

P2 COMPETENCY GUIDE

Towards a balanced competence scorecard

Key Competences Assessed at P2	What you must bring to P2 Assess your readiness for P2	What you should develop through P2 Assessing progress in P2
Building secure understanding and ability to transfer knowledge of corporate reporting		
1. Understands accounting principles and the qualitative characteristics of financial reports		<ul style="list-style-type: none"> ▪ Completely familiar with all of the accounting principles and is able to discuss their applicability to business situations as required by the relevant standard of accounting practice. Example: <i>ED2010/03 Employee benefits proposes that the discount rate used in calculating the PV of defined benefit obligations should be used to calculate both the return on long-term plan assets and the finance cost of the scheme. Unlike the existing standard (IAS19) which uses one rate (expected rate of return on long term assets) and another rate to calculate the finance cost ED2010/03 achieves consistency by using the same rate. Moreover, it achieves simplicity (one rate is used for all the calculations) and understandability (the discount rate used is relevant to evaluation of the financial cost and benefits of the plan).</i> ▪ Understands the qualitative characteristics of financial reporting and can evaluate their merits. Example: a discussion of the merits of an accounting standard has to consider to what extent the standard addresses the qualitative characteristics in a balanced way. For example, an evaluation of the merits of <i>ED2010/09 Leases</i> over <i>IAS 17</i> has to consider the extent to which information produced under the proposals of the ED are more relevant, understandable, comparable, reliable and economical than previously obtained under the existing <i>IAS17</i>. ▪ Understands accounting theory and the insights provided to the conceptual framework of accounting. Example: the theoretical explanation of the nature of an asset provides common criteria for recognizing assets and a thread that links different asset types e.g. deferred tax assets and financial assets have the <u>common criterion</u> of representing future economic benefits that are expected to flow to the entity. The theory also provides us with an understanding of the conditions for recognition and de-recognition. For example, a financial asset can be recognized when the entity becomes a party to the contract that gives it entitlement to receive economic benefits (cash flow) in future. The corollary is that the financial asset will be de-recognized when the necessary conditions cease to exist i.e. rights to receive cash flow are lost as in the case of the redemption of a bond on maturity. The condition for recognizing a deferred tax asset is that future operating profits of the entity will be adequate to set-off the tax losses of the current period and obtain tax savings in future (representing and asset). Otherwise, deferred tax losses should not be recognized.

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2. Fully up to date with developments in financial reporting and can evaluate alternative accounting practices to determine suitability		<ul style="list-style-type: none"> ▪ Develops technical insight into accounting standards from wide and critical reading of accounting standards, journals and annual reports. Example: <i>comparing the annual reports of Barclays and other financial institutions such as Societe Generale should yield useful <u>technical insights</u> primarily into financial instruments: accounting policies, significant judgements, assumptions relating to measurements, recognition, presentation and disclosure.</i> <i>(Having technical insight into an accounting standard means a) having a clear and deep understanding of: i) its objectives; ii) its principles, iii) potential impact of its applications on all of the financial statement components, iv) pitfalls in its application, b) being able to evaluate the merits and problems of the standard and c) being able to recommend improvements based on an evaluative synthesis of the merits and pitfalls of the standard)</i> ▪ Flexible and versatile in applying key principles of standards in specific contexts. Example: <i>can discuss aspects of revenue recognition and determine when revenue may be recognized and when it may not be recognized on a contract for the construction of bespoke software supporting conclusions with relevant criteria from the relevant standard IAS18/ED2011/06 Revenue from contract with customers.</i> ▪ Can discuss specific aspects of standards in detail as they relate to particular business situations. Example: <i>Can distinguish between a lease arrangement and a contract for rendering of services giving clear and concise reasons based on the relevant criteria in ED2011/06 and ED2010/09.</i> ▪ Able to evaluate the impact of global issues on standard setting and implementation and to appraise the extent to which global issues are being addressed in the standard setting process. Example: can appreciate the impact of IFRS on capital markets, can appreciate the relevance of convergence in the standard setting process, can appreciate the impact of local regulation on implementation of IFRS, can appreciate the impact of global management of economic stability on the standard setting process.
3. Able to <u>analyse</u> and evaluate business context to identify, prioritise and		<ul style="list-style-type: none"> ▪ Understands how <u>conditions</u> and <u>events</u> determine the nature of transactions. Example: <i>a derivative settled net is a financial instrument accounted for under IAS39. It is characterised by i) offsetting arrangements; ii) selling shortly after taking delivery to make a profit on short-term fluctuations in prices and dealers margins; iii) the non-financial items is readily convertible into cash; iv) the terms of the contract allow either party to settle net. Examples: forward contract, call option, put option, futures contract.</i>

