

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

**General:**

The overall passing ratio of 41.5% in this attempt was much better than the last two results of 33.2% and 17.2%. There were many strong individual performances by some truly impressive students and one of them secured Gold Medal for the brilliant performance.

Performance in Q3 (General Insurance) & Q4 (IFRS 16) was above average. Q2 proved to be the toughest question of the paper.

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.

Attainment of full marks in a question is challenging but each question contains sufficient achievable passing marks. It was observed that students spent too much time on completing a question even though they had no idea of the difficult part of the question. Students are strongly advised to switch to the next question after they have spent reasonable time on a question. This will ensure that they attempt all questions. 20.4% students were just short of 9 or less marks and could have easily obtained them had they covered all areas of the syllabus and/or attempted all questions in the paper. Students should also note that no marks are awarded for incorrect figures unless supported by workings.

**Question-wise comments:**

**Question 1**

The question was based on IFRS 2 and IFRS 5. In this question, 42.7% of the students got passing marks. Part-wise comments are as follows:

**Question 1(a)**

This part of the question required calculation of amounts in respect of share options and their explanation. The calculations were generally well dealt with. However, the explanations were often incomplete and/or incorrect. In many cases, students did not provide any explanation to the calculations and lost precious marks. Other common mistakes were as follows:

- Students ignored the fact that expense already recorded in 2014 needed to be reversed in 2015 as the performance condition was not met at the end of 2015 (the average gross profit was below Rs. 900 million).
- The extension of vesting period was not beneficial and its impact should have been ignored for the original scheme. However, many students extended the original vesting period of 3 years to 4 years and computed incorrect figures of 2016 and 2017.
- Amounts for Original scheme and Additional benefit from re-pricing of options were not calculated separately in respect of 2016 and 2017.

### **Question 1(b)**

This part of the question required classification/presentation of different divisions in financial statements. A key point was that the comparatives in statement of comprehensive income are reclassified while comparatives for statement of financial position are not. Answers to this part varied a lot. Many students achieved full marks whereas some students even did not attempt it.

### **Question 2**

The question required calculation of revised amounts of total assets and total liabilities after incorporating the impact of five corrections and preparation of statement of changes in equity. This was the worst performing question of the paper and only 18.8% of the students secured passing marks. Answers were often ill-structured and figures were taken to the statement of changes in equity without any working. As discussed earlier no marks can be awarded if the figure is incorrect and there is no working. Other common mistakes were as follows:

- Several types of mistakes were observed in treatment of repayment of government grant.
- While computing increase in fair value of forward contract, the initial cost of Rs. 0.3 million was not deducted from fair value.
- While calculating the additional finance cost, students often used 11% instead of 11.85% and /or did not deduct allocated issuance cost from the liability component.
- Net impact of revaluation in investment property was taken to profit and loss account rather than bifurcating such re-measurements to Revaluation surplus and Profit and loss account.
- Statement of changes in equity was started from January 2015 instead of January 2016.
- Equity component of convertible debentures was not presented anywhere in the statement of changes in equity.
- Separate columns for cash flow hedge and revaluation surplus were not presented in the statement of changes in equity.
- The term “restated” was not mentioned with opening balances, closing balances and profit for 2016.

### **Question 3**

The question required preparation of statement of comprehensive income of a General insurance company. The performance in this question was good and 60.7% of the students got passing marks. But surprisingly, 12.6% could not secure a single mark in this question. Although many students scored well on this question, demonstrating a sound knowledge of statement of comprehensive income of a general insurance, there were some very poor and/or incomplete answers also. A significant minority demonstrated that they did not know the difference between statement of comprehensive income of a general insurance company and of any other company. The common mistakes were as follows:

- Management expenses were not presented separately and the amount of underwriting results was not computed.
- Notes for net insurance premium and net insurance claims expense were not prepared.

### **Question 4**

The question required determination of amounts of Right of use asset and Lease liability. This was the best performed question with passing percentage of 62.5%. There were some excellent attempts at this question and 10.7% students secured full marks. There were some very well presented answers to this question, but there were some incomplete and messy ones as well. The common errors were as follows:

- The present value of optional period was either not correctly computed or ignored at initial recognition.
- First year depreciation was often calculated on ten years instead of twelve years.
- The treatment of reassessment and modification were often mixed up.

### **Question 5**

This question required preparation of consolidated statement of cash flows. The passing ratio in this question was 38.7%. The common mistakes were as follows:

- The profit before tax was required to be computed from the figures of retained earnings and minority interest. Many students failed to understand this and arrived at incorrect figures.
- There was confusion over the treatment of exchange gain on translation. Only the very best students were able to take the correct effects in calculating movement of various accounts.
- Impact of unrealized profit on inventory was ignored in determining the share of profit from associate.
- The interest and exchange loss on deferred consideration was mostly ignored.
- The sale of shares of subsidiary to non-controlling interest was recorded in investing activities rather than in financing activities.

***(THE END)***