F2 Financial Management

Questions and answers from past ‘ask a tutor’ events – archived by syllabus area

[Please note that the responses given are the tutors’ own. They are not definitive nor do they necessarily reflect the views of CIMA.]

Syllabus area A – Group Financial Statements

Question: (Complex Group Structure)
A acquired 60% of B and B acquired 25% of C What value should C Co be in the group accounts of A at year end? This type of question I seem to always struggle with. My answer was that A owns 15% of C and hence should report 15% of post acquisition profits. The answer indicated 25% of C's net assets plus unimpaired Goodwill Is the 15% of post acquisition profits or 25%? If B was an associate rather than a Subsidiary is the entry one of a simple Trade Investment? Your advice may help make these combination questions clear.

Response from tutor:
The key here is that B is a subsidiary. So, when consolidated, its net assets are added to those of A, the parent. The net assets of B include the investment in C, and so this should be included in its entirety (just like any other asset - you wouldn't consolidate just 60% of, say, non-current assets). However, you then need to bear in mind that the non-controlling interest in B are entitled to a share of this asset, so adjustment needs to be made there too.

If B was an associate, it would not be consolidated into the group accounts of A, so the problem does not arise - B would be equity accounted for, and there would be no need to worry specifically about C.

Question: (Foreign Subsidiary)
Could you help me understand the 'two methods' for dealing with foreign currency balance sheets and how to distinguish between the two?

Response from tutor:
The key when translating the accounts of foreign subsidiaries for consolidation is to identify the functional currency of the subsidiary - that of the primary economic environment in which it operates. Things to look out for are the currency that mainly influences selling prices and costs, and the country whose competitive forces and regulations are most relevant.

If the functional currency is the same as that of the parent, the subsidiary is effectively just an extension of the parent's activities. Changes in exchange rates will have an immediate, item-by-item effect on cash flows rather than simply affecting net investment. Companies generally present financial statements in their functional currency, in which case no translation is necessary and the consolidation proceeds as normal. If a different presentation currency has been adopted, the temporal method of translation should be used - in other words, treat transactions as if they had been entered into by the parent.
If the functional currency is different to that of the parent, the subsidiary is effectively a separate company, and is treated as a net investment. Assets and liabilities are translated at closing rates, amounts in the income statement are translated at actual transaction rates (an average is usually used for practical purposes).
I think the second situation is far more likely to come up. If you are given a question where the subsidiary accounts are in a different currency, then assume (in the absence of further information) that this is their functional currency, so the position is the second situation described.

Question (Intra group transactions)

I have problems dealing with unrealized profit of the sale of property, plant and equipment between group entities. Can you explain how to account for unrealized profit in the consolidated balance sheet for say, the sale of a plant from parent to subsidiary, assuming the plant is subject to depreciation? If the sale is made by the subsidiary to parent, what is the difference?

Response from tutor:

The key is to ensure that the consolidated financial statements show results as if the inter-company sale had not taken place. Adjustments must be made to the carrying value of non-current assets, and also to retained earnings.

The easiest way is to calculate the carrying value of the asset as it is in the receiving company’s books, and what it would have been if it had stayed in the original company’s books. Adjust for the difference by debiting reserves and crediting non-current assets.

If the sale is from subsidiary to parent, then only the group share needs adjustment against reserves (although the full adjustment is necessary against non-current assets). A further adjustment is then needed within the non-controlling (or minority) interest.

Question: (Net Assets Definition)

What is the correct definition of Net Assets. I have noticed that in some questions this term is used in the context of profits i.e. profits for associates and in some other questions it is referred to as Total of Share Capital and Retained Earnings.

Response from tutor:

Net assets means total assets less total liabilities. As such, it means exactly the same as equity, therefore share capital plus reserves.

