

Q&As

P8 Financial Analysis

Questions from tutors with the Examiner's answers

Examiner's general point

Essentially, if a standard is covered in the official CIMA *Study System* it is examinable. In most cases the standards covered in the *System* are expressly stated in the syllabus. However, the body of extant international standards has been a bit of a moving target since the syllabus was written and the following specific issues should be noted:

- IFRS 3 has been published, thus superseding all references to IAS 22 in the syllabus.
- IAS 15 is no more, and therefore will not be examined.
- IFRS 2 has been published. It is covered on pp. 13-15 of the *Study System*.

Q IAS 1 is included in the list, but IAS 8 is not. These standards are bound up with one another and both relate to presentation of financial statements. Moreover, in the December 2003 revision of the standards, material was swapped around between them. Could the examiner explain the rationale for examining IAS 1, but not IAS 8?

A IAS 1/IAS 8 Presentation issues. Presentation is not a key element of the learning aims of the paper, and the coverage of IAS 1 (and very brief reference to IAS 8 on page 9 in respect of accounting policies) is intended to indicate only the level of background knowledge required. For example, where students are required to prepare a consolidated balance sheet or income statement, issues relating to presentation would not attract any significant marks, but it would be expected that such statements would be set out in a recognisable international format, using appropriate terminology. The principle of substance over form (now specifically set out in IAS 8 rather than IAS 1 – apologies for the incorrect reference to IAS 1 on page 303) is clearly important to syllabus area B iii), but apart from that specific point the provisions of IAS 8 will not be examined. It will be assumed in setting this paper that students have a basic level of pre-requisite knowledge of issues such as presentation and accounting standards (such as that contained in the Financial Accounting Fundamentals syllabus).

Q Can you tell me if the new paper 8 syllabus has been revised in the light of IFRS 3 - Business Combinations? Under the original syllabus students had to both explain the pooling of interest methods and compare & contrast it with acquisition accounting etc. However the pooling of interests method has now been prohibited under IFRS 3. So in these circumstances what do the students need to know?

A Paper 8 will not examine any aspect of pooling of interests. The best guide to examinable standards is the current edition of the CIMA Study System; if a standard is covered in the Study System it is examinable. Tutors and Students should also look out for any additional guidance on the scope and nature of the paper in articles, published in CIMA's magazine *Financial Management* that deal with aspects of Paper 8.

Q IFRS 5 is specifically excluded from the syllabus according to the CIMA Study System. However, this is a key standard relating to presentation and its equivalents were examinable under the old Paper 7, both for UK and international streams. Could the examiner confirm that IFRS 5 will not be examined at all?

A IFRS 5. Agreed, this is a key standard in relation to presentation, but presentation, as noted, is not a key element of the learning aims of the paper.

- Q** IAS 18 is not included in the list of examinable standards. However, it is covered in Chapter 15 of the CIMA Study System. Could the examiner confirm whether IAS 18 is examinable?
- A** IAS 18 should be in the list of examinable standards on page 18, insofar as it relates to substance over form (as covered on pp. 304-305). It is examinable in this context.
- Q** I would appreciate a comment from the examiner on the extent to which Financial Analysis is dependent on knowledge gained from Financial Analysis and Tax Principles particularly in terms of specific assumed knowledge of IASs and IFRSs?
- A** I would respond by reference to the published qualification structure document and my article in CIMA Insider (January/February 2005 edition pages 18-19). The relevant bit of the qualification structure document is on page 9: 'The number sequence and grouping of papers studied at Managerial level is completely flexible. Individuals may choose any combination of papers to suit their own study requirements'. The extent of the flexibility available is demonstrated in the diagrams of the suggested study routes on pages 9 – 11. I think my article sets out quite clearly my understanding of the extent of pre-requisite knowledge for Paper 8, and this understanding is entirely in line with the qualification structure document. The article clearly states: 'Paper 7 is not a pre-requisite for Paper 8, and so the standards examinable in Paper 7 will not be examined in Paper 8.'
- Q** No standards relating to non-current assets are included in the list, ie IAS 16, 20, 23, 36 and 38. These are not covered in the CIMA Study System. However, Questions 5 and 7 on the Pilot Paper cover revaluation of property. Could the examiner confirm whether IAS 16, 20, 23, 36 and 38 are examinable?
- A** The standards mentioned (16, 20, 23, 36 and 38) are not in the syllabus nor are they covered in the *Study System* and therefore they are not examinable. Fair value adjustments upon consolidation are, however, covered (e.g. on p.72) under IFRS 3, and it is expected that students will be able to recognise the essential elements of revaluation adjustments. It should be borne in mind that students at managerial level are expected to have the level of pre-requisite knowledge provided by e.g. the CIMA Certificate in Business Accounting. Financial Accounting Fundamentals has as a learning outcome: 'identify the basic methods of valuing assets.... and demonstrate their impact on profit measures and balance sheet values'. (Question 7 on the Pilot Paper does indeed require some knowledge of revaluation but it is not specifically testing IAS 16). NB: IAS 16 is mentioned in passing on p. 407, but this does not amount to coverage of the standard!
- Q** Could the examiner confirm that there will be no questions on current or deferred tax (IAS 12)? This is not included in the list, but it was a feature of the old syllabus.
- A** IAS 12 is not covered in this syllabus, nor in the *Study System*, and it is not examinable in Paper 8. A provision for deferred tax might feature in a set of financial statements presented for analysis in testing part C of the syllabus. However, students should be able to recognise (based on their pre-requisite knowledge) the implications of a provision in financial statements. They would not require detailed knowledge of deferred tax in order to understand that it signifies that an outflow of cash is probable in respect of a future tax liability.

Q Could the examiner confirm that there will be no questions on leasing (IAS 17), related parties (IAS 24), events after the balance sheet date (IAS 10) or provisions (IAS 37)? These are not in the list, but came up regularly under the old syllabus, in which they were also not specifically mentioned.

A IAS 17: this is not specifically addressed in the Study System, and therefore is not examinable. (However, thank you for raising the issue – a reference to the principles of leasing should perhaps be included in chapter 15 of the next edition, in which case I will make it clear to what extent it is examinable. It will not, in any event, be examined in either the May or November 2005 examinations).

IAS 24: not examinable

IAS 10: not examinable

IAS 37: the standard is covered on pp. 430-431 insofar as it relates to environmental provisions. It is examinable only in this context and knowledge of it is required only to the extent indicated on those pages.

Q IAS 2 Inventories is not included in the list. However, Question 7 tests this standard, albeit briefly. Could the examiner confirm whether IAS 2 is examinable?

IAS 2 is not examinable in this paper. Question 7 of the Pilot Paper tests only very basic knowledge relating to accounting for stocks, as would be covered by the pre-requisite knowledge in e.g. Financial Accounting Fundamentals.

Q IAS 11 is not included in the CIMA Study System. Could the examiner confirm that there will be no questions on this standard?

A There is no reference in the syllabus to IAS 11, which is why I haven't included it in the Study System, so it's not examinable in this paper.