

REPORTING CHANGES

RELEVANT TO ACCA QUALIFICATION PAPERS F7 AND P2

This article outlines amendments to the Paper F7 (UK) and Paper P2 (UK) syllabuses. The amendments are effective from the June 2011 exam session. The article is particularly relevant to anyone wishing to obtain the UK or Irish audit qualification (to practise as an auditor within the UK or Ireland) or qualify under the UK or Irish papers. However, by reading this article, all candidates will obtain insight into how Papers F7 and P2 are constructed and therefore examined.

In this article, any reference to:

- ▣ 'UK' means 'UK and Irish papers'
- ▣ 'International' means 'International, Singapore, Malaysia and Hong Kong papers'.

WHY IS ACCA MAKING AMENDMENTS TO THE UK VERSIONS OF PAPERS F7 AND P2?

All UK and Irish professional accountancy bodies are governed by the requirements of the Statutory Audit Directive (SAD). In order to comply with the requirements of SAD – and to practise as an auditor – certain elements of UK legislation and regulation should be examined. The revised Papers F7 (UK) and P2 (UK) fully meet regulatory and business environment requirements for those wishing to obtain the UK audit qualification, or qualify by studying UK papers.

SO WHAT ARE THE AMENDMENTS?

From June 2011 onwards, the UK versions for both Papers F7 and P2 will:

- ▣ be based on international accounting standards in the same way as the international versions of these papers
- ▣ include relevant elements of UK legislation
- ▣ include relevant elements of differences between international GAAP and UK GAAP
- ▣ be written using \$ (dollars) as the currency
- ▣ be based on international terminology.

The *Study Guides* provide details on UK legislation and GAAP differences, and the examinable documents available after the cut off date (30 September 2010) for 2011 exams has passed will list which differences are examinable for Papers F7 (UK) and P2 (UK). This detail will be outlined on a syllabus section-by-section basis.

WILL THERE BE ANY IMPACT ON THE INTERNATIONAL PAPERS?

There should be little impact on the international papers except that the examinable documents will be revised in the regular annual update. Please note that the international syllabuses now include more detail on IFRS for SMEs and reconstructions. The international paper is the primary paper to be produced and the UK paper will be based on this paper.

SO HOW WILL THE UK PAPER EXAMINE UK LEGISLATION AND UK GAAP DIFFERENCES?

The majority of the UK paper will be the same as the international paper, which is based on IFRS. There will be some key UK differences examined in the UK paper, but it is anticipated that the differences will account for no more than 10% of the marks available in Paper F7 and 20% in Paper P2. It is expected that UK GAAP differences and/or UK legislation will appear in all exam sessions from June 2011.

There will be little overall change to the question style, although some of the written elements will focus on the legal requirements rather than accounting standard requirements. Candidates may have to discuss and show the impact of differences between UK and international GAAP.

The UK GAAP differences and UK legislation will be examined as parts or sections of questions rather than as separate questions. In Paper P2, the differences and legislation may be examined across Sections A or B, and it is possible that there may be a whole question in the UK paper which is different to the international paper. In both Papers P2 and F7 there may also be slight amendments to the scenario in the UK paper adapted from the international paper in order to place the UK paper in a UK context and therefore make the different UK elements and requirements more apparent.

Here is an example of how a UK GAAP difference scenario may work within Paper F7 (UK). Question 2, for example, may require the preparation of an income statement and a statement of financial position including the revaluation of a property that will create a temporary difference on which deferred tax should be calculated. The UK paper might then ask the candidate to outline the method under which the property should be valued and the effect of the revaluation on deferred tax under UK GAAP rules.

In Paper F7 this could appear as:

Required

Describe how the provision for deferred tax relating to the revaluation of the property would differ from IFRS under FRS 19, *Deferred tax* (UK GAAP rules) where:

- i the directors intended to sell the property shortly after the year end, but had not entered into a binding agreement to sell
- ii there was a binding agreement to sell the property (at the revalued amount) one month after the year end.

Answer

- i Consistent with the principle of other provisions, FRS 19 does not require a provision for deferred tax to be made based solely on management's 'intentions'. Thus the revaluation of the property would not affect the deferred tax provision at the year end.
- ii The binding agreement to sell the property shortly after the year end means that a tax liability is almost certain to arise and, in these circumstances FRS 19 requires deferred tax to be provided for at an amount equal to the revaluation gain multiplied by the applicable rate of tax. This would then mean the provision under UK GAAP was the same as under IFRS rules.