Question: (Piece meal acquisition)

In the area of Piecemeal Acquisition where we are increasing the stake from a simple investment to a subsidiary, I am confused in the calculation of goodwill. The figure of “Fair Value of previously held interest” is quite complicated in the CIMA official text book of the subject. I am particularly referring to the example 7.D and Question 3 in the end of Chapter 7 of the book.
Furthermore, can I still follow the two stage calculation of Goodwill as shown in the previous text book of the subject?
I am studying the subject through self study without any access to a tutor and would be grateful for your clarification.
Response from tutor:

I don't have access to the particular questions referred to, but can hopefully be of assistance on the issue raised.

When a further acquisition turns a simple investment into a subsidiary (i.e. when control is acquired), the previously held interest is treated as if it was sold and then immediately reacquired at fair value. This will result in a gain to be recorded in the income statement, and the fair value of the previously held interest is added to any consideration transferred within the goodwill calculation.

In the absence of any other information, the fair value of the previously held interest may be calculated based on the consideration transferred for the new interest. For example, suppose the previously held interest was 15% and a further 45% has just been acquired for consideration with a fair value of $600m. At the date of the second acquisition, the fair value of 45% must be the $600m transferred, so the value of the previously held 15% must be $600m x 15/45 = $200m.

Under this method, goodwill is calculated with reference to assets acquired at the date control passes - the value of those assets at the date of the previous acquisition is irrelevant. As such, the goodwill should be calculated in one calculation. In the above example, the way to think of it is that 60% has been acquired, on the date of the second acquisition, for a total consideration of $800m.

Hope that helps best of luck in the exam.
Note: An article on Goodwill was in a recent issue of FM.

Question: (Gain on disposal)

I've just attempted the May 2010 F2 past paper Q6. In note 5 a $50,000 gain on disposal of an AFS investment occurred, but in the model answer I cannot find any adjustment made in the consolidated accounts.
Please can you explain why no adjustment has been made? Is this just an error in the model answer and if so, what would the correct treatment be.

Response from tutor:

When an available for sale financial asset is revalued each period, the gains or losses are taken directly to equity. On disposal, the cumulative gain should be recognised in profit and loss. In this question, the current gain of $50,000 and the previous gains of $40,000 should, therefore, be reported in profit or loss.

If you look at the examiner’s answer, this is exactly what has happened. The $50,000 gain on disposal is already included in administrative expenses, so requires no adjustment. The previous gains of $40,000 have been credited to administrative expenses (i.e. subtracted from the expense, since they are gains rather than losses) and debited to reserves (deducted from other comprehensive income, which is where they were originally reported).
**Question: (Consolidating financial statements)**

The question in the CIMA FM June 2010 magazine by Sally Baker is very interesting and I had a go at it. The solution is in Velocity June 2010 issue.

http://www.cimaglobal.com/Thought-leadership/Newsletters/Velocity-e-magazine/Velocity-June-2010/Model-answer-F2-complex-groups/

I had trouble understanding why she used 100% fair value of net assets at acquisition for Snow and Thunder instead of 70% and 42% respectively, which by my calculation, goodwill turned out to be $1650 + $410 = $2060. Please HELP.

**Response from tutor:**

The key here is the requirement to include the part of goodwill attributable to the NCI, and the instruction in the question to do this at fair value. Essentially, you must consider like for like – since the fair value used is that belonging to the parent PLUS that belonging to the NCI. This represents the fair value of the WHOLE SUBSIDIARY at the date of acquisition, not just the 70% (or 42%) belonging to the parent. For fair comparison, we must therefore include 100% of the net assets rather than just the parent’s share.

Hope that helps best of luck with the exam!

**Question: (Fair Value in acquisition)**

Provisions for restructuring while determining the liabilities assumed for computation of Goodwill:
As per the official learning system Chapter 2 Page 17, future losses or other costs expected to be incurred as a result of a combination are not liabilities incurred or assumed by the acquirer and therefore, not included as part of cost of combination.

However, if we see the answer of Question no. 4 of Revision questions of Chapter 2 Page 22, it says IFRS 3 allows provisions where there is a constructive obligation only. I didn't understand and found it conflicting.

