ACCA

Strategic Business Reporting (SBR)

(INT)

Revision Note

(DEMO)

Contents

Accounting
Practise
Center

Introduction to SBR Revision

Exam Duration = 195 minutes, 100 marks (96 technical, 4 professional)

Strategy = Use 15 minutes to plan and read Q1 in Section A; Plan deadline for each question starting from Q1 (each requirement, using 1.8 min/mark principle).

Exam mindset in SBR:

1. 1 mark per point/simple sentence
2. If you can not come up with any points, after discussing about the accounting treatment, think about:
   a. Conceptual framework requirement (prudence, relevance concepts).
   b. Impacts on Financial Statements (ratios)

Professional marks:

1. Q2 Ethics with 2 professional marks – you can get them if you link Code of Ethics to the scenario, and almost touching on the whole case information.
2. …………

Pre-populated spreadsheets: There are about 10-14 marks in Section A Q1, one of the followings will be tested:

1. Consolidated Statement of Financial Position (Traditional)
2. Foreign Subsidiary
3. Consolidated Statement of Profit or Loss
4. Consolidated Statement of Cash Flows

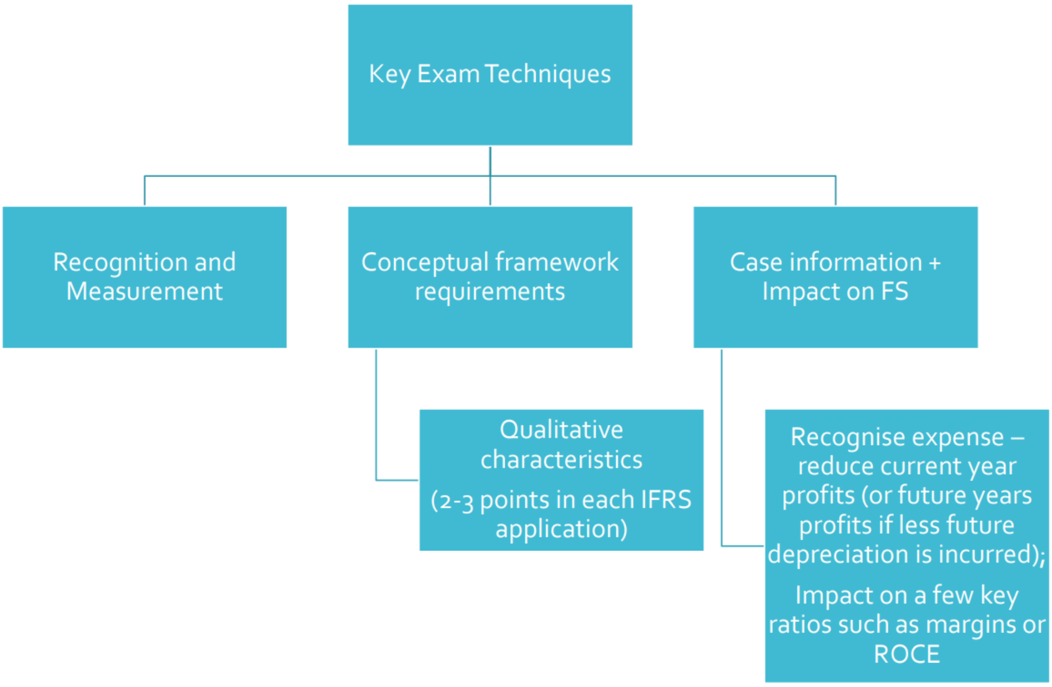
Group accounting:

- ………….acquisition or business combinations, Goodwill using Full or Proportionate method, Joint ventures per IFRS 11, Investment in associate per IAS 28.

Most frequently tested IFRS in SBR:

- IFRS 15 Revenue;
- IFRS 16 Leases;
- …….
- IAS 36 Impairment of Assets
- ……….
- IAS 12 Income Taxes – Deferred Tax
- IAS 38 Intangible assets

Accounting Practise Center



Relevance

- This meets relevance concept because it helps investors make different economic decisions, ie
- Fair value confirms the current market conditions of the asset (applied to (IAS 16 ……………segments) ;
- The recognition of deferred tax liability helps predict the true value of the business (applied to IAS 12 Income Taxes).

Faithful representation

1.Completeness

- This meet with completeness concept in faithful representation because disclosures ……………

3.Prudence

- This meets with prudence concept because (following situations), liabilities ……..assets per IFRS 9
- Showing share-based payment expenses per IFRS 2

Non-current assets

1. Calculation of Depreciation

- Separate depreciation for different Property, Plant & Equipment (PP&E) assets and ……..

