ACCA Think Ahead

Strategic Business Reporting (SBR) March/June 2024 Examiner’s report

The examining team share their observations from the marking process to highlight strengths and weaknesses in candidates’ performance, and to offer constructive advice for those sitting the exam in the future.

Contents

General comments

This examiner's report should be used in conjunction with the published March/June 2024 sample exam which can be found on the ACCA practice platform.

In this report, the examining team provide constructive guidance on how to answer the questions whilst sharing their observations from the marking process, highlighting the strengths and weaknesses of candidates who attempted these questions. Future candidates can use this examiner's report as part of their exam preparation, attempting question practice on the ACCA practice platform and reviewing the published answers alongside this report.

A common factor to this and previous examiner's reports is the importance of non-technical skills, such as time management, to a successful outcome in the Strategic Business Reporting (SBR) exam. Candidates should convert marks into minutes and then use this as a guide when deciding how long to spend answering each requirement. Sticking to this time limit is vital to ensure that marks are not lost by failing to answer each question fully. Candidates who write more than is required in a particular part of a question, because they know the area well, will not earn extra marks but instead lose the potential to earn marks in other questions.

Another non-technical skill expected of candidates is an ability to address the question asked, and to do so directly and concisely. A well-constructed answer which meets the requirements will gain good marks with a relatively conservative word count. Conversely, answers which merely recite knowledge with minimal application to the scenario are unlikely to score well because few marks are available for presenting rote-learned knowledge at this level. Candidates should refer back to the requirements as they write, to ensure their answer is relevant. Time spent on a brief plan is often time well-spent.

Candidates are not required to answer questions in the order they are presented, so could begin with a question they can answer well *and* within the time allocation. This will boost confidence. For example, question 2, which focusses on ethics, may be a good place to start if candidates find question 1 too overwhelming at the beginning of the exam.

Candidates must be prepared for the format of the paper. Question 1 presented a draft consolidated financial statement in a pre-formatted spreadsheet response option, which candidates were required to adjust. This type of question was first introduced in September 2023. The examiner's report from September 2023 provides feedback on two examples of Question 1 to help candidates familiarise themselves with this format, as well as guidance on how to maximise marks in the time available.

Question 1 - Peony Co

This question included a pre-populated spreadsheet response presenting a draft consolidated statement of financial position (CSOFP). Three exhibits described circumstances relating to a foreign subsidiary.

(a) Using exhibit 1, and in accordance with IAS® 21 *The Effects of Changes in Foreign Exchange Rates*, explain why Nomstra Co's functional currency is the Ny.
(5 marks)

Part (a) was generally answered well, although some candidates strayed beyond the requirement. The use of "why" in the requirement implies that this is not something to debate: candidates are required to explain why this is indeed the case.

Answers which outlined the way in which IAS 21 determines the functional currency, and then applied this knowledge to the scenario, often gained maximum marks. A good way to present this would be to state each determining factor from the standard, and then explain whether this was the case in the exhibit.

Omitting knowledge from IAS 21 severely restricts the marks available because candidates' answers often end up merely repeating information from the exhibit without justifying the conclusion. Candidates should be careful in choosing the extent to which they copy/paste information from the exhibit into their answer: this earns no marks.

Weaker answers lacked the focus on how the functional currency is determined, and instead strayed away from the requirement to discuss the implications of control and the process of consolidating a foreign subsidiary, which was not asked for. This would waste candidates' available time for answering the other sections of the question.

(b) With regards to the three issues outlined in exhibit 2:
(i) Discuss, with calculations, how to correct the treatment of Nomstra Co in the consolidated financial statements of the Peony Group for the year ended 31 December 20X2.
(10 marks)
(ii) Adjust the prepopulated spreadsheet response option to correct the draft consolidated statement of financial position of the Peony Group as at 31 December 20X2.
(10 marks)

The spreadsheet requirement continues to be a challenge. Candidates may have benefited from answering part (ii) alongside their answer to part (i), given that the explanations and calculations from part (i) form the basis for the corrections to the draft financial statements in part (ii). As parts (i) and (ii) are related, the feedback and recommendations to answering both parts have been combined in this commentary.

