

ACCA PAPER P2

Corporate Reporting

Skill, judgement & application practice book

At the professional level it is the application that counts, not the knowledge itself, which remains inert until it is applied. With this guiding principle this book aims to teach an approach to financial and corporate reporting where knowledge about concepts and principles is seen as a means of enabling capabilities (skills and professional judgement) to be developed and applied in practice. This pragmatic approach recognises that context is the driver of practice. Therefore, in developing a capability such as “how to exercise judgement to determine if a property should be classified as investment or PPE” the student is provided ample opportunity to work with examples from various contexts and guided to think about how the concepts and principles apply and to appreciate how variations in contextual conditions affect the way that the economic substance of a transaction is determined and reported. By cycling through the process the student is conditioned to think in the discipline: to analyse transactions in a structured way using a framework, to think critically and apply judgement in searching for a fit between the circumstances of the transaction and the financial reporting principles that best reflect its economic substance. Deliberate practice like this builds the student’s confidence and versatility in application and aids independent solving of unstructured scenario problems – the most challenging aspect of the study of corporate reporting. At the same time the student learns to communicate professionally at the top end of the reporting cycle – to shape the message to suit a diverse audience each according to their needs. Overall, the student is optimally equipped to perform effectively in all of the envisaged roles: analyst, adviser and consultant.

CONTENT

EXPLAIN THE NATURE OF CORPORATE REPORTING

- What it is
- What it covers
- The **drivers**: fundamental, regulatory, institutional, international, local, stakeholder and their differing objectives, requirements and constraints.
- How it differs from financial reporting
- The **issues**: ethical and otherwise; as this paper is exclusively focused on measurement, presentation and disclosure, ethics is only considered in this context to the extent it threatens the attainment of these objectives. Therefore focus the discussion on these parameters; for instance, financial reporting fraud highlights the risks to financial reporting usefulness of measures of financial performance driven by dishonesty and self-interest.
- The role of context: all of the related moving and fixed parts.
- The role of professional judgement: no binding force of precedent; establishing the grounds for judgement: the objectivity/subjectivity continuum.

ECONOMIC SUBSTANCE - SOURCES AND TYPES

- Understanding the “what”: the **nature and legal form** of transactions, conditions and other events
- The nature and legal form of **economic substance**
- Reflecting the **impact of context**: determiners, modifiers and qualifiers and the **alternatives to legal form**. **How and when terms and conditions make substance more relevant than legal form**. As with nature, often accounting states (or entities) are not permanent, indicating the *contingent nature* of accounting depictions of commercial “realities”. Transformations do occur often by operation of law, contract, counterparty default and environmental drivers for change e.g. technology results in obsolescence. Examples: from current to noncurrent, liability to equity, asset to expense, and vice versa.
- Commercial activity as a process of **value transformation**: accretion, extraction, depletion, exchange, recovery, disposal
- **Transaction cycles** and the depiction of economic substance; the **footballer’s lifecycle** as an example of transformations involving commercial rights and obligations that impose accounting challenges (IAS 38); the lifecycle of a plantation and the accounting challenges (IAS 41).
- Operational distress and the depiction of economic substance
- Financial distress and the depiction of economic substance
- **Strategic commercial decisions** e.g. sale of subsidiary, acquisition of a subsidiary, and the depiction of **economic substance**.
- Incentivising and motivating staff: employee benefits, share options and SARS. Similarities and differences

THE PROCESS OF CORPORATE REPORTING

Capture, record, present and disclose: **CF-based IFRS instrumentation**: application cost constraints, benefits and priorities. Expediency trumps principles.

The *true-and-fair* override. Accounting for contingencies. Accounting policies – drivers, opportunities and constraints.

IFRS that are in conflict with the **Conceptual Framework** (application principles and concepts)

Principle-based: general principles (Conceptual framework); application principles (IFRS)

Practices that are not IFRS based: using the **IAS 8 Hierarchy**

- Identification
- Recognition
- Measurement

- Presentation
- Disclosure

Discuss the general procedures and requirements driven by regulation, commercial reality and local conditions

Outline the implications for the student of corporate reporting – how to develop the requisite competences.