2. Capitalised Provisions

  - ………
  - Apply the **Provision (POR) criteria** correctly when capitalising provisions.

3. Borrowing Costs

- Capitalisation of borrowing costs in accordance with IAS 23 Borrowing Costs.
  - The asset must take a substantial time to complete.
  - ……….costs when multiple borrowings are involved.

4. IAS 36 - Impairment of Assets

- **Impairment Indicators**: Evaluate both internal and external indicators of asset …….

5. Cash Generating Units (CGUs)

- **Impairment Process**: Follow the order—specific assets, allocated goodwill, and then pro-rata distribution to other non-current assets.

6. IAS 38 - Intangible Assets

- Recognise identifiable non-monetary assets without physical substance.
  - ……….
  - Sale of intangible assets is not recognised as revenue.

7. IAS 40 - Investment Property

- **……….**recognising differences in the profit or loss.

8. IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations

- **……….**

IFRS 16 Leases

1. Determining Whether It Is a Lease

- A lease exists when there is a right to control the use of an identified asset.
- Protective rights do not constitute "control."
- The identified asset must be explicitly stated in the contract.

....

IFRS 9 Financial Instruments

1. Whether this is a Financial Instrument

- A financial instrument is defined as a contract giving rise to a financial liability or equity instrument for one party and a financial asset for another.

2. Compound Financial Instrument (Convertible Debt or Convertible Preference Shares) per IAS 32

- **Initial Measurement**:
  - Debit Bank
  - Credit Financial Liability (balancing figure)
  - ………….

IAS 20 Government Grants and Disclosure of Government Assistance

1. Capital (Asset) and Revenue (Expenses) Grant

- **Journal Entries**:
  - **On Receipt**:
    - Debit Cash (grant received)

……………..

IFRS 15 Revenue from Contracts with Customers

1. How Many Performance Obligations?

- **Integrated Services**: Treated as one performance obligation (e.g., construction process stages).
- **Customization**: Treated as one obligation (e.g., tailored training services).

2. Separate Contract for Defective Products with Discount

- **................**

IAS 12 Income Taxes

Definition: Deferred tax arises from differences between the carrying amount of assets or liabilities and their tax base, multiplied by the corporate income tax rate.

............concept, providing investors with a full view of future potential tax obligations.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

- Provision is the liability with uncertain timing or amount.

- …………recognised.

IAS 19 Employee Benefits

Defined Contribution Scheme

- Payments to retired employees are not guaranteed by the employer.
- Employer and employee invest in the scheme in each period, ie each month, which …………

IFRS 2 Share based payments

There are two types of share based payment schemes:

Share option scheme

- The expense is calculated by the number of share options expected to vest, times ……….

Share appreciation right scheme (SARs)

- The expense is calculated by the number of SARs expected to vest, times by the ……….accounting estimate.

IAS 10 Events after the Reporting Period

Adjusting events

- An event after the reporting period that provides further evidence of conditions ……….

Non-adjusting events

- ……….

IAS 24 Related Party Disclosures

Definition of related party transaction:

A related party transaction is the transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

- ………….

IFRS 8 Operating Segments

Operating segments:

- It has business activities earning revenue and incurring expenses.
- ……….

IFRS 13 Fair Value Measurement

Fair value - The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Price - Exit price is used in measuring the fair value for the assets or liabilities.

Principal and the most advantageous markets

....

Group Standards

1.IAS28 Investment in Associates

- This is the investee where investor has significance influence on.
- Equity accounting method should be used, ie to account for the ownership of ……….

IFRS 3 Business Combinations

Asset acquisition or business combination

- Concentration test could be applied, ie if the price paid approximates the fair value ………combination, and if not, this is an asset acquisition transactions.

IFRS 10 Consolidated Financial Statements

Control definition: An investor controls an investee if the investor has the power to benefit from decisions made in the underlying entity.

……………..such as dividends or tax credits.

IFRS 11 Joint Arrangements

A joint arrangement is an arrangement of which two or more parties have joint control.

Joint operation:

- A joint arrangement to parties agreeing the output, revenue, operating costs are ……..

Joint venture:

- This is where a separate vehicle (such as incorporated entity) is set up by two or more parties with joint control over the arrangement.
- ………..

IAS 21 The Effects of Changes in Foreign Exchange Rates

Functional currency

This is the currency of the primary economic environment where the entity operates, ie the currency to prepare trial balance.

Factors to consider to determine the functional currency:

- …….