The second exhibit for this question describes how an overseas subsidiary, Nomstra Co, has been consolidated into the draft CSOFP, with some errors or omissions made in the process. Three issues were outlined for discussion and correcting calculations.

Candidates should have considered each issue individually, explaining the correct method of consolidation in accordance with IAS 21:

Issue 1: There was only one error, so the explanation should have been brief. The fair value of non-controlling interest (NCI) had been translated at the closing rate rather than at the rate at acquisition. Good answers quantified how much the NCI had been understated by.

Better answers also outlined the correcting journal – which could then be used to apply corrections to the draft COSFP in answering part b(ii).

Marks are available in part (ii) for every correcting entry (every debit, every credit), so whilst it is not an explicit requirement of part (i), presenting these journal entries can be used to help you methodically process the corrections in the CSOFP spreadsheet when you get to answer part b(ii). In answering part (ii), you should enter each journal under a separate column to the left of the draft figures. Presenting adjustments in a clear manner avoids confusion and potential error. Posting them in separate columns helps to ensure the adjustments balance. In this case, increasing goodwill and the NCI earned two marks for part (ii).

Issue 2: Many answers included a goodwill calculation to help incorporate the impact of the goodwill impairment. Most candidates provided a good explanation of the process by which the goodwill is first impaired and then remeasured at the reporting date. Marks were often gained in explaining that applying an average rate to the impairment loss is correct, and how much this would be (in dollars). However, as in the case of issue 1, fewer answers identified the double entry impact of the impairment. Since NCI is measured at fair value, a proportion of goodwill relates to the NCI. As such, any impairment of goodwill should be allocated between the holding company and the NCI based on their proportionate shareholdings.

Most answers appreciated that goodwill should be translated at the closing rate, but the challenge was to calculate the closing goodwill amount (in Ny). Few answers considered the correcting double entry required, which could then be processed through the spreadsheet when answering part (ii). The resulting exchange loss on the translation of goodwill needed to be shared between the group and the NCI.

Issue 3: The final issue arose because the closing rate had been used to translate the subsidiary's reported loss in the year. Most candidates appreciated that this loss should have been translated at the average rate. Few candidates commented that the loss for the year needed be allocated between the group and the NCI.

Many candidates made good attempts to calculate a revised exchange loss arising on the translation of the subsidiary's net assets and profits. Many, however, failed to apportion the NCI share of the exchange loss.

Across the three errors in part (i), candidates often performed well. However, in part (ii), they were unable to process the entries needed to correct the draft financial statements. This suggests that candidates need further practice at adjusting a CSOFP and at working with spreadsheets. It is notable that very few answers applied a journal approach. Whilst journals are not a necessity to answering the question, they remain a valuable tool to ensure that the *whole* correction (the double entry) is made, and to act as a stepping stone between the calculations in part (i) and the corrections to the CSOFP in part (ii). This is a skill which is required of professional accountants. There are numerous examples to practice in the ACCA SBR Study Hub.

(c) Using exhibit 3, discuss the potential impact of the changes in government regulation on the accounting treatment of Nomstra Co in the consolidated financial statements for the year ended 31 December 20X3.
(5 marks)

Part (c) was well-answered overall, with most candidates identifying the consequences of government-imposed restrictions over the transfer of funds from Peony Co's subsidiary, and the limitations imposed on the extent to which it can exercise rights over its subsidiary. Candidates which identified that the key issue related to the extent of control which Peony could now retain, gained marks by first defining what "control" is in a group context, and what happens if such control is lost. Fewer answers extended this discussion to consider significant influence; but those who did, earned marks for relevant examples of indications of significant influence (e.g. board representation, participation in policy making, material transactions), and then explaining how the equity method of accounting would be required.

Question 2 - Abasi Co

Question 2 requires candidates to consider both reporting and ethical implications of specific events in a contemporary scenario. This question had two parts to it, each relating to the two separate exhibits: the first described the receipt of cash from a director to help Abasi Co develop a drone product as well as information on a crowdfunding campaign; the second described ethical issues caused by the actions of a director relating to the crowdfunding campaign and the manufacture of the drone.