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resolve accounting issues.		<ul style="list-style-type: none"> ▪ Understands the relevance of business model and management intention as well as economic characteristics to the determination of the nature of a transaction and of measurement basis of certain financial assets and financial liabilities such as bonds. Example: the business model determines the number of performance obligations in a contract. A security firm that sells equipment and provides a response service has only one performance obligation because the service and equipment are not distinct goods and services. To be distinct they must be sold separately by other firms and be the subject of a budget and performance targets such as percentage margins. ▪ Understands the importance of control to the determination of the nature and recognition of certain transactions such as revenue and leases and SPEs (Special Purpose Entities). Example: revenue can be recognized on a long term contract for the development of bespoke software <u>only</u> if the entity has control over it. In the other words has acquired the rights to an asset (cash or debt) arising from fulfilling its performance obligations under the contract. ▪ Understands the importance of the prioritisation of certain accounting issues. Example: i) allocation of impairment loss; ii) prioritising impairment adjustment over depreciation; ▪ Understands the organizational principles of the Corporate Report: able to allocate transactions to appropriate classifications in the five reports: i) SOCI, ii) SOFP, iii) SCshF, iv) SChE, v) Notes to the accounts
4. Can reason within accounting principles and resolve accounting issues, applying critical thinking and judgement appropriately		<ul style="list-style-type: none"> ▪ Can <u>interpret</u> business transactions correctly in accounting terms (aptly matching issues, conditions and events to relevant rules and principles of accounting practice to determine the correct accounting response - Identification, Recognition, Presentation). Example: Determine how to treat “fulfilment costs”; if an asset is recognised explain what would be the procedure if the asset is impaired, bringing out the interaction between impairment and depreciation. <u>The skills to hone</u> are a) comparing the criteria for capitalisation of fulfilment costs with the conditions in the context, b) if there is a match then capitalise, otherwise expense, c) impairment test assets and adjust carrying values for impairment loss, d) depreciate. Present answers with clear and concise reasoning and layout. ▪ Can appraise conditions critically where it is not clear cut and make rational decisions based on sound knowledge of standards and judgement of the details of the transaction and the business context. Example (see question below): i) if a derivative is settled net and there is no intention to take delivery of the <i>underlying</i> then the transaction is not a hedging transaction. ii) if a transaction is settled in cash it cannot at the same time be a share based-

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		<p>payment because a share-based payment is settled in an equity instrument (the consideration received is shares, not cash). iii) The transaction below is accounted for as a derivative instrument under IAS39 not as a share-based payment. Shares are used <u>only</u> as a measure of value - the price of the contract. The transaction may therefore be described as a share-based transaction. This is an example of where critical thinking about the nature of the transactions and the conditions is essential to making the right judgement to resolve the issue. <u>The skills to hone are</u> a) thinking critically about the features of a transaction, b) thinking critically about the features of concepts, instruments such as derivatives and the business contexts in which they may be used; c) evaluation skills (judgement): analyse and form a view; d) clear and concise reasoning; e) conclude accurately in a manner that fits the question (requirement).</p> <p>ACCA Q2 December 2010 Margie has entered into a contract with a producer to purchase 350 tonnes of wheat. The purchase price will be settled in cash at an amount equal to the value of 2,500 of Margie's shares. Margie may settle the contract at any time by paying the producer an amount equal to the current market value of 2,500 of Margie shares, less the market value of 350 tonnes of wheat. Margie has entered into the contract as part of its hedging strategy and has no intention of taking physical delivery of the wheat. Margie wishes to treat this transaction as a share-based payment transaction under IFRS 2 'Share-based Payment'</p> <p>Required Discuss how the above transaction should be treated in accordance with IFRS.</p>
		<p>http://www2.accaglobal.com/pubs/students/acca/exams/p2/past_papers/int/p2int_2010_dec_q.pdf</p>
<p>5. Ethically aware and appreciates requirements of professional behaviour</p>		<ul style="list-style-type: none"> ▪ Understands the ethical nature of the professional accounting service and can evaluate business situations and conduct from an ethical standpoint ▪ Understands the privileges enjoyed by the profession and the penalties for failing to comply with minimum standards of ethical conduct. ▪ Understands the pressures facing the accountant to indulge in “<i>creative accounting</i>” and the imperative necessity to resist such pressures in order that the profession may remain credible and able to fulfil its promises to the public ▪ Understands the limitations of business ethics and professional ethics and appreciates the