Monetary items: These are ……

Non-Monetary items: These …..

Ethics in Q2 (2 Professional Marks)

Step 1: Identify the IFRS breached.

Step 2: Identify the breached ACCA Code of Ethics principle:

- Professional Behaviour: Director's actions harm the profession's reputation (e.g., ACCA).
- Integrity: Directors manipulate accounts for bonuses, financing, or listing status.
- Competence and Due Care: Failure to maintain professional knowledge (IFRS compliance).
- Confidentiality: Data theft risks financial loss, reputational damage, and legal issues.
- ……..

Step 3: Advice to the individual:

- Discuss concerns with an independent party (e.g., NEDs or auditors).
- ………..

Revision of Section A Q1 Questions

Revision Q1: Peony (MJ24)

- Functional currency; Goodwill calculation and impairment
- Loss of control per IFRS 10; Pre-populated spreadsheet – foreign subsidiary

Revision Q2: Kabelo (SD23)

- Normal acquisition; Financial instruments
- Pre-populated spreadsheet – consolidated statement of cash flows

Revision Question 3: Auto (Sample 1)

- Acquisition, and disposal ; Non-current assets held for sale per IFRS 5
- Pre-populated spreadsheet – consolidated statement of financial position

Revision Question 4: Articat (Sample 2)

- Disposal
- Pre-populated spreadsheet – consolidated statement of profit or loss

Revision Question 5: Greer Co (MJ 23)

- Business combinations concept per IFRS 3
- Goodwill; IFRS 9 Financial Instruments

Revision Question 6: Chuclkle Co (SD 21)

- Associate per IAS 28
- Changes in ownership
- Fair value; Bargain purchase

Revision Question 7: Columbia Co (MJ 21)

- Business combination concept per IFRS 3
- Goodwill; Defined benefit and contribution schemes per IAS 19

Revision Question 8: Sugar (SD 20)

- Step acquisition; Consolidated statement of cash flows
- Defined benefit and contribution schemes per IAS 19

Revision Question 9: Kutchen Group (Specimen Q1)

- Goodwill; Gain or loss on disposal of shares
- Defined benefit and contribution schemes per IAS 19
- Presentation of equity and financial liabilities; Goodwill – contingent payments

Revision Question 10: Hill (Specimen2 Q1)

- Goodwill; Convertible bonds
- Deferred tax assets

Revision Question 11: Hummings (MJ 20)

- Functional currency; Intangible assets; Goodwill
- Associate; Bonds

General Examiner's Comments about Q1

Time

Candidates frequently overrun Question 1, sacrificing time and marks for later, more straightforward questions.

Application

Candidates often fail to apply theoretical knowledge to the scenario, leading to poor performance.

Spreadsheet

Many candidates struggle to systematically adjust the CSOFP spreadsheet, leading to unclear or incomplete corrections.

Explain Adjustments

Candidates frequently omit explanations for adjustments, losing marks despite correct calculations.

Our approach

- Always bear in mind that group standards such as IFRS 10, IFRS 11, IFRS 3 are tested in the Q1, therefore, if you find any wired requirements, please recall knowledge from these standards, trying to figure them out.

- Pre-populated spreadsheet – make sure to focus on the issues highlighted by the examining team, this is the area where most marks are there.

Revision Question 1: Peony (MJ24)

Peony Co is the parent company of a group with one overseas subsidiary and a financial year end of 31 December 20X2. The functional currency of Peony Co and the presentation currency of the Peony Group is the dollar ($).

The following exhibits, available on the left-hand side of the screen, provide information relevant to the question:

1.Functional currency – provides information used to determine the functional currency of Nomstra Co, an overseas subsidiary.

2.Three issues – describes three issues relating to the acquisition of Nomstra Co, an overseas subsidiary.

3.Changes in government regulations – describes changes in government regulations in the country in which Nomstra Co operates.

4.Draft consolidated SOFP – Draft consolidated statement of financial position (SOFP) for the Peony Group.

Exhibit 1: Functional currency

Nomstra Co is a foreign subsidiary of Peony Co with a functional currency of Ny. Nomstra Co's sales and related costs are predominantly denominated and settled in Ny. Peony Co had previously provided a supporting loan in dollars to Nomstra Co, which had been settled during the year and funds from financial activities are currently generated in Ny. Nomstra Co's board of directors is free to determine its decisions independently from the board of Peony Co.