(a) Using exhibit 1 only, discuss how the $0.5 million receipt from Mr Pain and the crowdfunding should be treated in the financial statements for the year ended 31 December 20X7.
(10 marks)

Exhibit 1 explains how one of the directors (holding half of the ordinary shares) had paid the company $0.5 million to help in the development of a drone. The money was repayable on demand. Most candidates correctly identified this as a loan because the company has a contractual obligation to transfer cash. Answers should then have discussed the accounting treatment of such financial liabilities, although answers to this part were generally weak. A significant number of candidates failed to consider the implications of such “interest-free” terms according to IFRS® 9 *Financial Instruments*. Very few answers discussed how an amortised cost approach should be applied, using Abasi Co’s borrowing rate as an applicable cost of borrowing, and discounting the receipt to the present value of the future expected cash flows.

Candidates who identified the director as a related party were then able to gain marks by explaining the need for a disclosure note of the terms of the loan agreement under IAS 24 *Related Party Disclosures*. This means that the nature of the relationship, as well as information about the loan (balance, terms and conditions) should have been disclosed. Most answers were able to explain this provided the related party was identified.

The crowdfunding issue in exhibit 1 was well-answered provided candidates recognised the need to apply IFRS 15 *Revenue from Contracts with Customers*. The exhibit describes how each contributor to the crowdfunding campaign paid $300 and, in exchange, was promised a drone when production was complete. Candidates who identified this as a performance obligation answered this part of the requirement well. Good answers considered how the provision of the drone was a single obligation which would be complete when control was transferred (so recognition would be at a point in time, not over time). Production delays meant the obligation was still outstanding, and many answers correctly identified that the $2.4 million receipts should be recognised as a contract liability at the reporting date.

A final issue related to the accounting treatment of $1.5 million of drone manufacturing costs. Most candidates correctly identified that these should be recognised as inventories.

(b) Using exhibit 2, discuss the ethical issues raised by Mr Mavic's actions regarding the crowdfunding campaign and the subsequent manufacture of Zolo drones.

(8 marks)

Professional marks will be awarded in part (b) for the identification of the relevant ethical principles.

(2 marks)

In most questions on ethics, candidates are asked to recommend actions to resolve the ethical issues which they have identified. In this case, the requirement did not ask for these. This may be why candidates seemed to find this requirement harder than normal.

Weaker answers tended to repeat the information from the exhibit. Copying and pasting vast amounts from the exhibit into an answer adds nothing and is not recommended in any question in the exam.

As in previous diets, some candidates provided answers which discussed business issues. For example, some answers spent a significant amount of time explaining how crowdfunding works and its advantages, which gained no marks as it was not what the question required. Answers which simply identified issues as "unethical" without explaining how, or why, also failed to earn marks.

Candidates at this level of their studies are also expected to go beyond presenting and defining the ethical principles outlined in the ACCA *Code of Ethics and Conduct*.

Concise answers which focused on each issue in turn and explained the ethical principles which had been breached scored well. Spending a few minutes on an answer plan may help candidates to present a relatively short but well-structured answer which scores highly.

Question 3 – Jobon Co

Question 3 examines the candidates' knowledge and application of a range of IFRS® Accounting Standards. In this specific question, candidates were tested on IAS 36 *Impairment of Assets,* IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations,* IAS 10 *Events after the Reporting Period,* and IAS 12 *Income Taxes*.

> **(a) Using exhibit 1:**
>
> - **explain why the cash-generating units should have been tested for impairment; and**
> - **discuss whether the methods used to calculate the value in use and discount rate are acceptable.**
>
> **(9 marks)**

Part (a) of the question dealt with a company which was a lessee of commercial properties which it used as retail stores. Each store was a cash-generating unit (CGU). As a result of customers using online shopping, retail store revenue had halved, and an impairment review had been undertaken. The impairment loss was stated along with details of how the impairment loss had been calculated. Candidates were asked why there should have been an impairment test, and about the acceptability of the methods used to calculate the value in use (VIU) and the discount rate.