In Paper P2, this requirement may be developed further by requiring the candidate to calculate or show the impact of following UK GAAP instead of international GAAP with respect to this difference.

THE STUDY GUIDES PROVIDE DETAIL ON UK LEGISLATION AND GAAP DIFFERENCES, AND THE EXAMINABLE DOCUMENTS AVAILABLE AFTER THE CUT OFF DATE (30 SEPTEMBER 2010) FOR 2011 EXAMS HAS PASSED WILL LIST WHICH DIFFERENCES ARE EXAMINABLE FOR PAPERS F7 (UK) AND P2 (UK).

As there are more UK GAAP differences examinable in Paper P2, candidates may be required to reconcile from international GAAP to UK GAAP and vice versa. This is essentially expanding the current syllabus requirement to discuss the impact of moving from one GAAP to another, for example, advising a company on the implications of moving from UK GAAP to IFRS with reference to a selected number of accounting topics outlined in the *Study Guide*.

A further Paper P2 example would be: Previously, under UK GAAP, it was possible to view sale and lease back as a single transaction. The asset was seen as being retained rather than sold and re-acquired. The proceeds of the sale were simply credited to a liability account.

This is not acceptable under IAS 17, *Leases*. Thus, if an entity A sells a building to another entity B and leases it back over the major part of the buildings life, IAS 17 would treat the lease as a finance lease. The profit on the sale would be released to profit or loss over the lease term as entity A never disposes of the risks and rewards of ownership of the asset. The leased asset and liability would be recorded in the statement of financial position at the present value of the minimum lease payments and depreciation would be charged over the lease term. The rentals would be credited to cash and debited to the lease creditor and interest.

Students would be expected to discuss the impact of the move to IFRS and possibly show the accounting entries and implications.

As mentioned above, reconstruction has been brought into the Paper P2 syllabus (both UK and international papers). The illustrative answers to the UK paper could include the legal elements relating to schemes of arrangement and reconstructions.

WHAT ELEMENTS OF UK LEGISLATION AND UK GAAP DIFFERENCES ARE POTENTIALLY EXAMINABLE?

A full schedule of differences can be found in the UK examinable documents. However, the following may provide a useful guide of some of the examinable areas.

Regulation

The Paper F7 (UK) syllabus requires a certain amount of knowledge of the regulation relating to UK legislation. Of particular relevance is the requirement to produce financial statements (for single entity and groups) and the circumstances where a parent may be exempted from producing group accounts.

For Paper P2 (UK), in addition to the above requirements for Paper F7 (UK), basic knowledge of legislation surrounding schemes of arrangement and reconstruction has been included. Note that reconstructions are also examinable in the international paper, but without the specific legal requirements.

Accounting standards

Group accounts

Paper F7 (UK) candidates need to know how the computation of consolidated goodwill (including negative goodwill) and the requirements for its amortisation recognition differ to IFRS rules. This also impacts on the calculation/valuation of non-controlling interests/minority interests.

Other group accounting differences are in the recognition of separable intangibles only, treatment of acquisitions costs, and changes in the value of contingent consideration.

The Paper P2 syllabus develops the concept of group accounting and therefore additional differences result in the accounting for disposals and joint ventures. Candidates will need to have a good working knowledge of these differences.

Non-current assets

Differences in the rules covering the frequency of revaluations of tangible non-current assets and different valuation methods dependent on the nature of the asset are examinable in Paper F7 (UK). There are also examinable differences in the treatment of the gains or losses on non-current assets including those relating to a clear consumption of benefits.

The UK GAAP rules allow a choice of recognising or expensing certain development costs. Whereas Paper F7 (UK) requires candidates to explain these differences in principle, Paper P2 (UK) may incorporate numerical calculations.

Taxation

The use of timing differences (rather than temporary differences) in UK GAAP and that discounting of the deferred tax liability is permitted under UK GAAP are examinable in Paper F7 (UK). Deferred tax on a revaluation of non-monetary assets (normally a property) is only accounted for where a binding agreement has been entered into to sell the property. Paper P2 (UK) may incorporate calculations whereas Paper F7 (UK) will only require discussion in principle of the issues.