Adding to the confusion, answer of Question no. 5 of Revision questions of Chapter 2 Page 22, the provision for rationalisation programme is allowed.

I want to know the position as of date. Please guide me.

**Response from tutor:**

I do not have these questions to hand, so cannot comment specifically, but your initial discussion of IFRS 3 is quite correct – an acquirer should NOT recognise liabilities for future losses or other costs expected to be incurred as a result of the combination. The reason for this is that there is no obligation (legal or constructive), so the intention to restructure does not meet the definition of a liability.

The exception is not really an exception at all – it still fits with this rule! A restructuring plan SHOULD be recognised as a liability if the subsidiary was ALREADY COMMITTED to the plan before the acquisition. Thus, there must be an existing obligation, not merely an intention. This obligation may be
constructive or legal.

Hopefully this clears up the confusion – best of luck with the exam!

**Question: (selling a NCA)**
When a non-current asset is sold by parent co. to sub co., how will it affect consolidated accounts? More specifically, I want to know about the treatment / effect of depreciation on NCI (can you please explain it with regard to F2 - Official learning system Example 3.H page 38).

**Response from tutor:**

I do not have this example to hand, but hopefully can shed some light...

The key here is the single entity concept – group accounts are prepared as if the group is, in fact, a single company. If a non-current asset is sold within the group, that asset must be valued in the consolidated statement of financial position as if the sale had never taken place.

Suppose an asset with a remaining life of 5 years and a carrying value of $50,000 is sold to a subsidiary for $60,000 at the start of the current year. The first step is to remove the actual profit on sale of $10,000 – this is debited to reserves (P&L) and credited to non-current assets (reduce the value). Since the sale was from parent to subsidiary, the parent has recognised this profit which has been deemed unrealised, so no adjustment is required to NCI.

The second step is to recognise that the subsidiary will have charged more depreciation that the parent would have done if the sale hadn’t taken place ($60,000 / 5 = $12,000 rather than $50,000/5 = $10,000). The extra depreciation of $2,000 requires adjustment – debit non-current assets (to increase the value) and credit reserves (P&L). Your confusion probably lies with the fact that no adjustment is made to NCI – surely it is THEIR depreciation that has changed? The key is that this adjustment should not be thought of as incorrect depreciation being reversed – rather it is the gradual realisation of the profit deemed unrealised on the sale. We originally said that the $10,000 profit was unrealised, but use of the asset has realised $2,000 of that. The adjustment thus relates to the parent rather than the subsidiary.

**Question: (Identifying the group structure)**

I seem to struggle to work out the percentages for Mixed Groups in F2. Example 9B in CIMA official book has companies P, Q and R where P purchased 12,000 shares in Q and Q's Issued capital is $20,000, therefore P owns 60% in Q. Q invested in R when purchased 4,000 shares and R's issued capital is $16,000. So Q owns 30%. P has also invested in R, purchased 4,800 shares (R's issued capital is $16,000) therefore 25%.

In the book the group structure is P in Q 45/60=75% and Q in R 30/50=60%. It also calculated that P controls 55% of voting shares in R, so R is a subsidiary. How was the 55% calculated?
Easier example is in the Exam Practice Kit (also CIMA official) where Parent owns 60% of subsidiary as well as 15% of sub-subsidiary. Subsidiary owns 40% of subsidiary. Control percentage is 55% (how was this calculated?) and effective percentage = 39% (I have worked this one out 15% + (60%×40%).

Response from tutor:
I do not have the example to hand, but your numbers seem a little confused!
From what you have said, P owns 12,000 shares in Q, which has a total issued capital of 20,000 shares, so P owns 60% of Q. I am not sure where you have got the 45/60 from. Similarly, if Q owns 4,000 shares in R, which has a total issued capital of 16,000 shares, Q owns 25% of R rather than 30%. P owns 4,800 shares in R, which is 30% rather than 25%. Again, I am not sure where you get Q in R 30/50 from.