Exhibit 2 Three issues

On 1 January 20X2, Peony Co acquired 75% of the 1.5 million Ny1 ordinary shares of Nomstra Co for $1.1 million, when the retained earnings of Nomstra Co were Ny4.8 million. There were no other components of equity. Peony Co determined that the non-controlling interests (NCI) in Nomstra Co had a fair value of Ny2.7 million at the acquisition date.

During the year ended 31 December 20X2, Nomstra Co reported a loss of Ny900,000. No dividends were paid or proposed. On 31 December 20X2, Nomstra Co's reported total equity (net assets) was Ny5.4 million.

Exchange rates were as follows:

- 1 January 20X2: $1 = Ny12.0
- 31 December 20X2: $1 = Ny18.0
- Weighted average rate for the year ended 31 December 20X2: $1 = Ny15.0

Three Issues

1. **Goodwill Calculation** Goodwill arising on the acquisition of Nomstra Co was calculated incorrectly as $725,000. This is also the amount included in the draft consolidated statement of financial position (SOFP). In arriving at this figure, the NCI at acquisition was translated and recognised using the exchange rate at 31 December 20X2. The calculation was as follows:
    - **Consideration:** $1,100,000
    - **NCI at acquisition (Ny2.7m/18):** $150,000
    - **Fair value of identifiable net assets (Ny6.3m/12):** $525,000
    - **Goodwill at acquisition:** $725,000
2. **Goodwill Impairment** At 31 December 20X2, a goodwill impairment of Ny3.3 million was calculated but not recognised in relation to Nomstra Co. The group policy is to translate goodwill impairments at the average rate of exchange.
3. **Translation Reserve** Nomstra Co's assets and liabilities (excluding goodwill) were translated into dollars using the exchange rate as at 31 December 20X2. The same exchange rate was used to translate Nomstra Co's loss for the year ended 31 December 20X2. The resulting total exchange loss of $175,000 has been included in the translation reserve in the draft consolidated SOFP, with no entry made to the NCI reserve.

Exhibit 3 changes in government regulation

Near the beginning of the following year (the year ended 31 December 20X3), changes were made to government regulations in the country in which Nomstra Co is located. This has significantly impacted Nomstra Co's operations and caused a fall in the value of the Ny.The directors are aware that, due to the changes in government regulations, Nomstra Co is no longer permitted to transfer funds to Peony Co. Moreover, government restrictions have been enacted which limit the extent to which Peony Co can exercise rights or governance over Nomstra Co.

Exhibit 4

4. Draft consolidated SOFP

Edit Format

100%

A1

	A	B	C
1			
2	The information below is replicated in the spreadsheet response option		
3			
4	**Peony Group**		
5	**Draft consolidated statement of financial position**		
6	**as at 31 December 20X2**		
7		**$'000**	
8	**Assets**		
9	Non-current assets		
10	Property, plant and equipment	18,500.0	
11	Goodwill	725.0	
12		19,225.0	
13			
14	Current assets	3,200.0	
15			
16	Total assets	22,425.0	
17			
18	**Equity**		
19	Share capital	6,000.0	
20	Retained earnings	15,462.5	
21	Translation reserve (OCE)	(175.0)	
22		21,287.5	
23			
24	Non-controlling interest	137.5	
25			
26	Total equity	21,425.0	
27			
28	**Liabilities**		
29	Non-current liabilities	200.0	
30			
31	Current liabilities	800.0	
32			
33	Total liabilities	1,000.0	
34			

Required:

(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)

(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)

(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) (30 marks)

Answer:

(a)

Explain why Nomstra Co's functional currency is the Ny.

IAS 21 The Effects of Changes in Foreign Exchange Rates

The functional currency is the currency used in the major economic environment.

To determine the functional currency, the curency used to set up selling price and costs, would usually be the functional one.

The currency used by the competitor in setting up the selling price and costs would also be considered when determining the functional one.

Application

Nomstra Co's sales and related costs are predominantly denominated and settled in Ny, this is why the Ny could be used as a functional currency.

Although Peony Co provided a supporting loan in dollars to Nomstra Co, the main financing activity of Nomstra Co would be in Ny. Therefore, the Ny should be the functional currency.

Conclusion

Nomstra Co's board of directors is free to determine its decisions independently from the board of Peony Co, this means that the Ny currency used to settle the costs and set up the selling price, and financing activity would be quite fair, therefore, this is concluded as the functional currency.

