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 Corporate Reporting examination requires a deep understanding and knowledge of the Conceptual Framework, IFRSs and Code of Ethics. Questions at professional level will challenge the candidate to show this knowledge and then to apply it to a particular scenario, and this requires extensive preparation. Candidates learning are expected to extend beyond reliance on a single textbook or revision course. A well-prepared candidate would have reviewed relevant websites including those of the standard setters (IASB), the profession, and ACCA to maintain their knowledge and keep up to date with topical issues (it is normal for this exam to contain one question focusing on a topical issue, and this exam was no exception). Practice of past exam questions and exam-standard questions under timed conditions will better prepare candidates for allocating their time in the exam. Candidates with good exam technique (such as allocating time according to marks available, making brief planning notes, and reading the scenario and requirements carefully before answering) are more likely to succeed.

As in previous examinations, this examination required candidates to display more than just a rote knowledge of accounting standards. Professional accountants are required to advise clients, and the Corporate Reporting examination tests the candidate’s ability to apply knowledge to a scenario: the ability to explain the correct accounting treatment, the principles that underpin the treatment, and the implications of this, in complex scenarios.

It was evident that some candidates at this sitting were not prepared to the level appropriate for Professional Level. In the optional questions, the key requirement is to discuss an accounting treatment. A well-prepared candidate would approach this requirement by first outlining their knowledge of the issue, referring to the Conceptual Framework and appropriate reporting standard(s), and secondly applying this knowledge to the given situation. Less-prepared candidates tended to omit one of these two aspects, limiting their response to a listing of reporting requirements, or jumping directly to the application element (the accounting treatment) without a clear explanation of why the method is appropriate. Professional accountants would be expected by their clients to provide advice which outlines both the correct accounting treatment and also the reasons for this treatment. Candidates who failed to display both knowledge and application limited their opportunities to gain marks.

Specific Comment

Question One
This question required the candidates to prepare a consolidated statement of profit or loss and other comprehensive income. In this question candidates were required to deal with two subsidiaries, one of which was a step acquisition from an associate in the year, and the other a partial disposal to associate.

As in previous exams, more than half of the marks in question 1 were allocated to the group accounting part of the question. In the case of a consolidated profit or loss and other comprehensive income, candidates must be prepared to complete appropriate workings for the profit attributable to the owners and non-controlling interest, the share of profits of associates/joint ventures as well as goodwill calculations (required for impairment and disposal workings).

Of the other syllabus areas tested within the consolidation requirement, an impairment review, the conversion of a head office to an investment property and a share-based payment scheme were answered fairly well by many candidates. However the treatment of a cash flow hedge and a joint venture were less well answered.

Question 1b required candidates to discuss the expected dilutive impact of convertible bonds issued by an associate, with conversion likely to occur. Most candidates recognised the impact upon ownership, correctly
calculating the new holding, which was below 20%. Many candidates then concluded that the investment would cease to be an associate, without outlining how this would impact the individual and consolidated financial statements (as required). Very few candidates noted that share ownership is not the only indication of significant influence, and so limited their opportunities for marks.

Question 1c required a discussion of the ethical and professional issues relating to an over-impairment on the basis of prudence, with the impairment being offset against revenue which would reduce the conversion of share-based options dependent on revenue targets. This part of the question was well answered by candidates, with better answers commenting on each element of the scenario (e.g. impairment treatment, required qualitative characteristics, offsetting) before concluding on the ethical issues. There is a range of possible points which could be raised by candidates, and candidates were given due credit for relevant opinion on the subject matter of the question.

Question Two
This question required candidates to discuss the accounting treatment of three issues relating to: a non-current asset with components, the impairment of cash-generating units (with some issues over onerous contract provisions), and a defined benefit pension scheme (with issues over its identification compared to a defined contribution scheme).

The first issue examined candidate's knowledge and application of IAS 16 Property, Plant and Equipment (PPE), specifically the treatment of an asset requiring overhaul costs with a shorter useful life than that of the asset, a subsequent change in the residual value of the asset, and a discussion of the appropriateness of a proposed change in depreciation to one based on revenue generation. Whilst most candidates identified and calculated the depreciation following a change in residual life (over the remaining useful life), many did not recognise the need to componentise under IAS 16. Comments on the proposed change in depreciation method tended to be limited to a yes/no decision, with minimal discussion of the published amendment to IAS 16 to which this item related. Even without this knowledge, candidates should be able to explain that patterns of revenue generation may differ significantly from those of an asset's consumption.