In terms of ownership, P owns 30% of R directly, plus 60% of Q's 25% = 15%, giving a total of 45% and a NCI of 55%. In terms of control, P controls the 30% that it owns directly, but since it also controls Q, it must control the 25% that Q owns, giving it control of 55% in total (30 + 25). It is this control that determines subsidiary status, rather than the ownership of 45%.

Question: (consolidates profits on disposal)
In chapter 8, review question of cimastudy.com. In calculating the consolidated profit on disposal Fair Value of 40% investment retained amount of 2000; was difficult to identify from the question, can you please advise me on the same.

Response from tutor:
In this case, the $2,000,000 should have been given in the question as the fair value of the 40% retained, but unfortunately was omitted. The 20% disposed was worth $1,250,000, which might suggest that 40% should be worth $2,500,000. The lower actual value suggests that there is extra value in control rather than merely significant influence.
Again, to reiterate, this was an omission from the question, and should not be an issue in the exam.

Question: (piece meal acquisition and complex group structure)
Please help me on how to answer a complex group consolidation question which includes piecemeal acquisition and disposal of subsidiaries.

Response from tutor:
Piecemeal acquisition and disposal are indeed tricky areas – I shall try to give some brief hints that may help.
Let’s start with disposals. Disposal can take different forms – full disposal means all of the holding is sold, whilst partial disposal means only part of the holding is sold, leaving either a reduced holding in a subsidiary, an associate or a trade investment.

Note that under IFRS 3, disposal only occurs when control is lost. On such an event, any retained interest (associate or trade investment) is measured at fair value on the date of disposal, and a
gain/loss is reported in profit or loss for the period. To calculate the gain/loss, the fair value of the whole investment prior to disposal (FV of consideration received plus FV of investment retained) is compared to the carrying value of that investment (net assets x % share before control lost, plus goodwill attributable to parent).

If there is a partial disposal but control is retained, this is NOT regarded as a disposal by IFRS 3, but merely as a transaction between owners. So, an adjustment is made to the parent’s equity rather than via profit/loss for the year. The adjustment is calculated by comparing the fair value of consideration received to the increase in NCI (including goodwill) at the date of disposal.

For piecemeal acquisitions, the key once more is to identify when control is obtained – when we “cross the accounting boundary.” This happens when a trade investment or associate becomes a subsidiary, and the first step is to revalue the previously held investment to fair value, reporting any gain in profit/loss. Goodwill is calculated in the usual way, but the fair value of the previous interest is added to the consideration transferred. Once again, if an additional investment merely increases the percentage owned of a subsidiary, an adjustment is made to parent’s equity.

**Question: (Adjustment of Goodwill upon disposal)**

I have the question from Paper F2 Financial Management - Chapter 7 (Example 7.F). My question is why we adjust or (minus) the Goodwill for the working of Consolidated profit on disposal of investment? The adjustment of Goodwill confuses me at this calculation kindly guide me in this regard.

**Response from tutor:**

When disposing of an investment, the gain or loss is calculated by comparing the fair value to the carrying value. The bulk of the carrying value is made up of the parent’s share of net assets, but the consolidated balance sheet also carries a value for goodwill in the subsidiary. This must be deducted in just the same way as the parent’s share of net assets. Remember, the consideration we receive for the investment sold will include the buyer’s valuation of goodwill, so we must deduct OUR valuation of goodwill in order to compare like with like.

**Question:**

Restructuring costs. If factory has assets that are not being used. They have significant value, haven't been used as demand forecast turn out to be too optimistic. What kind of criteria should be fulfilled to classify those costs as restructuring costs?

**Response from tutor:**

Not sure quite which costs you are referring to here? Presumably making changes so that the factory and assets become usable?

