IAS 21

Barriers to scoring	Overcoming barriers to scoring
March 2018	
Q2 “Part (a) described an issue with the translation of an overseas subsidiary (in a non-hyperinflationary economy) whose functional and local currency is not traded in markets, and where the two available rates changed only once in the year. The translation rate was changed from official to government rate on the basis that this was the most appropriate rate for the flow of future economic benefit. Advice was required on whether the change in rate was appropriate and whether an average rate could be used for translating the subsidiary’s statement of profit or loss. **Many candidates struggled with this part of the question**, although most gained marks by outlining the method of translation of an overseas subsidiary’s financial statements under IAS 21. Better answers considered each aspect of the scenario: which rate is most appropriate; whether an average rate is required depending on the fluctuations in the year; and whether a retrospective change would be required. Weaker answers focused too much on an irrelevant aspect of the scenario: the determination of the functional currency.”	Understand what the standard is designed to achieve. Understand how the method of application works in various contexts. Study special cases such as this one. A clear and complete understanding of the fundamentals enable insightful exploration of special cases. Practise extensively – not to predict the next exam but understand concepts and principles. Leave time to reflect. Attempt word questions (discursive) as well as computational ones. Limit exposure to quizzes. Study published financial statements diligently and ask why, how, the standard achieves what it sets out to achieve. Read publications: discuss application issues. Opportunity to broaden and deepen understanding such that you can think independently.
Q4.c “Candidates in general identified the need under IAS 21 to report separately the significant loss, **although fewer outlined its importance to users whose opinion on management’s stewardship may be altered (given the loss arose from speculative activity)**.”	Study the objective of IAS 21 disclosures from the **stakeholder’s perspective**. See IFRS 7 Critically examine a sample of disclosures from published financial statements - What do the disclosures achieve for the investors - What more would you like to see? - How would you improve the disclosure? Redraft the statement. - Focus on background information or contextual details - Treat the organisation as needing input from stakeholders – stakeholder contribution in order to correct itself and sustain its long-term future. What feedback would be desirable to help the organisation improve and survive?
“Most candidates identified the need for disclosures on the entity’s **risk exposure**, although a **description** of **appropriate disclosures** was often limited.”	
“In conclusion, candidates need to have a better understanding of what is being asked of them. As with other P level exams, the Corporate Reporting exam reflects a post-graduate level of study and so candidates need to be able to demonstrate their knowledge through its application to the given scenario. Merely listing their knowledge will not be sufficient to pass.” *Examiner’s Report*, **March 2018**	
June 2017	
“Foreign currency translation questions will usually require some calculation and some discussion. Candidates seem to know the basic steps for translating foreign currency amounts into the functional currency, the translation from the functional currency to the presentation currency but struggle with any explanation of the process. In addition, candidates seem to feel that the definition of functional currency and presentation currency is required at all times. This is just wasting time for the candidate unless the definition is asked for. A **maximum** of 1 mark would be given for such definitions generally. Rote learned definitions will not score marks unless they are asked for and even then only one mark is	“Generally speaking if a calculation is required, and then some discussion of the implications for the entity will be required.”

likely be scored. Candidates should understand that accounting principles are different to definitions.”	
March 2017	
“Question 1b had two subsections. For 6 marks, part (bi) asked for advice on the effect of a group-wide change to a **fair value model** for properties on both individual and consolidated financial statements. The group contained both local and overseas entities, each with properties held for own use (PPE) and for investment purposes. Candidates were expected to cover the effect of a change in valuation on each, as well as the impact of translation of both for consolidation purposes. Answers to this part were generally quite weak, with relatively poor structuring. Candidates tended to focus on the treatment in individual financial statements (for both PPE and investment properties), but few explained the translation impact when a revaluation is made, and the treatment of exchange differences on either profit or loss, or equity. Better answers laid out the impact on **individual** and **consolidated** financial statements separately. For 3 marks, part (bii) asked for a discussion on whether there should be a consistent treatment of exchange differences between **monetary** and **non-monetary assets** and liabilities. Answers were generally weak: a significant minority of answers incorrectly stated that consistency is needed, without any further discussion of why; whilst many explained the difference between monetary and non-monetary without directly answering the question. Very few answers put forward an **opinion**, or considered the **substance** of the position.	
Question 1c required a discussion of the **accounting** and **ethica**l issues relating to using an **average rate of exchange** in translating individual foreign transactions in consolidated financial statements. The scenario further explained that the directors were to adopt a revaluation policy on all properties, and suggested that this would create excessive translations that would involve undue cost. Unfortunately, very few candidates discussed both accounting and ethical issues in sufficient detail. From the accounting perspective, better answers discussed the requirements of **IAS 21** *The Effects of Changes in Foreign Exchange Rates* , and outlined where the use of average rates are appropriate. A range of possible points could have been raised by candidates relating to the ethical issues in the question, and candidates were given due credit for relevant opinions on these subject matters. However, as in previous diets, there was a tendency for candidates to provide **‘boiler plate’ answers** on **ethics** with little reference to the situation (such as materiality/motivational aspects, or considering the argument about undue cost).	
September 2016	
Q2b “Answers to the second issue on deferred tax were less consistent: many candidates correctly calculated the goodwill, although fewer accounted for the deferred tax resulting	

from differences between fair values and the tax base of the net assets in the acquiree's jurisdiction. Explanations for the treatment were limited in most cases to a basic explanation of how deferred tax arises rather than applying this to the scenario of a business combination under IFRS 3 Business Combinations."	
December 2015	
Q1b "Question 1b this question required candidates to advise the directors of an entity on how **exchange differences** should be recorded on both monetary and non-monetary assets in the financial statements **and how these <u>differ</u> from the requirements for the translation of an overseas entity**. Further, candidates had to **advise** the directors on what would happen to exchange differences on the **sale of the equity holding in the overseas subsidiary** and any <u>practical issues,</u> which might arise on **monitoring exchange differences**. This question required knowledge of IAS 21 *The Effects of Changes in Foreign Exchange Rates* . Although most questions require <u>application</u> of more than one IFRS, this question <u>mainly</u> required knowledge and understanding of IAS 21. **<u>Many</u> candidates did not read the question properly** and **did not discuss the treatment of monetary and non-monetary items** but <u>simply</u> wrote about the **translation of an overseas entity**. <u>Several</u> candidates did not even attempt to answer the part of the question dealing with the **sale of the equity holding** even though this knowledge is fundamental to IAS 21."	

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“Foreign currency translation questions will usually require some calculation and some discussion. Candidates seem to know the basic steps for translating foreign currency amounts into the functional currency, the translation from the functional currency to the presentation currency but struggle with any explanation of the process. In addition, candidates seem to feel that the definition of functional currency and presentation currency is required at all times. This is just wasting time for the candidate unless the definition is asked for. A maximum of 1 mark would be given for such definitions generally. The same is true of IFRS 13 where the three input levels are defined even when they are not asked for. Rote learned definitions will not score marks unless they are asked for and even then only one mark is likely be scored. Candidates should understand that accounting principles are different to definitions.”	“Generally speaking if a calculation is required, and then some discussion of the implications for the entity will be required.”