(b)

(i) Three issues

1. Goodwill

		Ny (000)		$ 000
Consideration	$1.1m x Ny12/$	13,200		
+NCI		2,700		
-Equity	(4,800+1,500)	-6,300		
Goodwill at acquisition		Ny9,600 /	Ny12/$ (acq)	$800
-Impairment (ii)		-Ny3,300 /	Ny15/$ (average rate)	-$220
			Bal	-$230
Goodwill at year end		Ny 6,300 /	Ny 18/$ (year end)	$350

Adjustment: (000)

Dr (increase) Goodwill 800-725 = $75

Cr? NCI (It should be translated using Ny2.7m/12 rather than 18) $75 (Inrease)

2. Impairment:

Cr Goodwill (Reduce) $220

Dr Retained earnings (Reduce) 75%x$220 = $165

Dr NCI (Reduce) 25%x$220 = $55

Bal figure:

Cr Goodwill (Reduce) $230

Dr Reserve (OCE) 75%X$230 = $172.5

Dr NCI (Reduce) 25%x$230 = $57.5

3.Assets and liabilities (excluding goodwill)

Equity/Net asset Ny	At Acquisition date	Realised	Not realised	At year end
Share capital	1,500			1,500
Retained earnings	4,800	-900 (1st para)		3,900
	6,300			5,400
Exchange rates	Ny12·0/$	Ny15·0/$		Ny18·0/$
$	$525	-$60	-$165 (Bal)	$300
Correct entries:		Dr(REDUCE) RE 75%x60=-45 Dr(REDUCE) NCI 25%x60=-15	REDUCE RE 75%x165=$123.75 **REDUCE NCI 25%x165=41.25**	

Correct entries:

Dr(REDUCE) RE 75%x60=-45

Dr(REDUCE) NCI 25%x60=-15

REDUCE RE 75%x165=$123.75

REDUCE NCI 25%x165=41.25

The same exchange rate was used to translate Nomstra Co's loss for the year ended 31 December 20X2. The resulting total exchange loss of $175,000 has been included in the translation reserve in the draft consolidated SOFP with no entry made to the NCI reserve.

What has been done (wrong)

Loss 900/18=50, but you should take 900/15 = 60

To correct it:

Reduce RE 75%x10 = $7.5

Reduce NCI 25%x10 = $2.5

Take $10 out from the OCE (-175 +10 = $165)

+OCE by $10

(b)(ii)

H32 | =H30+H22

	A	B	C	D	E	F	G	H	I
1	**Peony Group**								
2	**Draft consolidated statement of financial position**								
3	**as at 31 December 20X2**		Issue 1 Go	Issue 2 Im	Issue 2 Im	Issue 3 Equity		Revised Total	
4		**$'000**							
5	**Assets**								
6	Non-current assets								
7	Property, plant and equipment	18,500.0						18500	
8	Goodwill	725.0	75	-220	-230			350	
9		19,225.0						18850	
10									
11	Current assets	3,200.0						3200	
12									
13	Total assets	22,425.0						22050	
14									
15	**Equity**								
16	Share capital	6,000.0						6000	
17	Retained earnings	15,462.5		-165		-7.5		15290	
18	Translation reserve (OCE)	-175			-172.5	10	41.25	-296.25	
19		21,287.5						20993.75	
20									
21	Non-controlling interest	137.5	75	-55	-57.5	-2.5	-41.25	56.25	
22								21050	
23	Total equity	21,425.0							
25	**Liabilities**								
26	Non-current liabilities	200.0						200	
27									
28	Current liabilities	800.0						800	
29									
30	Total liabilities	1,000.0						1000	
31									
32	Total equity and liabilities	22,425.0						22050	
33									
34									
35	**WORKINGS**								
36									
37									

(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.

IFRS

Per IFRS Consolidated FS, in order to gain control over N company, P should have power instrument, ie more than 50% voting shares in N Co.

P should be able to use the power instrument to direct its relevant activities, including governance, fundings, strategic issues.

P could also obtain variable returns from the N Co, ie dividends, tax savings.

Application

Due to the changes in government regulations, Nomstra Co is no longer permitted to transfer funds to Peony Co, so this means that P company can not direct its relevant activity relating to the funding part.

Government restrictions have been enacted which limit the extent to which Peony Co can exercise rights or governance over Nomstra Co, so this means that P company can not direct its relevant activity relating to the governance, opertions part.

Conclusion

It's likely that P lost control over N company, ie Goodwill, NCI of N company should be removed from the date that the control is lost.

N's assets, liabilities, income and expense should stop being consolidated from the date that the control is lost.

Revision Question 2: Kabelo (SD23)

Kabelo Co is the parent company of a group whose financial year end is 31 December 20X5.

………

The remaining contents would be available in the actual course.