Answers to the second issue on an impairment of cash-generating units (CGUs) were also quite weak. The question outlined that the business held retail outlets under operating leases, and weaker candidates spent considerable time explaining the differences between operating and finance leases, which was not relevant and earned no marks. Candidates must read the question carefully, and not jump into an answer. In this case the question described how three CGUs were being wound down, including information on expected cash flows and carrying values prior to impairment. A well-prepared candidate should be aware of situations in which more than one accounting standard may apply. This question raised issues relating to IAS 36 Impairment of Assets and also IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Candidates should at this level recognise that the requirement is to discuss how an impairment review is undertaken (and most did), and also calculate any impairment (which a surprising number failed to do, limiting their workings to a net expected cash flow figure). Where an impairment was suggested, some incorrectly recommended impairment of a CGU beyond its carrying value, and most missed the point that where outflows exceed expected inflows, an onerous contract exists (limited to the unavoidable future costs) under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Candidates answered the third issue on the treatment of a pension scheme well, with some good explanation of the differences between defined contribution and defined benefit; and application of this knowledge to the information given in the question relating to risks still faced by the employer.

Question Three
Question 3 was a case study question which required the application of the fundamental principles of several accounting standards. In part (a), candidates were required to discuss whether acquired know-how and technology should be capitalised, and the accounting treatment of an acquisition of a shell company. Marks were
available for knowledge (of IAS 38 Intangible Assets and IFRS 3 Business Combinations) as well as application, and stronger answers outlined the requirements for recognition, and treatments if recognised, or not recognised, as an intangible asset. Candidates often discussed the recognition requirements for intangible assets, although some answers focused too long on issues relating to self-created intangible assets (not relevant in this case). Better answers focused on the implications of acquiring know-how, outlining the fact that the probability recognition criterion is always considered to be satisfied for intangible assets that are acquired separately or in a business combination. Very few candidates identified an acquisition of a shell company without employees (and hence without processes required to make it a ‘business’) as an asset acquisition as opposed to a business combination.

Part (b) also examined candidates' knowledge of IFRS 3, Business Combinations. A subsidiary was acquired with inventory valued at fair value at acquisition. Candidates were required to comment on the proposed treatment of splitting the value of this inventory between cost of goods sold and a 'non-recurring item' (in operating income) in the consolidated income statement, on the basis of transparency, and to avoid a declining gross margin. Many candidates suggested inventory be valued at lower of cost or net realisable value, and incorrectly rejected the carrying value being at fair value after an acquisition (despite sometimes outlining IFRS3 issues). Many answers were limited to a rejection of the treatment in the question without explaining why. Very few candidates discussed the issue with respect to IAS1 Presentation of Financial Statements, which does not permit 'extraordinary items'.

In part (c), candidates were required to discuss the accounting treatment of a net deferred tax asset where the business expects future profits, but based on general assumptions (and a history of inaccuracies in previous forecasting), impairment losses and going concern issues. This part was well-answered, with most candidates providing good explanations of why the deferred tax asset should be derecognised.

**Question Four**

This question is normally the current issues question, and on this occasion the issue related to IFRS 9 Financial Instruments. In Part (a), candidates were required to discuss the requirements of IFRS 9 concerning the classification and measurement of financial assets, and its implementation issues for entities. Where candidates were well-prepared, part (a) was well-answered, although it was surprising to see some candidates writing much less on the implementation issues: comments such as (and not limited to) judgement issues, new processes and resource requirements, and covenant requirement issues would have earned marks.

Part (b) required candidates to apply IFRS 9 to two situations. Answers for part (b) were weaker than part (a), possibly down to poor time management or lack of application practice. The first situation involved a debt instrument acquired in the year and measured at fair value through other comprehensive income, with an impairment loss at the reporting date, and subsequent disposal after the reporting date. Few candidates split the impairment between expected credit losses (given in the question) to profit or loss and the remainder to OCI. The disposal was better answered, including reclassification from OCI. Marks were also available for identifying investment income, although few candidates calculated this. The second situation, relating to a portfolio measured at amortised cost being reclassified to profit or loss category, was better answered.