Explain the crucial attitudes e.g. willingness to work hard and keep up to date, learning to learn, extensive practice, develop subskills

The role of ethics

THE CRUCIAL COGNITIVE CHALLENGES OF THE CORPORATE REPORTING STUDENT

- Types of understanding (refer to learning P2 efficiently) for corporate reporting e.g. conceptualised understanding/concept understanding
- The accounting question: clear understanding (and ability to apply) the **requirements** and **guidance** in **standards** and **interpretations**.
- Types of cognitive activities and skills required: e.g. think critically about a problem from all sides to assess (or discern) the true substance (after assessing the relative impact of the modifiers, qualifiers on the outcome of the transaction). **Complexity** (e.g. multiple layers, factors, whether driven by contract or the wider economic conditions and commercial) **requires** analysis, **criteria of appraisal** (e.g. **definitions** and **measurement** concepts of the Conceptual Framework) and synthesis – bring it all together to exercise judgement about the best fit for expressing the economic substance of the underlying transactions, conditions or other events. **Structured thinking** to link the parts, support coherence and enhance validity as in presenting **arguments** and **explanations**, or in professional presentations generally.
- **Holistic thinking to discern rights and obligations and their associated conditions** comprehensively
- **Connected thinking** to fit the transaction within the overall financial reporting framework – presentation. Informs the chart of accounts; guided by the IFRS.
- Creative and evaluative thinking to contribute to practice.
- The **VEEEC** accountant: versatile, ethical, energetic
- Quality standards (e.g. precision, grounding, coherence) in crucial accounting thought processes.
- Validity: legitimacy, ethics, technical requirements

HOW TO STUDY, LEARN AND DEVELOP THE COGNITIVE SKILLS REQUIRED

THE LEVERS OF THE SYLLABUS: understanding the exam

- The syllabus **aims** interpreted
- The syllabus **rationale**
- The syllabus **approach**
- The **intellectual levels** highlight cognitive challenges (BPP 5.1, p37)

BRINGING IT ALL TOGETHER

Bringing it all together: how to approach the study of sections of the syllabus. Addressing their **unique intellectual requirements** e.g. **critical evaluation** of **measurement models** (Section B). Understanding the reasons why it is essential to study this section before going on to study the later sections. In other words, what should we take from the study of Section B that is essential for an understanding of the rest of the syllabus?

- Understanding the *examiner's craft* as an aid to learning corporate reporting effectively.
- How to study [section A](#)

- How to study [section B](#): the role of theory
- Why the study of *current issues* should be addressed at the outset as an essential component of building the *critical, reflective* and *continuous learning* mindset of the [professional accountant](#).
- Why *current issues* should be integrated into the study of all aspects of the syllabus including ethics.

This discussion must be illustrated with relevant exam materials: There should be clear articulation of

- Learning outcomes,
- Learning objectives
- Learning requirements
- Assessment requirements

WHAT THE STUDY OF CORPORATE REPORTING ENTAILS AND HOW THESE REQUIREMENTS ARE DICTATED BY THE DRIVERS OF CORPORATE REPORTING

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THE LIFECYCLE OF AN IFRS & THE EXAMINERS

