HOW TO WRITE FOR P2

How professional writing works

Syllabus extract and implications for writing skills

*"The P2 syllabus takes the subject into **greater depth** and contextualises the role of the accountant as a professional steward and adviser/analyst by initially exploring the wider professional duties and responsibilities of the accountant to the stakeholders of an organisation.*

*The final sections of the syllabus explore in more depth the role of the accountant as financial analyst and adviser through the assessment of financial performance and position of entities, and the accountant's role in **assessing** and **advising** on the implications of accounting regulation on corporate reporting*". Corporate reporting P2 syllabus

Implications for writing skills

WRITING TO ADVISE (why do students write only briefly? How can this problem be overcome?)

"…when candidates are asked to essentially advise a client given certain information, then the quality of the answers deteriorates. Candidates should practise questions where advice to clients is required." *Examiners Report Q2 December 2008*

Why do students write only briefly? And poorly "… then the quality of the answers deteriorates."

The problem attributions: lack of alignment with syllabus requirements (see **P2 Competency guide**). Do students know the requirements of the Syllabus or are they simply imitating the teachers and their study guides?

- **Elaborative learning** is not practised (see **Efficiency in learning P2**).
- Learning is limited to imitation e.g. copy the teacher or worked examples. HOT skills not developed and applied. Independent thinking not attained with requisite degree of confidence. Resort to question spotting!
- Rote learning is adopted (allocate time see **Smart study plan**)
- Writing skills are not practised (see guidance provided in this document)
- Unbalanced emphasis on computation: student application and learning not aligned with syllabus requirements (students not focused on syllabus requirements see **P2 Competency guide**)

Attitude check: Why students may not practise effective writing skills

- Not aware of the requirements
- Not taken seriously
- More work – not enough time
- Don't know how to go about it – no practice material available
- Prefer bullet points - brief and to the point
- P2 is computational: I chose accounting because I am numerate
- I can't think in a discursive way
- I have good writing skills

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- I have poor writing skills
- Writing professionally is an automatic skill – no deliberate practice is required.
- Influence of others?
- Cannot see the point of it?

What we may need to give advice about

Q2 and 3 type questions

Example question from ACCA Q2 December 2008 (more recent?)

1. About correct accounting practice and may involve evaluating proposed practice e.g. June 2010 q, Dec 2008 q3

What do we draw on to give advice and what kind of learning equips us best to acquire the requirements for effective writing to advise? See **P2 Competency guide**.

2. Draws on **fundamental knowledge** of accounting centred on critical activities and objectives: identification, recognition, measurement, presentation, disclosure.
3. Draws on fundamental knowledge of financial management
4. Draws on fundamental knowledge of **professional ethics, social responsibility and governance**.
5. Requires **analysis of contexts** to identify issues, consideration of their implications for accounting and financial reporting in the light of related principles and requirements, and resolution of questions raised in a reasoned and supportable way.
6. **Requires understanding of issues. What are issues**? Issues are factors such as ownership, uncertainty, risk, impairment, accounting bases, basis of valuation, methods of measurement, behaviour, obligations, responsibilities, etc in the context of business arrangements and the conduct of business in its environment that must be considered in accounting for transactions, conditions or other events so as to achieve the qualitative objectives of financial reports.
7. **Examples of issues** and how they are resolved. Issues must be relevant and they must relate to the central process of accounting and reporting outlined above and they must have a potentially material effect on the outcome of the accounting and reporting process. Sources (e.g. terms of a contract); Issues (); Resolution
8. **Professional judgement**
9. **Key Assumptions** underlying estimates of provisions, amortisation rates, discount rates risk and uncertainty, etc.

Why do we need to consider issues?

10. Accounting involves applying accounting principles to transactions, conditions and other events in order to achieve the accounting objectives set out above.
11. For example, *revenue recognition* involves application of IAS 18 *Revenue* (and ED2011/06 *Revenue from contracts with customers)*. Specifically, revenue is recognised when substantially all of the risks and rewards of ownership are transferred to the customer. This principle establishes the

conditions for a sale to be recognised for a consideration measured at fair value.

12. This event involves *the loss of control* over one type of asset (stock) by the supplier and the acquisition of control over another asset, cash or debt, the ultimate cash realisation of which can be established reliably. This is straight forward in the event of a retail business where the process of transfer is completed in a single action instantaneously, stock being exchanged for cash or credit.

13. At the *basic level* we need to consider issues to ensure that the conditions or criteria set out in the definitions, recognition criteria and measurement concepts are met. A critical issue in revenue recognition is the transfer of risks: at what point are risks substantially transferred?

