



# Examiner's report

## Strategic Business Reporting (SBR)

### March 2020

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

#### **Format of exam**

The SBR examination consisted of a three hour exam containing two sections with all 4 questions being compulsory. The marking scheme includes four professional marks for the clarity and quality of discussion. Two professional marks were awarded in Section A for applying ethical principles and recommending appropriate actions. In section B, the two professional marks were awarded for appropriate reference made to the importance of disclosures on sustainable information to investors.

#### **General Approach to the SBR examination**

The SBR examination requires candidate's to demonstrate their ability to appraise, assess, critically discuss and apply accounting concepts and principles to given scenarios and explain the appropriateness of a particular accounting treatment for a given transaction or event. This can involve some calculation as well as explanation of the relevant accounting standards. The SBR paper also includes ethical aspects requiring candidates to demonstrate their understanding of the professional and moral judgments that accountants must make in practice.

At this level, candidates are expected to apply concepts and principles to complex real-life events which invariably extend beyond a single principle. Candidates must be able to select applicable accounting principles based on a given scenario and assist in strategic business reporting and decision-making. Mere knowledge of accounting standards is unlikely to be sufficient: a successful candidate should be prepared to apply their knowledge. Presenting a rote-learned summary of accounting standards will be insufficient: candidates should appreciate the logical development of accounting principles, based on the Conceptual Framework, to then explain how a particular concept or perspective is applied in real world events. The accounting profession requires a combination of professional and ethical judgement in addition to specialist knowledge of generally accepted accounting principles, conventions and procedures. Candidates should be aware of the different perspectives of stakeholders and be prepared to provide advice from these perspectives.

Given the importance of the candidate's ability to explain 'why' and 'how' an accounting treatment is recommended (as opposed to merely 'what' treatment to use), we recommend that candidates prepare for the examination using active learning strategies. Highlighting text and summarising chapters can be useful for managing and learning procedural information but will not necessarily support the learning of 'why' such procedures are applied under certain circumstances. Adopting a process of *self*-evaluation in which candidates continuously question themselves *why* a particular accounting treatment is most appropriate reinforces learning, reveals inter-relationships of principles and concepts, and better prepares candidates for the SBR exam.

Reliance on a single textbook or revision course is unlikely to be sufficient preparation, as the required skills come through a deeper understanding - and application - of the subject matter. Most SBR syllabus content is at level 3 (an ability to synthesise and evaluate material), and candidates should be expanding their reading beyond the textbook, to include sources such as the standard setters (IASB), the profession, and the ACCA. Technical articles published on the SBR pages of ACCA's web site provide such additional insight. For example, an article on Sustainable Development Goals (SDGs) explaining how companies can create economic, social and environmental value for their investors and stakeholders would have provided a good background for candidates answering question 4 of this examination. Key syllabus areas are invariably discussed in articles on the SBR site. Broader reading challenges the candidate to fully understand the concepts and approaches to business reporting and helps bring the subject to life.

As most of the SBR syllabus content is at level 3, and exam requirements often use words such as appraise, assess, critically discuss, apply knowledge and evaluate. Alongside high levels of understanding, candidates need to include relevant calculations in their answers, particularly in question 1. As in previous examinations, some candidates simply explained the underlying principles without showing relevant calculations.

The ACCA website offers guidance from the examining team, including helpful articles on recommended exam techniques, exam debriefs and a retake guide. The ACCA's Student Accountant e-magazine is another source of advice for study skills and exam technique. It is vital that the requirements and scenario are read carefully as these can often provide a guide to an answer. Whilst practicing past paper questions, candidates should consider their approaches to answering question requirements. For example, if the requirement is for candidates to explain the accounting treatment in a given scenario, answers are best structured such that the standard or treatment is first explained (an expression of the candidate's knowledge), and then arrive at a recommended treatment (application of the standard to the scenario). Weaker answers may skip the 'knowledge' aspects, and jump to a conclusion, or even demand compliance with a standard without any discussion of the scenario. In the March 2020 sitting, this was typical in Question 2aiii, where weaker answers advised that related party disclosures were required without any explanation of the standard, nor application to the scenario.

Candidates are advised to structure and present their answer in a way that assists the marking process.. For example, Question 3 part (a) from this exam comprised three sub-requirements (i to iii). Answers that merged these into one answer made marking challenging. Answering all parts of all questions will increase a candidate's chance of success in the examination. There were occasions where not all requirements were met. This may be down to poor time management, in which case translating marks into minutes (also allowing for time to read the question and requirements carefully) can provide a guide on how long to spend on each question/requirement. For example, Question 4biii asked for a simple revised profit calculation based on the calculations from Q4b(i) and (ii); however, a significant minority of candidates did not complete this.