IAS 36 is a well-understood and well-tested IFRS Accounting Standard so there was some strong candidate performance displayed. Good candidates read the question which was set and tailored their answers accordingly. Weaker answers were not always because of a lack of technical knowledge but rather due to candidates answering the question they wanted to answer rather than the one being asked. In the first bullet point, the question asked *why* the CGU should have been tested for impairment. Strong candidates gave a good discussion of internal and external indicators of impairment and then went on to use the specific example which was given in the scenario of a fall in revenue due to online shopping as an indicator. Weaker candidates seemed to concentrate on the words 'cash-generating unit' and spent a long time explaining how an impairment loss is calculated and allocated amongst a CGU rather than why there should have been an impairment test.

The calculation of the VIU received mixed answers. A large number were able to discuss the incorrect use of a 10-year budget when determining future cash flows and the incorrect inclusion of $5 million of future expenditure on advertising technology. However, many struggled with the use of different discount rates on the lease liabilities compared to the lease payments and failed to see the significance of this to the VIU. It was promising to see a large number stating that an incorrect discount rate had been used, with some correctly stating it should be a risk adjusted pre-tax rate.

(b) Using exhibit 2 only, discuss whether Tilte Co should have been classified as a disposal group held for sale, and its results presented as arising from discontinued operations, in the consolidated financial statements for both the years ended 31 December 20X6 and 20X7.

(8 marks)

Part (b) of the question dealt with a wholly-owned subsidiary which was classified as a disposal group held for resale *and* a discontinued operation for two consecutive year ends. Information about the dealings with the subsidiary around the two year ends was given. Candidates were asked if these classifications were correct for each year end.

Generally, good attempts were made by candidates, and this was the strongest answered part of the question overall. The best candidates established they had four questions (i.e. can the subsidiary be classed as held for sale *and* discontinued operation for *two* year-ends) and provided an answer which was structured in this way using headings for each part of their answer. Many candidates displayed good knowledge of the IFRS 5 criteria with many scoring the maximum marks available for this. Good candidates then went on to apply the information given in the scenario to the criteria to decide upon the correct classification.

Weaker candidates presented confused answers which did not differentiate between ‘held for sale’, ‘discontinued’ or the different year ends. Presenting well-structured and clear answers which address all parts of the question is a higher-level skill and something which is expected in the SBR exam.

(c) Using exhibit 3:

- **explain whether receipt of the signed letter on 1 April 20X8 affects your answer to part (b); and**
- **explain whether the deferred tax asset should be recognised in the financial statements for the year ended 31 December 20X7 or the year ended 31 December 20X8.**

(8 marks)

Part (c) of this question provided a brief scenario about the wholly-owned subsidiary originally discussed in part (b). After the year end, but before the authorisation of the consolidated financial statements, a firm offer to buy the subsidiary had been received. Candidates were asked about the implications of the offer (a signed letter) and the deferred tax implications.

This was the weakest area of the question overall. A large part of this seemed to be because of not reading the dates correctly in the question. The lack of attention to dates affected the first part of (c) with many discussing impacts on the financial statements for the year ended 20X8, rather than the years which were covered in part (b) as is clearly flagged in the requirement.

A main knowledge gap in part (c) was around IAS 10. Many candidates seem to have the misunderstanding that events occurring after the year end are always non-adjusting. Often candidates just stated that the letter was a non-adjusting event without explaining that it was because it did not impact on conditions in existence at the year end. Candidates need to be willing to fully develop their answer by saying why they have chosen the accounting treatment, not just what the treatment is.

Candidates who reached the correct conclusion regarding non-adjusting events often scored good marks on the deferred tax implications.

Overall, this question contained three scenarios testing core syllabus areas. It was pleasing to see that candidates seemed to have a good knowledge and understanding of some areas of the syllabus and were able to apply this in this question. To improve performance, candidates need to read the questions carefully. Candidates who spend time considering the layout and presentation of their answers generally score higher marks because they address every part of the requirements.