14. However, as specified in the *rationale for the syllabus*, the **P2 syllabus takes the subject into greater depth**, reflecting the complex and sometimes ambiguous demands of the role of the accountant as professional steward, analyst and adviser. Consider the following examples of how the principle of revenue recognition may be applied:

i) Recognise revenue in such a way as to preclude transactions being artificially structured for that purpose. This may mean that a series of transactions may need to be treated as one single transaction to ascertain their commercial substance. Example, see ACCA June 2008 q2bi
ii) There is a significant probability that the full amount may not be received.
iii) Gains on infrequent transactions: recognition and presentation (not revenue; keep separate).
iv) Transactions spread over several accounting periods: when is the service provided?
v) Payments in kind
vi) Special industries e.g. Agriculture, Insurance
vii)

Other Issues

viii) The **conceptual foundation** of revenue recognition: control is simultaneously transferred and acquired in an exchange transaction that results in revenue and a corresponding asset being recognised. **Revenue is the consideration received** or receivable in exchange for the transfer of substantially all the risks and rewards of ownership. **An asset is a resource controlled by the entity** and from which economic resources are expected to flow to the entity.
ix) The **exchange value** of the transaction is measured at fair value as if the transaction took place on cash basis. This means that credit elements must be excluded from the consideration.

15. These applications and expectations present challenges to which the professional accountant must respond. The following list gives examples of the varied challenges and potential responses

What is the basic approach to dealing with issues in accounting and financial reporting? The method of accounting.

16. Practise thinking itself to improve thinking (*ditto writing*). Identify, assess,

HOW TO WRITE FOR P2

How professional writing works

SOURCES Transaction, conditions and other events	EXAMPLES OF KEY ISSUES "Candidates did not seem to be able to identify the key issues" *Examiners Report June 2012 q3*	RESOLUTION Principles, judgement and techniques Applied to issues raised by events, conditions, restrictions, timing, uncertainty and risk, duration, obligations, responsibilities, measurement basis
Business Combinations (IFRS 3)	What constitutes **consideration** for acquisition? Are incentives offered at the time of acquisition to retain key staff after acquisition part of the consideration for the interest in the acquiree?	Consideration is the amount offered to acquire an interest in the net assets of the acquiree (premise). To the extent that the consideration secures an interest in the net assets of the acquiree to that extent it is for the acquisition of the acquiree (condition). Such consideration may well be offered to staff to acquire their intellectual property rights together with a separate remuneration that induces them to stay because they are indispensable to the effective operation of the assets thus acquired. In that case there are two separate elements: a) the consideration for the acquisition of intellectual property rights which must be separately recognised on acquisition as an intangible asset at its fair value; b) the remuneration which is for post acquisition services. This should be recognised when incurred under IFRS 2 *Share based* payment (if remuneration is in the form of shares or share options) or, under IAS 19 *Employee Benefits* if remuneration is non share based.
NCA Held for Sale (IFRS 5)	When does a NCA qualify to be treated as **held for sale**?	When the carrying value of the NCA is recoverable through sale. This is evidenced by the satisfaction of certain criteria:
Discontinued operations (IFRS 5)	How should a discontinued operation be presented?	**Discontinued operations** must be separately disclosed from **continuing operations** so that investors and other users can accurately assess current financial performance and future earnings prospects. This would be obscured if separation was not required by IFRS 5 and the entity produced aggregated financial statements with no disclosure or explanations of discontinuance of a major line of business or geographical area of operation.

Transactions between owners – increases or decreases in NCI interest (IFRS 10)	How should gains or losses arising be recognised?	Under the **economic entity model** if transactions between owners do not result in loss of control gains and losses arising are not recognised in profit or loss. Instead, they are treated as redistribution of equity between owners and as such recognised in equity (direct to equity). However, where such transactions between owners result in a loss of control gains and losses arising are recognised in profit or loss (direct to income). The parent losing control recognises a gain or loss on its entire interest: a) the interest retained as well as b) the interest disposed of.
Conceptual Framework	What is the role of the **Conceptual Framework** in dealing with the central questions of accounting and financial reporting?	The central questions of accounting and financial reporting are concerned with producing stewardship and decision useful information. This information is ascribed certain attributes known as qualitative characteristics: relevance, reliability, comparability and understandability. IFRS are designed to achieve that objective by providing *requirements* and *guidance* in addressing the central questions of identifying, recognizing, measuring, presenting and disclosing transactions, conditions and other events. The **Conceptual Framework** is a set of concepts, principles and theories that form a coherent body of knowledge that underpin IFRS formation and achieves a measure of theoretical legitimacy and consistency.

