THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN EXAMINERS' COMMENTS	
SUBJECT Advanced Accounting and Financial Reporting	**SESSION** Certified Finance and Accounting Professional (CFAP) Examination - Winter 2017

General:

The overall passing ratio of 17% in this attempt was far better than the last two results of 5.4% and 8.9%. A significant number of students (12%) were just short of 9 or fewer marks and could have easily obtained them had they have covered all areas of the syllabus. There were many strong individual performances by some truly impressive students and one of them secured Gold Medal for the brilliant performance.

Performance in Q2 (consolidation) & Q6 (IFRS 16 & IFRS 2) was above average. Q4 (Financial Instruments) proved to be the result defining question of this paper. Though the full question was based on an example given in part B of IFRSs which were available in examination hall, 66% of the students could not even secure 20% marks in the question due to selective studies. Poor performance was also witnessed in Q5 (Miscellaneous situations).

Students appear to struggle in applying their knowledge when questions are presented differently. Although students use past papers as a key element of their examination preparation but they should remember that topics/sub-topics/variations not covered in past papers are still examinable. In this paper, variations / sub-topics in question 1b, 3a, 4 & 5a were examined for the first time and therefore the students' performance in those questions was below average.

Poor time management was observed in most of the copies. Q6 was an easier but lengthy question. Students who attempted Question 6 at the start appeared to have consumed too much time considering it as an easy question and were found struggling in attempting all questions. Students are advised to switch to the next question once they have spent a reasonable time on a question. There are some other examination technique issues that need to be improved which would have lifted many marginal fails into the pass category. Many students are failing because of technique rather than knowledge or ability.

Question-wise comments:

Question 1

This question consisted of two parts. The overall passing percentage in this question was 21%. Part wise comments are given below:

Part (a)

This part of the question required computation of impairment in the case of a CGU and allocation of the impairment among different assets of the CGU & amount to be charged to profit or loss account under two independent situations i.e. treatment as CGU under IAS 36 and treatment as Disposal group under IFRS 5.

Students generally performed well in allocating impairment under IAS 36 but could not identify the difference of allocation under IFRS 5.

The common mistakes observed were as follows:

<u>Impairment under IAS 36</u>:

- Allocated impairment was not restricted to ensure that the carrying value of an individual asset is not reduced below the fair value less cost to sell.
- All the impairment was charged to profit and loss. The loss allocated to Building carried at revalued amount should have been charged to revaluation surplus.

<u>Impairment under IFRS 5</u>:

- Impairment was allocated to inventory carried at NRV and investment property carried at fair value though provisions of IFRS 5 do not apply on them.
- Impairment charged to P&L was reduced by the amount of revaluation surplus.

Part (b)

This part of the question was based on IFRS 13. Since IFRS 13 was examined for the first time, only few students could secure full marks and majority of the students were totally unaware of the underlying concepts.

Question 2

The question required preparation of Consolidated Statement of Financial Position. 50% of the students got passing marks. The question was attempted by almost all the students. However, the copies suggested that they invested a lot of time on the question and consequently were found struggling in completing the paper. The students generally have a good working knowledge of consolidation techniques and many students achieved high marks. Many strong performances were also witnessed in this question with 10% students scoring more than 80% marks. The common mistakes were as follows:

<u>Accounting for disposal of ML</u>:

- Equity adjustment on sale of 20% shares of ML was not reflected in Group reserves.
- Gain recorded in the books of SL on sale of ML was either not computed or incorrectly computed. Also, such gain was not reversed / deducted in computing the group reserves.
- Post-acquisition earning of ML was not included in group reserves. Majority of those who included it, did not compute the correct amount.

<u>Consolidating BL:</u>

- Retained earnings at acquisition were incorrectly calculated.
- Adjustment for unrealized profit from stock in trade was made for Rs. 10 million instead of Rs. 4 million. The fact that Rs. 6 million had already been adjusted by parent on account of NRV adjustment was ignored.

<u>Joint operation of BL</u>:

- The power generation plant was not included in property, plant and equipment. Moreover, few students included the full value of this plant rather than taking the 40% share.
- Receivable from Joint operator was not reflected in statement of financial position.
- BL's share of profit of joint operation was not added in BL's net assets at reporting date.
- Depreciation was not deducted in computing income from Joint operation.

