There is always comment in examiners' reports about exam technique and lack of it by candidates. Exam technique consists of a few simple procedures that can help the candidate immeasurably. Many candidates have not been instructed in these techniques. Answers should have a structure and cover points in an organised way. It may be best to write less on each point, leave out some of the background knowledge but focus on the facts/scenario in the question. The examiner does not need to know, for example, the role of the IASB in standard setting unless specifically asked in the question but often candidates may outline this as an introduction to an answer. I am not advocating writing less in the examination but making the answer more relevant. There is a need to include analysis of the points being raised and to reflect upon them analytically or critically. Candidates should show an understanding of different, and possibly opposing, points of view. There is always a model solution to the question but in practice there are always opposing viewpoints, and candidates should not be afraid of expressing these viewpoints as they will not be penalised if the rationale is acceptable. The questions are not written to trick candidates but it is important to read the question carefully. Always ask yourself, is what I am including relevant to the question? Successful candidates demonstrate relevant knowledge by using ideas and concepts from recommended accounting practice. Practical examples from reading current articles are important ways of supporting the points made. Candidates should try and use proper sentences and paragraphs rather than bullet points, as this will contribute to the awarding of professional marks. Candidates should never use abbreviations of words such as text language.

This subject area lends itself to spaced learning and not massed learning. It is important to relate the learning to practical events and it is evident from the answers to the questions that candidates are finding it difficult to recall and apply the relevant facts. Many candidates simply set out everything they know, hoping that some of the material is relevant. There is a need for a broader understanding rather than rote-learnt facts. This will only arise if candidates space out their learning and fully understand different parts of the syllabus as they learn.

Specific Comments

Question One
This question required candidates to prepare a group consolidated statement of financial position. The group was a complex group with candidates being required to determine the nature of the group holdings and the dates on which control occurred. The partial goodwill method was used by the entity and there was an impairment calculation required also. The group made a loan to a charitable organisation for the building of new sporting facilities and candidates had to deal with the financial asset, which had a subsidised rate of interest. The discounted interest rate was recognised as a reduction in the fair value of the asset when measured for the first time thus reflecting the economic substance of the transaction. There were additional adjustments required for the following:

- The acquisition of office accommodation where the fair value of the accommodation fell and was reflected in the financial statements but the market recovered unexpectedly quickly with the result that the offices should be valued upwards.
- The announcement of two major restructuring plans with no entries having been made in the financial statements for the plans.
- The accounting for the group pension plan where the figures had not been taken into account for the year except for the contributions paid which have been entered in cash and the defined benefit obligation.

Candidates generally score well on question 1. The goodwill calculations were invariably correct as was the nature of the group relationships. The treatment of the office accommodation was well answered as was the pension element.

Surprisingly the restructuring costs were not particularly well dealt with by candidates. Only those costs that result directly from and are necessarily entailed by the restructuring may be included, such as employee redundancy costs or lease termination costs. Expenses that relate to ongoing activities, such as relocation and retraining are excluded. With regard to the service reduction, a provision should have been recognised for the redundancy and lease termination costs. In contrast, the group should not have recognised a provision for the finance and IT department's re-organisation, as the re-organisation was not due to start for two years. Candidates had problems with the discounting of the loan to the charitable organisation. They often confused the principles involved, not realising that the fair value of the asset should be reduced for the subsidised rate of interest.

There are a significant number of marks attached to the retained earnings, OCI and NCI calculations. The marking scheme for these elements of the answer is based mainly around the candidates' own figures. This means that if the principles are applied correctly, then the candidate receives the marks allocated. This in turn means that the candidate should ensure that the workings are quite clear and labelled with an explanation of the figure. For example, post acquisition reserves of the subsidiary should always have an explanation of where the figure has been derived. Similarly if there is an impairment loss, the candidate will gain credit for charging this against retained earnings even if the candidate's calculation of the impairment loss is incorrect as the principle involved is correct.

Finally, there is little point in question spotting. There is no pattern to the types of questions, which will appear as question 1

Question 1b required candidates to explain to the directors, with suitable calculations, the impact on the financial statements if goodwill was calculated using the fair value of the NCI as opposed to the partial recognition of goodwill. The question was quite well answered in terms of the calculations of goodwill but the majority of marks were allocated to the explanation being what was asked in the question. It was in this area where candidates lost marks. If candidates made the same mistakes in 1b as in 1a as regards the calculation of goodwill, they were not penalised.

Question 1c required candidates to discuss the views of a director regarding the fact that there was no point in an accountant studying ethics and that there was no ethical issue in the false disclosure of accounting profits. Candidates answered this part of the question very well. However, it is also this part of the question that often candidates leave out and do not answer. Ethics is a critical part of the syllabus and as such every candidate should be capable of answering this question.