Examples of effective writing to advise

Share-settled contingent consideration: financial liability or equity?

Entity A acquires a 75% interest in the net assets of entity B on 1 January 2013 and agreed to transfer additional consideration if B meets certain profit targets as detailed below.

Year ended	Profit target	Additional consideration
Year ended 31 December 2013	$2.75m +	150,000
Year ended 31 December 2014	$3.25m +	175,000
Year ended 31 December 2015	$4.75m +	200,000

Required
Write a brief report to the management of entity A advising on the classification and recognition of the above transactions.

Solution
To the management of A,
Subject: Classification of additional contingent consideration obligation arising from the acquisition of B on 1 January 2013.
Date: 18 January 2013.

The obligation to transfer additional consideration can be classified as a financial liability or equity instruments at acquisition in accordance with the relevant accounting standard IAS 32 *Financial Instruments: Presentation*. A financial liability can arise if the obligation of entity A is to transfer a variable number of equity instruments upon B meeting or exceeding the target profit. If on the other hand the number of equity instruments to be transferred is fixed then the obligation can be classified as equity having met the *fixed-for-fixed rule*.

In this scenario each target is independent of the other targets because targets of subsequent years are not dependent on those of previous years and targets don’t accumulate from one year to the next. If the target for any year is not met A will not issue shares to B in respect of that year’s performance. Therefore the arrangement consists of three separate contingent considerations and the obligations arising can be assessed individually.

Because the individual obligations for each year are fixed for the target profit being 0 (if not attained) or the specified number of equity instruments if attained, the obligation for each arrangement can be classified as equity instruments at acquisition.

The differing classifications as to *equity instruments* or *financial liabilities* have significant implications for the post combination period. As the obligations are classified as equity instruments in this case they are not re-measured in the post combination period to reflect changes in market conditions or credit ratings of A as would be the case if the obligations were classified as financial liabilities.

The obligations for each arrangement are recognised as equity at acquisition because being financial instruments A incurs the obligation once it became a party to the contract for the acquisition of B and undertook to transfer further consideration in the form of shares. Recognition of the obligation is not dependent on performance in the post combination period as would be the case in an executory contract where recognition of an obligation is contingent on performance or past events. Here fulfilment of the target profit expectations merely trigger the delivery of the agreed equity instruments.

IFRS 3 *Business Combinations* allows a **measurement period** of twelve months during which adjustments can be made to the consideration offered in exchange for the acquiree as well as the assets acquired and liabilities assumed to reflect new information about facts and circumstances that existed at the acquisition date. In this scenario the measurement period is the year ending 31 December 2013. If the profit target for that period is not met it would seem logical that the relevant equity obligation recognised at acquisition would be cancelled and the goodwill calculation revised accordingly. However, IFRS 3 *Business combinations* does not permit restatement of contingent consideration once determined. Instead, IFRS 3 requires adjustments for profit targets not met to be made in the post combination profit or loss of the combined entity because the change arises from a post combination event.

Thus goodwill could be overstated if post combination performance on which contingent consideration is based fails to materialise. However, in common with other assets goodwill is required to be tested for impairment annually and if evidence of impairment exists IAS 36 *Impairment of assets* requires that the carrying value of the asset should be written down to its recoverable amount. Failing to reach profit levels anticipated at acquisition could be evidence of impairment that triggers IAS 36 process of impairment testing. The resulting write down would correct for the overstatement of goodwill on account of the contingent consideration obligation not having been revised to reflect less than expected profit performance in the post combination period.

I hope this clarifies the accounting treatment for you.

Corporate reporting Candidate
December 2012 exams

Writing Assessment criteria

17. The quality of effective written advice can be assessed on the following criteria

- **Clarity of expression**: crisp and clear (20%)
- **Structure of arguments & Quality of reasoning**: examines the issues, cites the application principles, quotes the IFRS, Interpretation, and Framework and applies it to the transaction or issue e.g. implementation of IFRS, role of Conceptual Framework, etc (55%)
- **Evaluation or Critical Thinking**: sustains analysis and interpretation, considering all relevant perspectives and synthesises assessment. (10%)
- **Accuracy of the conclusion**: relates synthesis to requirements e.g. IFRS implementation can potentially improve financial reporting but this is by no means guaranteed. The analysis shows that the local financial reporting framework can play a significant part in achieving uniformity or divergence. However, it appears that the risk of divergence from intended outcomes is mitigated by the inducement of global capital movements (inward and outward) at competitive rates. (15%)

18. Apply this to some examples of q4 (Section B of the syllabus)

19. Schedule advice type past questions including marks, topics, issues (how they illustrate the central questions with which P2 is concerned)