Provisions for restructuring, along with other provisions, are covered by IAS 37. A restructuring is defined as "a programme that is planned and is controlled by management and materially changes either the scope of a business undertaken by an entity or the manner in which that business is conducted." The termination of a line of business, as may be the case here, may well be included under that definition.
In terms of whether a provision may be recognised, the key is that a provision is merely a liability of uncertain timing or amount. To qualify, there must be an OBLIGATION. This may be legal or constructive, but must be present - mere intention is not enough. The entity must have a detailed formal plan for the restructuring, and it must have raised a valid expectation in those affected that the restructuring will take place.

As a separate issue, if management are committed to selling the assets, IFRS 5 may have something to say. Assets held for sale should be measured at the lower of carrying amount and fair value less costs to sell.

Finally, if neither of the above apply, IAS 36 would suggest that the assets require review for impairment, and should be written down to recoverable amount - the higher of fair value less costs to sell, and value in use. In the scenario you describe, value in use is likely to be low.

**Question:**

If company A has 80% share in company B and 25% share in company C and show control. Company B later acquires 60% share in company C, after this ACQUISITION A has greater significant control and indirect holding in company C when does A records good will for C in books?

**Response from tutor:**

There is a little confusion in the language here – no distinction is made between “control” and “significant control” in IFRSs. IFRS 3 defines a business combination in terms of an acquirer gaining control over a company. Whilst this is usually presumed to mean more than 50% of the equity, it is possible that control may be gained with a lesser holding (the key is the power to govern the financial and operating policies of the entity – this could come from voting rights by statute or agreement, for example).

IFRS 3 states that goodwill should be measured and recognised when control is obtained – in your case this may be when only 25% is held. Transactions thereafter are regarded as “transactions between owners”, and merely involve an adjustment to equity. The word "significant" does arise in the definition of an associate – IAS 28 says that an associate is an entity over which the investor has significant influence but not control. If the initial investment in C is of this kind, then goodwill will not be recognised until control is gained (the same rule as above). Presuming this happens when B acquires its 60% of C, this later transaction triggers the calculation of goodwill. The previously held investment is treated as if disposed and immediately re-acquired, both at fair value.

**Question:**

If company A has 60% holding in company B and good will has already been measured and noted, later A acquires 20% more shares of company B and pays more than the value of Net Assets. What entries and adjustments we make to get an accurate balance sheet.

**Response from tutor:**

The fact that goodwill has already been measured means that the initial 60% investment gave control. The new 20% is not treated as an acquisition under IFRS 3, but merely as a transaction between owners. No remeasurement to fair value is necessary, and no gain or loss is recorded in profit for the year. The consideration paid is compared with the decrease in non-controlling interest, and the difference is adjusted in the equity of the parent (company A). Note that if consideration exceeds the decrease in NCI, the adjustment will be a debit to equity, and vice-versa.
Question:

Company A acquires 80% holding in company B and records 50m as good will later it disposes 60% of its holdings what becomes of the good will?

Response from tutor:

The answer here depends upon the status of the remaining investment. If control is retained (which could be the case, despite the fact that the holding is down to 20%), then IFRS 3 treats this as a transaction between owners rather than a disposal. No profit or loss on disposal is recorded in profit for the year – the difference between consideration received and the increase in non-controlling interest is adjusted via the equity of the parent.

Assuming control is lost, then a gain or loss on disposal must be included in the consolidated income statement. The consideration PLUS the fair value of the investment retained is compared to the parent’s share of net assets at the date of disposal, including goodwill. This treatment is as if the whole investment has been sold, so goodwill is derecognised. The remaining investment is treated as if disposed and immediately reacquired at fair value at the date of disposal – if it qualifies as an associate, it will be equity accounted thereafter.

Syllabus area B - Issues in Recognition and Measurement

Question: (Substance Over Form)

I encountered a question in my F2 Learning System about accounting for substance over form that I find difficult to understand. The extracts are as follows:

‘K sold a leasehold interest in a property to a bank at $100m. The terms of the sale were that K has the option to repurchase the leasehold interest on 31 December 20X2, 20X3, or 20X4, at the price of $110m, $121m, $133m respectively. If the options are not exercised, the bank can require K to repurchase the interest on 31 December 20X5 for $146m. The option was not exercised on 31 December 20X2.’