The SBR paper contains a significant ethical content and candidates will be required to demonstrate their understanding of professional and moral judgment. Simply quoting ethical guidance without application will not result in a pass mark in this part of the question; and

candidates must ensure that they meet all of the requirements to maximise their potential for marks. Q2(b) asked candidates to identify and discuss the ethical issues, and then outline recommended actions given the scenario. Better answers included recommended actions alongside each ethical issue.

Candidates may be awarded marks for discussion of issues which do not appear in the suggested solution but are relevant to the scenario. Additionally, extra marks may be gained if a candidate discusses a point particularly well.

Generally, whilst the overall performance of this examination was in line with previous SBR examinations, some candidates continue to find the application of knowledge to a given scenario challenging.

### **Comment on individual questions**

#### **Question 1**

Part (a) required candidates to draft an explanatory note to the directors which included an explanation of how the functional currency of a subsidiary company is determined, given information on head office location, autonomy, finance sources and key transactions. Answers to this part were generally good, with most candidates displaying a good application of primary economic environment principles by which the functional currency is determined, leading to a valid conclusion.

Part (bi) asked for the accounting treatment in consolidated financial statements of contractual arrangements with customers, prohibiting the customers from using competitors. Answers were generally mixed. Good answers explained the need for separate recognition of the contracts on consolidation, and since the question specifically referred to the presentation in the consolidated financial statements (in dollars), this guided candidates to include a description of the translation treatment in their answer. Weaker answers expanded beyond the requirement, to include general consolidation techniques, or erroneously focused on IFRS® 15 *Revenue from Contracts with Customers* rather than IFRS 3 *Business Combinations*.

Part (bii) required a calculation of goodwill at acquisition date (in local currency, and after translation into dollars), and after impairment and translation at the reporting date. A brief explanation on the impact of impairment and exchange difference was also required. A total of 6 marks was available. The calculation at acquisition date was generally well-answered, provided candidates followed the guidance: calculating goodwill first at local currency, including a fair value adjustment highlighted in part (a), and then translating. Subsequent retranslation at the reporting date (after impairment deduction) was often also done, to maximise available marks for calculation. However fewer candidates achieved full marks as they neglected to explain the impact of both impairment and exchange difference on the consolidated financial statements.

Part (c) required an explanation on the accounting treatment of a 100% equity interest meeting the requirements for reporting as held for sale under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, but with the sale being delayed beyond the 12 month limit due to

unforeseen circumstances beyond the control of management. Answers in general showed a good appreciation of the rules and applied these to the scenario. Most candidates were able to score well from applying their knowledge.

Part (d) required a calculation and discussion of the impairment of bonds over two years, with deteriorating credit risks between the years. This part had the most marks allocated to it (11 marks) but was often the shortest answer compared to the other parts in Q1. Few candidates demonstrated a clear understanding of the expected value approach to impairment losses under IFRS 9 *Financial Instruments*, and a general lack of confidence in this area is evident. Candidates often identified the need to measure at amortised cost and gained marks for calculating the closing balance before amortisation, then reducing the balance by the stipulated 12 month expected credit loss. However, the second year treatment was less-well explained, with very few candidates calculating the appropriate probability-weighted allowance. The net increase in this allowance was rarely presented. Explanations tended to be too brief or, if provided, were not applicable to the scenario. The focus tended to be on calculations despite the requirement explicitly asking for “calculation and discussion”. Weaker answers presented a table of discounted cashflows, or recommended treatment at fair value through profit or loss, which illustrated a lack of preparedness for this area.

Overall question 1 was well answered apart from part (d). As usual, marks were available for well-argued points which were not included in the model answer. Although a high level of explanation is required, candidates need to include relevant calculations in their answers where this is a specific part of the requirements. A minority of candidates continue to present no relevant calculations and simply explain the underlying principles, which limits their scope for marks. Although not the case here, if the requirement just asks for “a calculation” then there is no need for an explanation, unless expressly included in the requirement. Candidates should use the mark allocation as a guide to the time to allot to each section of the question.

## Question 2

Question 2 required a discussion of a proposed restructuring provision, a description of good stewardship in the context of the restructuring proposals, whether there was a need for related party disclosures, and a further discussion of the ethical implications of events and circumstances arising within the corporate environment.