Question Two
This question required candidates to advise a client on how certain accounting issues should be dealt with in its financial statements for the years ending 31 March 2012 (where applicable) and 31 March 2013. The first scenario dealt with IFRS 8 Operating Segments. Candidates had to discuss how different segments should be treated in the financial statements. Candidates often set out the rules of aggregation of one or more operating segments into a single reportable segment. The principal condition being that the operating segments should have similar economic characteristics. Segments 1 and 2 had different customers and in view of the fact that the segments have different customers, the two segments did not satisfy one of the aggregation criteria.
Many candidates came to this conclusion but not all used the information in the question, which was critical to scoring a good mark. The economic characteristics of the two segments were different and should be reported as separate segments.

In Part b the entity entered into a contract with a government body to undertake maintenance services on a new railway line. The total revenue from the contract was $5 million over a three-year period. Candidates had to discuss how the revenue was to be apportioned over the life of the contract. Candidates understood the requirements of IAS 18 that the revenue should be measured at the fair value of the consideration received or receivable but few mentioned the requirement of the Framework regarding recognition. The calculation of the revenue's fair value was not well done by candidates nor was the unwinding of the discount. Several candidates did not realise that this was a prior period error.

Part c of the question, required knowledge of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Candidates understood the requirements of IAS 37 but did not always apply them correctly. This question required the use of judgment and opinion and therefore candidates who did not fully answer in accordance with the model answer could still score well. The majority of the marks were for the application of IAS 37 and not for the reproduction of the standard.

Part d required knowledge of IAS 1 Presentation of Financial Statements, IAS 16 Property, Plant and Equipment and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. It involved the accounting for a donated asset and its recognition in the financial statements. Candidates needed to follow the scenario in a chronological sequence in order to answer the question correctly. IAS 16 states that the recognition criteria for PPE are based on the probability that future benefits will flow to the entity from the asset and that cost can be measured reliably. The above normally occurs when the risks and rewards of the asset have passed to the entity. Normally the risks and rewards are assumed to transfer when an unconditional and irrevocable contract is put in place. These facts were not known by several. The treatment of the government grant was well known by candidates.

On the whole the question was well answered but candidates should always show the accounting entries where this is possible from the question and this was not always the case in this question.

**Question Three**

This question required candidates to consider 3 key syllabus areas, Leases, investment properties and assets held for sale.

Part a dealt with a complex lease situation. Candidates were required to discuss the general lease classification criteria of IAS 17 Leases and the lease of land. However, the treatment of contingent rent, the presence of an option to extend the lease at substantially less than a market rent or purchase it at a discount of 90% on the market value also required discussion. The latter implies that the lessor expects to achieve its return on investment mainly through the lease payments and therefore is content to continue the lease for a secondary period at an immaterial rental or sell it at a substantial discount to the market value. This is an indicator of a finance lease. There were other elements to the question, including the fact that lease term was not for the major part of the economic life of the asset as the asset is land and that it appeared that the minimum lease payments would equate to the fair value of the asset, given the fact that the lease premium was 70% of the current fair value and the rent was 4% of the fair value for 30 years. There was also revision of the rental every five years to consider. It seemed that the lease was a finance lease but the lease also contained a clean break clause, where the lessee was free to walk away from the lease agreement after a certain time without penalty. The key aspect to answering this question was to discuss each of the separate elements of the lease and then to reach a conclusion. If a candidate reached the conclusion that it was an operating lease, then this was contrary to the model answer but if the discussions which preceeded this conclusion were well founded, then the candidate would achieve a good score.
Part b dealt with IAS 40 Investment Property, and the fair valuation of such property. It also required the knowledge of IAS 13 Fair Value Measurement, which acts as a common framework on how to measure the fair value when its determination is required or permitted by another IFRS. This question was well answered by most candidates as regards knowledge of IFRS 13 but again the application of IFRS 13 to the scenario was generally not well done.

Part c dealt with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, and this was well answered by candidates. Again it is important to note that only a portion of the marks is allocated to knowledge of the standard itself and the rest to application. It then becomes obvious why candidates do not score well as many simply set out the requirements of the IFRS without application to the scenario.

Question Four
This question required candidates to discuss why it is important to ensure the optimal level of disclosure in annual reports, and to describe the reasons why users of annual reports may have found disclosure to be excessive in recent years. Secondly, candidates had to describe the barriers to reducing excessive disclosure in annual reports. This question related to ‘clutter’ in financial statements. In answering this question candidates were able to draw upon their own experiences and examples. However, this was not always forthcoming and thus it demonstrated the lack of wider reading by candidates. Having stated this fact the question was quite well answered.

Part b required candidates to apply their knowledge of this area in determining whether disclosure should be made in two instances where the directors’ view was that no further information regarding the two instances should be disclosed in the financial statements because it would be ‘excessive’. The instances concerned IFRS 7 Financial Instruments:Disclosures. This is not a frequently examined part of the syllabus but candidates did not require a detailed knowledge of the IFRS to be able to answer the question. Marks could be gained for a logical discussion of the scenario involved. This question was well answered in the main.