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		<p>importance of the qualities of the professional accountant in producing suitable and sustainable ethical conduct</p> <ul style="list-style-type: none"> ▪ Is able to discuss ethical problems in a clear and concise way ▪ Understands social responsibility and the impact of accounting functions on the wider society e.g. through i) wasteful and hazardous practices, ii) impact of accounting information (budgets, annual reports and financial statements), iii) standards e.g. pensions, fair value and the need for the accountant to take these wider factors into account e.g. green accounting. <p><u>The skills to hone:</u> a) critical thinking about ethical issues in practice; b) awareness of risk factors of the profession e.g. how and why management may seek to manipulate period end measurement of assets and liabilities and the recognition of sales transactions for “window dressing” purposes; c) be able to resist and explain succinctly but firmly giving clear and reasoned ethical and professional arguments in support of positions.; d) construct an argument to prove a thesis; e) analyse and evaluate</p> <p>http://www2.accaglobal.com/students/acca/ethics</p>
6. Can present answers professionally (with skill, style and judgement)		<ul style="list-style-type: none"> ▪ Flexible and versatile in presenting explanations and analyses clearly and concisely ▪ Able to integrate the various knowledge and skills into a cohesive answer. ▪ Answers should be <u>structured</u> to provide a logical and coherent response to the question in the format of the premise (cite the technical accounting rule), the argument (apply the rule to the situation and discuss the fit or otherwise, based on the conditions) and the conclusion (resolve the issues raised in the situation). This scores professional marks. <p>Example A call option exercised at current fair value on repurchase date is a special case because it does not prohibit derecognition of the underlying shares which is normally the case with call options. Its value is close to zero (being exercised on repurchase date for an amount equal to the proceeds of initial sale) and as such does not give the holder residual interest and risks in the underlying shares. By implication the risks and rewards of ownership have been transferred on initial sale. Therefore, the underlying shares should be derecognised.</p>

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		<ul style="list-style-type: none"> ▪ This is a difficult skill to master – professional marks are awarded because the examiner seeks to encourage professional presentations. Understand the principles and practise regularly: a) when you read texts including the examiners reports, study and revision texts and answers to past questions analyse their structures and evaluate their merits and fit; b) when you write notes try and employ this structure; c) when you read example answers try and check the elements of a well structured professional answer. Score it for professional marks! ▪ Practise with many varied examples covering a wide area of the syllabus. <p>The skills to hone:</p> <ul style="list-style-type: none"> ▪ Understand <u>accounting principles well and the key objectives</u> that a financial reporting standard is aiming to achieve. Remember that ultimately the objective of each standard is to produce a set of financial reports that are relevant, reliable, comparable and understandable. Therefore when discussing an aspect of a standard ▪ Master the <u>specific critical aspects of each standard</u> and their practical applications, conditions, limitations, judgements and assumptions. Focus on these carefully and make time and effort to learn them (comprehensively) in a rounded way. This will enable you to write insightfully and effectively when answering <u>discursive</u> questions. ▪ Master the <u>language</u> of each standard - critical terms and expressions (e.g. “<i>settled net</i>”, “<i>only for the payment of principal and interest</i>”, “<i>financial assets that are debt instruments</i>”, “<i>linked to and settled in</i>”, “<i>with-and-without</i>”, etc) ▪ Craft sentences skilfully, avoiding wasted words and vagueness. Comply with the 4cs: crafting, consistency, control, clarity. This is a skill to be worked on alongside the study of technical accounting standards. ▪ Practise <u>clear thinking by being rigorous about what you know</u>. Ask yourself: i) what does it mean (e.g. a derivative), ii) how does it work, iii) why does it matter whether a contract is accounted for as a financial instrument or not, iv) Can you give me examples of a derivative? v) where does it fit in the Comprehensive Income statement? v) where does it fit in the SOFP? vi) what are the conditions for recognition? vi) how do I measure it? vii) how does it get used? , viii) what are the properties that allow it to be used in those ways? ix) What are the exceptions? x) what are the conceptual explanations for the exceptions? xi) Do they make sense? Are there practical applications of the exceptions? ▪ Remember that <u>you cannot write clearly unless you can think clearly and clear thinking is preceded by clear understanding</u> of what you need to write about. Clear understanding involves answering the questions you ask as fully and as clearly as you can. In addition,