Question 3

This question consisted of two parts. The overall passing percentage in this question was 18% while 37% of the students did not appear to have any understanding of the topics and scored less than 20% marks. However, the poor performance was mainly because of part (a) as performance in part (b) was much better. Part wise comments are given below:

Part (a)

This part of the question was based on IFRSs for SMEs and was further sub-divided into two sub-parts. The area was examined for the first time in the paper and majority of the students were found totally unaware of this syllabus area. Even those having idea of IFRSs for SMEs could only identify the issues correctly but directly jumped to the conclusion without proper explanation resulting in loss of precious marks. The common errors were as follows:

- Students failed to identify that capitalization of borrowing cost is not allowed according to IFRS for SMEs.
- Shop A was carried at revalued amount though revaluation of property, plant and equipment is not allowed in IFRSs for SMEs.

Part (b)

This part of the question required preparation of statement of financial position of a Bank. This part was generally well attempted. However, many students ignored the fact that the format of Statement of Financial Position of a Bank is different from other companies and did not use the relevant format. Further, many students wasted their time in preparing notes to the financial statements which were not required.

Question 4

The question required accounting for redemption of a compound instrument. The question was based on example 11 of part b of IAS 32. However, 44% of the students did not attempt the question or secured zero marks which showed that they had not studied the examined topic. Only 9% of the students could secure passing marks. The common mistakes were as follows:

- While calculating the liability component on initial recognition, amount of interest and principal for 2020 were not adjusted for the half repayment to be made in 2019.
- Fair value of redeemed liability on 1 January 2016 was not computed. Consequently, incorrect accounting entries were passed, resulting in loss of all the marks allocated to these computations.
- Various types of errors were made in recording partial redemption of liability.
- Finance cost for 2016 was computed at revised rate of 8% instead of 7%.

Question 5

To enhance the coverage of the syllabus, this question contained five short situations on different topics. Four of them were included as sub-parts of part (a) whereas one of them was related to code of ethics and was presented separately as part (b) of the question. Many students could not attempt all the sub-parts and only 12% could secure passing parks.

Part (a)

The requirement in this part was to explain the effect of the given issues on profit before tax, total assets and total liabilities of the company. Performance in each sub-part is discussed below:

Part (a)(i)

This sub-part tested the concepts of NRV adjustment and provision for onerous contract. Majority of the students identified the need for NRV adjustment but most of them could not calculate the amount of adjustment correctly. Further, only few candidates identified the need for provision for onerous contract.

Part (a)(ii)

This sub-part required accounting for a Government loan provided at below market interest rate. The element of Government grant in the loan was generally calculated correctly but effects on profit and liabilities were shown incorrectly.

Part (a)(iii)

This sub-part pertained to a financing transaction through a call option. Most of the students computed incorrect amounts. A common reason for the incorrect amounts was that simple interest rate was used to record finance cost. Since contract period was two years, compound rate should have been used.

Part (a)(iv)

This sub-part was based on accounting for change in decommissioning liability related to an asset carried at revalued amount. This was the worst attempted part. Majority of the students had no idea of the relevant guidelines provided in the IFRSs and thus gave totally irrelevant answers.

Part (b)

This part of the question contained a scenario according to which the CEO of a company offered promotion to a company's employee who was a chartered accountant and in return wanted him to prepare the financial statements in such a manner as to meet the loan covenants and show better than actual results.

Majority of the students provided general answers to the question without relating it to the given situation. Most of the answers were incomplete and only few students identified all the relevant threats and safeguards.

Question 6

This question consisted of two parts. The overall passing percentage in this question was 37%. Part wise comments are given below:

Part (a)

This part of the question required extracts from financial statements based on the information relating to the given lease transactions. The question was based on two examples from part (B) of IFRS 16. Majority of the students attempted this question at the start of the paper and it was generally well attempted. However, since only extracts were required, certain amounts could have been calculated directly but students spent time in carrying out detailed calculations which were unnecessary and put time pressure on them.

The common mistakes were as follows:

<u>Sub-leased plant</u>:

- Bargain purchase option was not considered in calculating original lease liability
- Useful life of the plant was taken as 5 years instead of 6 years.
- Net investment in lease was not bifurcated between current and non-current portion.

<u>Modification of lease agreement of building</u>:

- Revised discount rate was used to compute loss on decrease in the lease term of building instead of original discount rate.
- Re-measurement of lease liability was ignored.

Part (b)

In this part of the question, the requirement was to discuss how the given transaction (pertaining to share based payments – IFRS 2) would be recorded in the books of account. Majority of the students correctly calculated the required amounts but did not provide proper explanation. The common errors were as follows:

- Price of Rs. 36 was used which took into account both the conditions whereas the price of Rs. 38 should have been taken.
- Many students wrongly concluded that the expense need not be recorded since the target sales were not achieved till year end. However, the vesting was based on 5 years average sales which was still expected to be achieved at the year end.

(THE END)