- Development
- Introduction
- Application
- Maturity
- Decline
- Withdrawal

ACCOUNTING STORY

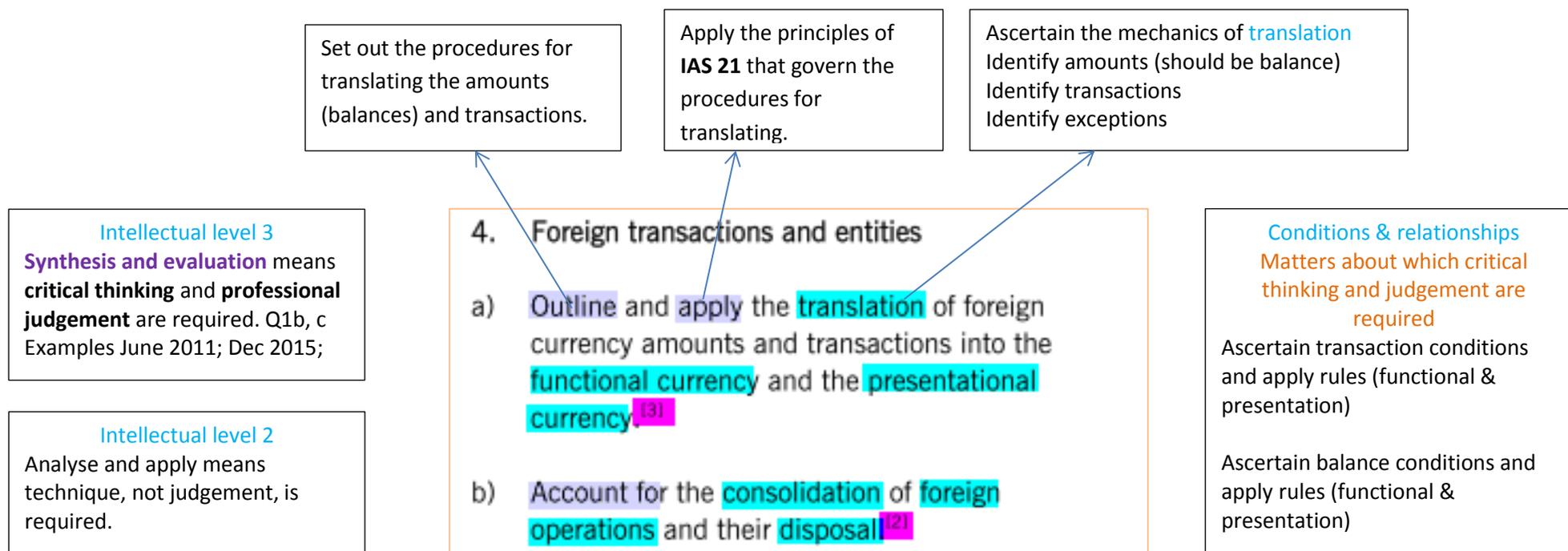
- Real life events that demonstrate the principles and concepts in action

IAS 21 The effects of changes in foreign exchange rates

What you need to master

- The requirements; the mechanics; the rationale (principles); the effects Understanding the examiner's approach – the rationale for the question

ANATOMY OF THE STUDY GUIDE



TABULATE ASSESSMENT REQUIREMENTS v past questions

Assessment requirements	Intellectual level	Skills assessed	Transaction /Balance	Past question (marks)
Determine functional currency	3	Outline and apply principles to (standard) business context; requires critical thinking and reasoned professional judgement. Applied understanding. Effective writing skills. Commercial awareness.	Ordinary transactions routinely carried out	- June 2011 q1ai (7 marks) (answers); - June 2014 q2a (7marks) (answers)

Account for revaluation of an overseas property financed by a foreign loan (functional currency)	2	Accounting technique: acquired assets must be recorded at historical cost and translated at the closing rate. The effects of exchange rate movements are included in the translation adjustments.	Investment in IAS 16 PPE: recorded at historical cost; depreciated at historical cost; revaluation at the reporting date.	<ul style="list-style-type: none"> - Dec 2015 - Sep 2016 q2 - June 2011 q1aii note 3 (2 marks), (answer)
Recognise impairment on foreign property	2			
Recognize the consequences of impairment on foreign property e.g. deferred tax				
Translate subsidiary into functional currency				
Consolidate foreign subsidiary				
Account for acquisition of foreign subsidiary				
Account for disposal of foreign subsidiary				

ANALYSE PAST QUESTIONS TO EXPLAIN PRINCIPLES AND PRACTICES

ANALYSE EXAMINER'S REPORT TO PROVIDE FEEDBACK ON COMMON MISTAKES TO BE AVOIDED

ANALYSE EXTRACTS FROM PUBLISHED FINANCIAL STATEMENTS TO PROVIDE REAL LIFE ANCHORAGE OF PRACTICES TO BE MASTERED

ANALYSE QUESTION SCRIPT

SUMMARISE IAS 21 REQUIREMENTS

DETERMINE FUNCTIONAL CURRENCY

ANALYSE TRANSACTIONS, DETERMINE PRACTICE

EXPLAIN EFFECTS AND REQUIREMENTS IN FINANCIAL STATEMENTS

ANATOMY OF THE STUDY GUIDE

- a) Apply the method of accounting for **business combinations** including complex group structures.^[3]
- b) Apply the principles in determining **the cost of a business combination**.^[3]
- c) Apply the recognition and measurement criteria for **identifiable acquired assets and liabilities** and **goodwill** including **step acquisitions**.^[3]
- d) Apply and discuss the criteria used to identify a subsidiary and an **associate**.^[3]