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		you must read and consolidate your knowledge regularly. (Separate guidance is provided on how to read and consolidate your knowledge and insights.)

LEARNING PROBLEMS FACED BY STUDENTS OF P2	
PROBLEM	PROPOSED REMEDIES
<p>1. Not surprisingly, P2 students are often overwhelmed by the large number of new ideas, models and theories introduced (e.g. financial instruments has many abstract ideas which pose a challenge to “meaningful learning” for many students) and fail to grasp the underlying relationship between concepts.</p>	<p>A clear plan to focus on conceptualised understanding in the context of corporate financial reporting.</p> <p>Instructional approach required to strengthen the cognitive structure of students and promote good learning. As a consequence, teaching strategies to be implemented will be enhanced with concept maps, both in lectures and selected tutorials, with the aim of improving students' perception of their learning.</p> <p>The introduction of concept maps should result not only in intrinsic motivation, but also in the building of a cognitive structure by the learners.</p> <div data-bbox="837 1107 2051 1187" style="border: 1px solid black; padding: 5px;"> <p>http://en.wikiversity.org/wiki/Understanding: The Importance of Understanding</p> </div> <p><i>Explanation and justification</i> The use of concept maps (to promote “efficient” and “meaningful learning”) is grounded in cognitive learning theories, whereby the locus of learning is internal cognitive structuring and the role of the teacher is to structure content of the learning activity. The principle is that efficient learning is facilitated by soundly</p>

organised material and instruction which enable sound cognitive anchorage through creating linkages between concepts (to form effective schemas of knowledge).

Exposing students to concept maps as a possible form of **advanced organisers** should have contributed to the development of **meta-learning** aimed at:

- Clarifying the aim of a unit in general and each lesson in particular;
- Making the organisation of new material explicit;
- Making logical order of learning material explicit;
- Allowing students to establish a link between old and new concepts;
- Emphasising the relative importance of each concept;
- Promoting student engagement in meaningful learning activities.

2. **Lack of self management skills:** Students do not possess the ability to set goals and, as a consequence, are not able to plan how to achieve those goals. Furthermore, in 2003, only 52% of students agreed to the statement "When I become confused about something I'm reading for this unit, I go back and try to figure it out". **This can be linked to low levels of intrinsic motivation, indicating that the learners have not identified what factors would contribute to their self-actualisation. Poor attribution.**

Get a grip: assess success requirements and plan

Set clear goals and targets with key milestones e.g. by the end of month 1 I should have ...

More focus needs to be given in future to this particular aspect of peer evaluation. This is of paramount importance as the ability to evaluate peer performance is directly linked to the **ability for self evaluation**, which in turn is a critical aspect of becoming a lifelong learner.

How can you tell if someone understands?

There are observable behaviours for each of the kinds of relationships. They include contextualizing, comparing and contrasting, analyzing, instantiating, analogizing, and so forth. For **causal understanding**, they include such things as explanation (making an inference), prediction (describing an implication), and solution (solving a problem), which were described in Module 7 [Principle Using](#).

	Coping strategy: the cofes model
	Improve self-efficacy, intrinsic motivation.
	Meta cognition: analyse learning and success variables to help students to identify controllable factors that they can influence to improve their learning and success at exams. Attribution.
3. Resources: lack of skill in organising and managing resources for efficient and effective learning	The Study and practice material is structured to allow efficient reading and comprehension and access to practice materials.
4. Exercising judgement	A guide is available to support students in exploring the critical role of judgement in the process of Identification, Recognition, Measurement, Presentation
5. Selecting appropriate materials to study	An evaluation guide is available
6.	
7.	