The question requires me to reflect the transaction in the financial statements for the year ended 31 December 20X2. The problem I find puzzling is that the answer classifies the transaction as held to maturity instrument. Can you explain why?

I encountered a similar question in the past year Q&A for November 2008 exam, question seven, part (a). The answer stated that the sale of plant by ABC to XB should be treated as borrowings at an interest rate of 10%. Can you explain why 10% and why is it classified as borrowings and not held to maturity instrument?

When accounting for piecemeal acquisition: from simple investment to subsidiary, say 10% and later, 70%. My understanding is that when calculating consolidated reserves to be included in consolidated balance sheet, I should calculate for each stage individually. However in the CIMA Practice Kit, the answer calculates for 80% share of the subsidiary's reserves at one go. Can you explain the correct treatment?
Response from tutor:

The point of substance over form is that you need to see past the mechanics of the transaction and identify the true underlying substance. In the case of K and the leasehold property, the transaction is a sale and repurchase agreement. K has retained significant rights over the asset, particularly as it may be obliged to repurchase. So, it would be inappropriate to recognise revenue from the sale. The asset must be retained in K's statement of financial position, and a financial liability arises (as if K has received a loan from the bank secured on the leasehold interest). In accordance with IAS 39, financial liabilities (other than those held at fair value through profit or loss) are dealt with using the amortised cost method. The classification of "held to maturity" refers to financial assets rather than financial liabilities so would be relevant to the treatment by the bank rather than K.

Referring to the November 2008 exam question, the treatment is, in fact, just the same. In both cases, no sale has taken place and a financial liability arises (thus both would be shown as part of borrowings). The rate of 10% is derived from the figures - the substance is that ABC has borrowed $1,000,000 and will repay $1,210,000 in two years time - add 10% compound interest to $1,000,000 for two years, and you will get to $1,210,000.

Regarding piecemeal acquisition, the issue here is the revised IFRS 3. The standard states that a business combination only occurs when control is achieved. So when a transaction occurs which secures control (whether the previous interest was an associate or a simple investment), the previous interest is treated as if it were sold and immediately reacquired at fair value, on the day that the new interest is purchased. So, reserves in your question are calculated as if the whole 80% were acquired in one go.

Question: (Pension Scheme)

Do you have any tips on 'easy' marks to be gained on a pensions question? I am really struggling with this chapter.

Response from tutor:

This is a very difficult question to answer! You need to know the difference between defined contribution plans and defined benefit plans - this will help you identify the former, which are very easy to deal with (contributions are recognised as an expense in the period they are payable).

For a defined benefit scheme, the amount to be shown in the balance sheet is the difference between pension liabilities (measured at present value) and pension scheme assets (at fair value), adjusted for any actuarial gains/losses or past service costs not yet recognised.

One approach would be to identify the various changes to scheme assets and liabilities. Liabilities are increased by the interest cost (the unwinding of the discount), current service costs (i.e. increased entitlements due to another year's employment) and past service costs (due to improvements of benefits), and reduced by pensions actually paid. The assets are increased by the expected return, together with contributions in the period, and reduced by pensions actually paid. Actuarial differences can then be identified by comparison with year end values for assets and liabilities. The treatment of these will then be determined in accordance with IAS 19, subject to instructions in the question.
**Question: (Actuarial Gains & Loss)**

When calculating Gain/Loss of Actuarial estimate I note that I have seen answers that ignore the cost of the service fee and then other answers where it includes the Service Fee when calculating the result of the Gain or Loss, is there a rule of thumb for these calculations?

**Response from tutor:**

It's difficult to see what you are getting at without specific questions to look at, but you may be referring to past service costs. These are costs of increased benefits resulting from improvements to the scheme, and treatment depends upon whether the improvements relate to current or past employees.