Question 4 – Maple Co

It has been noted in previous SBR examiner reports that candidates' time management is often poor. Question 4 is the last question attempted by most candidates and, in most sittings, many do not leave themselves with adequate time to write an answer. As such, it was pleasing to see that, in most cases, all parts of this question were attempted.

Question 4 can test candidates' knowledge and application of a range of IFRS Accounting Standards, but will always involve a stakeholder or investor focus. This question concentrated on a disclosure relating to judgements and estimates in the financial statements and why such disclosures are important to investors. It also asked about IFRS 9.

(a)(i) With reference to the IASB® ***Conceptual Framework for Financial Reporting*****, briefly explain why disclosures relating to judgements and estimates are important to investors.**

(3 marks)

Most candidates answered this part of the question well. Strong candidates commented how disclosures on judgements and estimates provide relevant information which helps investors with decision making. Weaker candidates did not refer to the Conceptual Framework as required in the question.

(a)(ii) With regards to accounting for a business combination, outline three examples where management judgement or management estimates might be required. **Note: There is no need to refer to a specific exhibit to answer part (a).** **(3 marks)**

This requirement asked for three examples where judgements or estimates are required in accounting for business combinations. Most candidates were able to give three examples. However, some candidates provided examples of judgements and estimates in other areas, such as ‘provisions’ and ‘bad debts’, without any reference to business combinations.

(b)(i) Using exhibit 1, critically assess the extent to which Maple Co’s disclosure of judgements and estimates is useful for investors. **(7 marks)** **Two professional marks will be awarded in part (b)(i) for the quality of the discussion regarding the investors’ perspectives.** **(2 marks)**

This element of the question provided candidates with a disclosure note about judgements and estimates in relation to:

- property, plant and equipment
- provisions, and
- inventories.

Candidates were required to critically assess the disclosure note. Candidates who struggled seemed to have two main issues. Firstly, many of these candidates simply copied and pasted parts of the disclosure into the response option without much comment on the usefulness to users. Secondly, it was clear that some candidates didn’t understand the requirement to ‘critically assess’.

Strong answers were balanced and commented on what was useful about the disclosures as well as what is wrong and/or missing. The disclosure note contained a mixture of information which was useful and less useful, but not all candidates seemed to realise that.

Candidates who scored highly on this question used headings to structure their answer and provided balanced comments on the usefulness of the disclosures given in all three areas of the financial statements which were asked about. Good candidates gave comprehensive answers which commented on *why* the disclosure was useful/not useful to investors rather than just saying whether it was useful or not.

(b)(ii) Explain how Maple Co should establish an accounting policy where an issue is not addressed directly by IFRS Accounting Standards.
N**ote: There is no need to refer to a specific exhibit to answer part (b)(ii).**
(3 marks)

Part (b)(ii) of the question asked candidates how accounting policies should be established in the absence of an accounting standard. Only the strongest candidates referenced IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Those who did, scored well, as they were able discuss the IAS 8 requirements to use other accounting standards as well as the *Conceptual Framework*. Those who didn't mention IAS 8 were still able to accrue marks for the parts of their answers which were relevant.

(c) Using exhibit 2, discuss whether the directors' decision to not recognise the third-party loan and preference shares is in accordance with IFRS Accounting Standards.
(7 marks)

Part (c) of this question provided candidates with a brief scenario about two financial instruments: a loan to a third party and preference shares. Neither were recognised in the financial statements on the basis that the proceeds from the loan would be used to pay back the shares. Candidates were asked whether it was correct not to recognise either the loan or the preference shares.

This element of the question was well-answered by most candidates. Good candidates referenced IAS 32 *Financial Instruments: Presentation* with regards to the classification of the financial instruments and the netting off criteria, correctly stating that the asset and liability should not be netted off. Those candidates also used the recognition criteria in IFRS 9 to discuss the amounts which the asset and liability should be recognised at in the financial statements.

Overall, the examining team worked hard to make this question accessible, breaking down the requirements into manageable elements. This seemed to work well for the majority of candidates, who were able to score solid marks across each of the individual requirements.