Other differences examinable in Paper F7 (UK) include:

- ▣ statement of cash flows: main UK GAAP differences are in the format of the statement and in the definitions of cash and liquid resources
- ▣ construction contracts: main UK GAAP difference is simply the presentation of the contract balances in the statement of financial position
- ▣ borrowing costs: main UK GAAP difference is the choice over capitalisation during the construction of non-current assets
- ▣ discontinued operations: differences relate to the recognition criteria and the presentation and analysis in the income statement of a discontinuing operation
- ▣ the use and treatment of 'exceptional' items under UK GAAP.
- ▣ UK GAAP has the use of a '90% rebuttable presumption' to determine the classification of a leased asset.

IT IS IMPORTANT FOR CANDIDATES TO BE FULLY VERSED IN EXAMINABLE INTERNATIONAL GAAP AS THIS IS THE MAIN FOCUS OF THE UK PAPERS. CANDIDATES ARE EXPECTED TO HAVE A REASONABLE WORKING KNOWLEDGE OF THE KEY DIFFERENCES AND AREAS OF EXAMINABLE LEGISLATION AS THEY ARE DEEMED RELEVANT FOR THOSE CONTINUING TO USE UK GAAP OR WANTING TO OBTAIN THE AUDIT QUALIFICATION.

The Paper P2 syllabus develops (with the exception of construction contracts – this is not examinable at Paper P2) many topics covered at Paper F7, but also introduces some new areas. Of these developed topics and new areas, the following is an outline of some of the key Paper P2 (UK) examinable differences not previously covered in this article.

- ▣ Leasing developed to cover differences in treatment of land and buildings, sale and leaseback, and operating leases.
- ▣ Employee benefits in that UK GAAP only addresses retirement benefits and does not allow the 10% corridor.
- ▣ Related party differences with reference to the materiality being considered under UK GAAP, disclosure and exemption from disclosures.
- ▣ Segmental reporting approach, accounting and key disclosure differences.
- ▣ IFRS for SMEs is a recent addition to the syllabus. The key areas to focus on will be:
 - i definition of an SME
 - ii key principles and rationale for IFRS
 - iii topics omitted from IFRS for SMEs
 - iv types of simplifications
 - v accounting treatments disallowed under IFRS for SMEs
 - vi specific recognition and measurement simplifications
 - vii summary of the IFRS for SMEs focusing on differences with full IFRS.

Candidates will only need to be aware of the UK differences in principle for the above.

Full details of examinable differences are given in the examinable documents, which should be read in conjunction with the *Study Guide*.

HOW SHOULD CANDIDATES PREPARE FOR THE UK PAPER?

It is important for candidates to be fully versed in examinable international GAAP as this is the main focus of the UK papers. Candidates are expected to have a reasonable working knowledge of the key differences and areas of examinable legislation as they are deemed relevant for those continuing to use UK GAAP or wanting to obtain the audit qualification. If intending to become a registered auditor in the UK – hence obtain the audit qualification in order to do this – any student taking Papers P2 and P7 from June 2011 onwards must take the new UK version. As such it would be beneficial that candidates commencing study attempt Paper F3 (INT) rather than Paper F3 (UK) (from December 2011, Paper F3 (UK) will not be offered) and then move on to Paper F7 (UK) and Paper P2 (UK) as these will be in the new form outlined above. For those who have already completed Paper F3 (UK) and plan to attempt F7:

- ▣ at the December 2010 session should consider attempting Paper F7 (INT) as this is marginally a better underpinning paper for P2 (UK) from June 2011 onwards
- ▣ after December 2010 should continue with the Paper F7 (UK) as it will be in the new form outlined above.

Those who have completed Paper F3 (UK) and Paper F7 (UK) and plan to sit Paper P2 (UK):

- ▣ at December 2010 are not impacted by the amendments outlined above
- ▣ after December 2010 should not be too concerned as the differences in UK and international GAAP are not so technically different at F7 and hence not insurmountable.

Note that this article is based on UK GAAP and international GAAP as at September 2010.

Steve Scott is examiner for Paper F7 and Graham Holt is examiner for Paper P2