For past employees (if they are affected), the past service costs should be recognised in full immediately. For current employees, the costs should be amortised over the period until the benefits vest.

**Question**

Can you please explain under IAS32 & 39 how the treatment for hedging against Assets is different from hedging against cash flows?

**Response from tutor:**

Hedging involves the designation of hedging instruments so that their change in fair value is offset by changes in fair value or cash flows of hedged items. In other words, it is an attempt to remove risk.

There are two types of hedge. A fair value hedge addresses the risk that the fair value of an asset or liability could change. For example, the value of oil inventory could change significantly after purchase. A cash flow hedge addresses the potential variability of future cash flows. For example the cost to settle a foreign payable will change between purchase date and settlement date, due to exchange rate changes.

Under a fair value hedge, the gain/loss in re-measuring the hedging instrument (e.g. a futures contract to sell the oil in the example above) is recognised in profit and loss, along with the gain or loss on the hedged item. Note that in the inventory example, a gain in inventory value would not normally be recognised until realised, but hedge accounting requires its recognition to match against the hedging instrument.

Under a cash flow hedge, the portion of the gain/loss on the hedging instrument that is determined to be an effective hedge (i.e. more than matched by the change in value of the hedged cash flow) is recognised directly in equity, whilst the ineffective portion is recognised in profit and loss.

**Syllabus Area C - Analysis and Interpretation of Financial Accounts**

**Question:**

What is the best way to prepare for report writing on Financial Analysis.
Response from tutor:

Report writing on Financial Analysis is one area which has improved over the last few exam diets, the best way to deal with the question is only by having clear understanding of what is required in a question however a generic way of dealing with the question would be.

1. Answer the question in a right format.
2. Calculate the “relevant” ratios and draw a table on a separate sheet neatly.

For writing the report and commenting upon the ratios the candidates are advised to keep in mind the following,

1. Most importantly the scenario what does a specific ratio means to the particular business for example if it is a real estate business than the ROCE is expected to be relatively lower than the ROCE for a human intellect based company. Similarly the ration tend to reflect different results and should be interpreted accordingly in different business scenarios for instance we might not get an ideal Acid test ratio for a super market which has recently expanded in the last quarter and opened up four or five new stores and since the super market operates on high stocks and with the given scenario of new branches would lead more inventories then the receivables so the commentary would vary accordingly.
2. In order to gain good marks it is advisable that candidates while making a comparison of these ratios discuss the reasons, the impact , the limitation and if time permits the possible recommendation to improve on business.

Syllabus Area D - Developments in External Reporting

Question:

What is the best way to prepare learning outcome D1e, identify and discuss the major differences between IFRS and US GAAP, and the measures designed to contribute towards their convergence.

Response from tutor:

The convergence between IFRS and US GAAP is a developing area in the accountancy field, the syllabus area requires the candidates to keep their knowledge up to date and relevance with reference to new issues, difference and convergence. The best to seek help with this is with the lecturer’s at your college or surf at the web. There are tons of website apart for CIMA’s website where they related articles and discussion are published such as IFRS.com, PWC.com & IAS PLUS.com A note is to be taken here is that candidates require to be able to discuss the issues related with the convergence or difference so that is the maximum limit set for their understanding of the topics, they are unlikely to be asked to analyse or recommend upon these issues.

General Questions

Question:

Which topics from Paper F2 have caused the most problems for students in past papers?
Response from tutor:

Paper F2 is very technical, and you should treat all of the topics as important. Students frequently have problems answering exam questions on areas they have neglected in their studies.

We recommend that you read the post exam guides for the old Paper P8 (Financial Analysis – 2005 syllabus) to identify the areas that students consistently have problems with when sitting this exam. The guides also provide an indication of what the examiner’s expectations are of student answers. Both post exam guides and suggested answers to previous exam questions are available to download from the CIMA website.