

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN	
EXAMINERS' COMMENTS	
SUBJECT Advanced Accounting and Financial Reporting	SESSION Certified Finance and Accounting Professional (CFAP) Examination - Summer 2018

General:

The overall passing ratio of 33.2% in this attempt was much better than the last two results of 17.0% and 5.4%. A significant number of students (21.4%) 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. It's worth noting that full marks were obtained in every question of the paper.

Performance in Q2 (Consolidation) & Q3 (IAS 21 & IFRS 9) was above average. Q4 (IFRS 15 & IAS 28) proved to be the toughest question of the paper. 41.6% of the students could not secure any mark in Q4.

Majority of the students appeared to have focused on selective study and displayed inadequate knowledge of important concepts and the accounting standards. Many students secured good marks in two to three questions but failed to obtain reasonable marks in the remaining questions.

Question-wise comments:

Question 1

The question required preparation of notes on taxation and deferred tax liability / asset. 34.4% of the students got passing marks in this question. The copies suggested that many students invested a lot of time on this question and consequently were found struggling in completing the paper. The common mistakes were as follows:

- In preparing reconciliation between tax expense and accounting profits, impact of share scheme was not incorporated. Moreover, the effect of decrease in tax rate was mostly ignored or incorrectly calculated.
- Movement in deferred tax liability was either not prepared or prepared incorrectly. Most of the students did not mention/disclose whether the corresponding impact of deferred tax liability related to revaluation of PPE and TFCs would be charged to Other Comprehensive Income, Equity or P&L.

Question 2

The question required preparation of Consolidated Statement of Financial Position. 51.0% of the students got passing marks. The question tested the concept of increase in equity stake in direct subsidiary and acquisition of indirect subsidiary during the year. The question was attempted by almost all the students. The students generally have a good working knowledge of consolidation techniques and many students achieved high marks. The common mistakes were as follows:

- Many students ignored the downward fair value adjustment relating to the Plant probably thinking that it had a higher value in use. However, IFRS 3 requires that net assets of the acquiree should be measured at acquisition-date fair value.
- Adjustment for unrealized gain on disposal of office building was made though it was not required.
- Many students could not identify the fact that the subsequent settlement of contingent liability of FL was an adjusting event for the purpose of consolidated financial statements.
- FL was consolidated as a direct subsidiary instead of indirect subsidiary.
- In respect of gratuity adjustment, sufficient information was available to compute change in net liability. However, many students tried to make separate working for movement in present value of defined benefit obligations and fair value of plan assets which were not required and had to leave the working half way due to insufficient information.

Question 3

The question required preparation of extracts from statements of financial position and comprehensive income, relevant to the transactions given in the question. The first part of the question was based on IAS 21 while the second part was based on IFRS 9. This was the best performed question with passing percentage of 57.5%. The common errors were as follows:

- The first part tested the concepts related to “Reporting foreign currency transactions”. However, most of the students used rules related to “Translation to the presentation currency”.
- Exchange loss on the amount paid on 1 August 2017 was capitalized instead of being charged to Profit or Loss account.
- Unearned rent was treated as a monetary item whereas it is a non-monetary item and need not be retranslated at year end. Similarly, average exchange rate was applied to rent income which was not required.

Question 4

The question required calculation of revised amounts of total assets, total liabilities and total comprehensive income after incorporating the impact of the required adjustments. Only 10.0% of the students could secure passing marks. 41.6% of the students either did not attempt the question or secured zero marks which showed that they had not studied the examined topics. Part wise comments are given below:

Part (i)

This was based on IFRS 15. Students were totally unaware of the underlying concepts and made various types of mistakes. Solutions were often haphazard and totally incorrect.

Part (ii)

This was based on IAS 28 and required accounting for part disposal of an associate. The common mistakes were as follows:

- While computing carrying value of investment before disposal, fair value of shares was taken into account instead of following equity method.
- Students did not adjust the carrying value of the retained investment from equity method to fair value, at the time of disposal.

Question 5

This question required preparation of statement of movement in Unit Holders' Fund of a mutual fund. The passing ratio in this question was 37.8%. The common mistakes were as follows:

- Majority of the students had no idea of the new format of the statement.
- Incorrect amounts were often used with regard to issuance of units, redemption of units and total comprehensive income.

Question 6

This question required discussion on how the given (two) transactions (based on IFRS 2 and IAS 38) were to be recorded. The overall passing percentage in this question was 42.2%. It was generally observed that discussions were often incomplete. The common mistakes were as follows:

- Many students did not mention the fact that liability component of the share based transaction needs to be re-measured at reporting date.
- Life of the license was taken as 8 years instead of 5 years.
- Residual value of license was taken as Rs. 15 million or Rs. 20 million instead of Nil value.
- Unwinding of interest on the deferred consideration (of license) was ignored.

Question 7

This question required computation of quarterly and half yearly basic and diluted earnings per share. The passing ratio in this question was 35.5%. Quarterly and half yearly earnings per share were examined for the first time, therefore, the students could not handle the question well. The common mistakes were as follows:

- Weighted average number of shares was incorrectly computed. In making the calculation, most of the students correctly multiplied the number of shares outstanding by months outstanding but divided the same by 12 instead of 3 (for quarterly) or 6 (for half yearly) earnings.

- The interest amount on convertible bonds was computed incorrectly by majority of the students as they ignored the fact that outstanding principal was required to be adjusted on 1st November as the installment was paid on that date.
- The impact of share warrants was considered in computing the quarterly diluted earnings per share. The students failed to realise that it was 'out of money' and hence lost mark for ignoring it in the computation.

(THE END)