Part 2(ai) described accounting treatment proposals relating to a potential restructure, where general plans described three types of cost (legal fees, relocation and redundancy costs) and the extent of publicity (up to authorisation of the financial statements). Candidates were asked to discuss the appropriate accounting treatment, and this part was generally well-answered provided candidates read the scenario carefully to pick up all the relevant points for discussion. Most answers correctly described the recognition criteria under IAS® 37 *Provisions, Contingent Liabilities and Contingent Assets*, concluding that a provision was unwarranted. However, the question also provided details on the types of cost (suggesting comments on which costs would be permissible as part of a restructuring), and on the potential announcement post-reporting date but before authorisation (suggesting comments on the reporting of a non-adjusting event after the

reporting date). Despite there being 6 marks available for answering Part a(i), many answers were the same length as for a(iii) despite the latter having only 3 marks. In addition to the information provided in the scenario, the mark allocation for sub-sections can guide candidates on the amount of time to spend on each section.

Part 2(aii) had two requirements for 4 marks: a description of what good stewardship means, and whether the restructuring proposals (from a(i)), and their proposed accounting treatment, are examples of good stewardship. A good answer broke the requirement down into two parts: first defining and describing good stewardship, and then considering the case of the director's restructuring proposals. Answers in general appreciated that restructuring is likely to be in the long-term interest of the shareholders, whilst consideration of the proposed accounting treatment depended on the answer to part 2(ai).

Part 2(aiii) asked (3 marks) for a discussion of whether the acquisition of 5% of the equity shares by the wife of the head accountant (explicitly described as "not a member of the board of directors") requires disclosure as a related party transaction. Answers were rather weak; many candidates overlooked the 'knowledge' aspect of explaining what constitutes a related party; most answers did not consider the relevance of the proportion of shares held. Such answers jumped straight to considering the position held by Mr Shaw and assumed that he was in a position of key management (despite not being a director). Many answers gave the wrong conclusion as a result.

The ethical issues in question 2 are more likely to involve concerns beyond basic accounting errors and malpractice; for example, the scenario could involve personal relationships and pressures that such relationships create. Merely quoting ethical guidance without application to the scenario will therefore restrict the candidate's marks for both the question and the associated professional marks. In this case, part 2(b) asked for a discussion of ethical issues which included an intimidation threat by the financial director to her accountant, a question of integrity (non-compliance), an issues of confidentiality relating to potential insider trading and warning a relative of redundancy plans. Marks were divided between identification of these ethical issues and action that the accountant should take to resolve the issues. Answers were generally good, with a clear identification of the ethical issues and suggestions to resolve them (which in this case includes simply maintaining confidentiality).

Question 2 was very well-answered in general, with the exception of a(iii) on related parties.

### **Question 3**

Question 3 was set around a football club facing industry-specific issues relating to its stadium, television programme rights and players' contracts. The question had two parts. Part (a) related to the accounting treatment of its stadium, split into three requirements. Part (b) focused on the intangible assets.

Part a(i) asked candidates to determine whether the stadium can be classified as held for sale, describing conditions that included a contract to sell 13 months after the reporting date. The sale contract required disposal at fair value (market value) and required a lease back where the present value of lease payments would be 87% of fair value. Part a(ii) questioned the accounting treatment

of crowd barrier improvements that would be incurred the following year, which the scenario explicitly states is incorrectly treated in the reporting period as a reduction in both the asset's carrying amount and profit or loss. Part a(iii) required a discussion on the principles behind the sale and leaseback of the stadium in 13 months' time. Part a(i) tended to be well-answered, provided candidates carefully reviewed the scenario to identify the contract commencing beyond the 12 month limit under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Fewer answers referred to the standard's exemption to this 12-month limit if beyond the entity's control, possibly because it did not apply in this case. However, some answers incorrectly suggested the stadium could not be accounted for as held for sale because the terms were a sale and leaseback, rather than a sale. Under IFRS 15 *Revenue from Contracts with Customers*, a binding sale commitment confirms existence of a sale.

Part a(ii) was consistently well-answered: most candidates identified and justified a lack of obligating event and recommended the accounting correction required. However, some answers needlessly extended beyond the requirements by considered the treatment in the following reporting period, which was not asked for.

The quality of answers to part a(iii) (the sale and leaseback) varied the most. This sub-part of Q3a has the most detail and therefore should be where candidates spent the most time; although some answers suggested a lack of confidence with the calculations. Good answers explained the recognition steps of both IFRS 15 (the sale) and IFRS 16 *Leases* (the recognition of right of use asset and lease liability), and then attempted to determine the carrying amount of the right of use asset based on the retained proportion of the underlying asset, leading to a gain on disposal. Some answers omitted a relatively basic calculation of the carrying amount at disposal date, whilst others incorrectly took the present value of the lease obligations as the carrying value of the right of use asset. In both cases, this limited opportunities for marks.

Part b(i) required a discussion over the appropriateness of amortising television programme content rights on the basis of estimated future revenues, compared to stated industry practice. Answers were generally poor, with very few candidates commenting on the rebuttable presumption under IAS 38 *Intangible Assets* that basing amortisation on revenue, for which the intangible is used, is inappropriate, unless both use and revenue are highly correlated. Few answers considered the principles behind amortisation, and more specifically an application of those principles to this situation. Answers were often limited to a basic recommendation of amortising over the useful life of the asset, with little development or argument for alternative amortisation methods, other than suggesting use of a straight line approach if the consumption pattern is not reliably measurable. Weaker answers veered away from the requirements to consider general capitalisation requirements, which gained no marks. However, there were some answers that considered the close link between the amount spent on a TV programme and expected revenues from subscriptions to view it.

Part b(ii) required a discussion of the accounting treatment of the players' contract costs, including contingent performance conditions, the possible need for impairment and whether a player can be considered a single cash generating unit (CGU). Answers to this were relatively well-answered. Candidates generally justified why a footballer cannot be a CGU and the need for impairment

testing of an injured player. Most identified the contract as an intangible asset. Fewer were confident regarding when and how to recognise the contingent payments

#### Question 4

Question 4 focused on sustainability and environmental, social (ESG) and governance issues, dividing this area between the importance of sustainable information (part (a)), and the accounting treatment of management responses to ESG issues (part (b)).

Part (a) was generally well-answered; with better answers suggesting that candidates are reading around this subject (including the SBR technical article on Sustainable Development Goals from the ACCA website). Most answers focused on the perspective of the investor, as required, and recognised the balance between financial sustainability (given the investor's personal needs) and investment opportunities that sustainable information can offer. Answers also often covered social and environmental aspects of sustainability from the long term perspective, and some linked this to Integrated Reporting; but very few candidates related disclosure with the Global Reporting Initiative (GRI) and the UN Global Compact.

Part b(i) required a discussion of the accounting treatment of possible costs of relocating to a new head office and subletting of the old one. Most candidates correctly recognised that future losses do not meet the standard's requirements for a provision (specifically disallowed by IAS 37® *Provisions, Contingent Liabilities and Contingent Assets*), and that the savings from a move are also not accountable (there being no obligation at the time). However a significant number of answers leapt to an incorrect conclusion with minimal or no discussion of the recognition criteria under IAS 37. Where discussed, these recognition criteria were sometimes inaccurate or incomplete, and sometimes presented without then being applied to the scenario before concluding. The second aspect concerned an onerous contract relating to the current head office, with two years' rental payable in advance, and a mitigating sublet agreement in place for one year (with a 40% chance of this being extended for the second year). Answers that began with a clear definition of an onerous contract (unavoidable obligations exceeding economic benefits) identified this case as meeting the definition. Most answers demonstrated a need for discounting, although a significant number of candidates were unclear on the amount to deduct for subletting. Some considered the 40% chance of extending this in year 2 to be a contingent asset rather than a component of the best estimate of expected benefit. The question also provided an estimated cost of moving that was often overlooked. Candidates who discussed the obligation aspect of this in relation to provisions gained a relatively simple mark.

Part b(ii) required an explanation with calculations of the principles of accounting for changes in the vesting period of a defined benefit pension scheme, including past service cost adjustments in the year. Answers to this part were often good, with some answers presenting clear net liability workings, and descriptions of the accounting requirements. However candidates often applied the incorrect discount rate to calculate net interest, and sometimes applied the incorrect signage (deducting service costs from the net obligation for example). A good answer would be divided between explanation and calculation, to fully meet the requirements. Explanations often clearly explained the impact of each transaction on the financial statements, with better answers

calculating the balancing remeasurement (to OCI), and then using the working to explain the impact of each transaction. This approach risked missing a comment on the contra effect on net pension obligation of benefits paid. Weaker attempts wasted valuable time describing the differences between defined contribution and defined benefit schemes which gained no marks as it was not a requirement.

Part b(iii) asked for a calculation of the impact of the items in b(i/ii) on a given profit before tax. This was, surprisingly, often omitted with some errors in adding or subtracting adjustments or candidates may have run out of time. Time management is vital to ensure that all requirements of the question are met: in this case b(iii) was a relatively simple task following on from the answer to tasks b(i/ii).

### **Conclusion**

The ACCA expects its candidates at the strategic professional level to possess a high level of critical thinking and strong written communication skills so that they can contribute to a business on a strategic level. A candidate's ability to identify and explain accounting principles and apply them in calculations is tested in the SBR examination. This requires a deep understanding of how - and why - conceptual and practical issues are applied in the complex real world. Whilst we see evidence that these skills are being developed by many candidates, others still rely excessively on rote learning and they should consider a shift in their learning strategies toward more analytical and critical learning: questioning why each accounting standard they study is regarded as the most appropriate. This requires a sound understanding of conceptual and practical issues. SBR will continue to encourage a deep understanding of the complex way in which financial reporting interacts to influence the community.