ACCA

STUDY PLATFORM

Strategic Business Reporting (INT)

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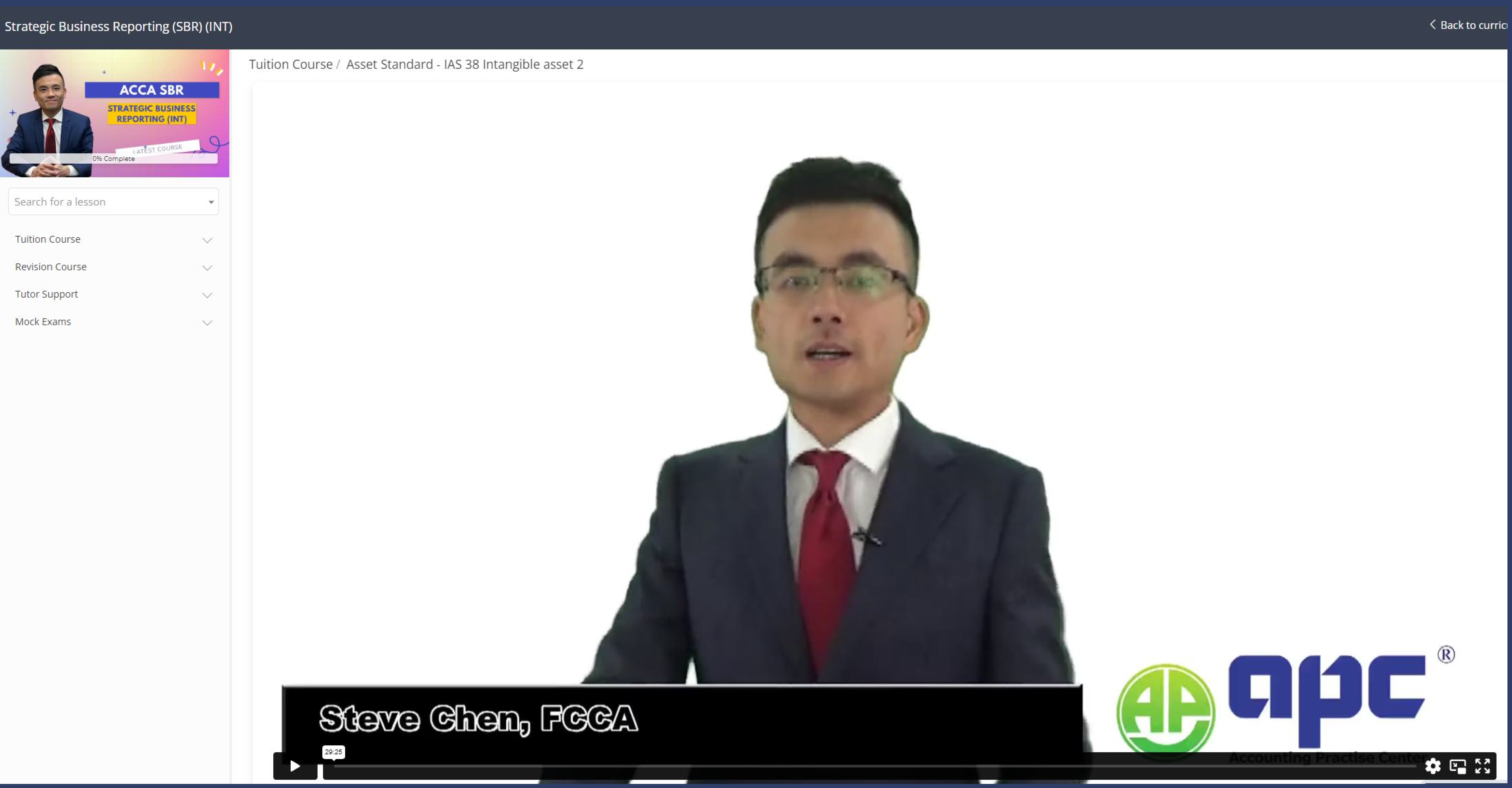
Author, Examiner, Marker

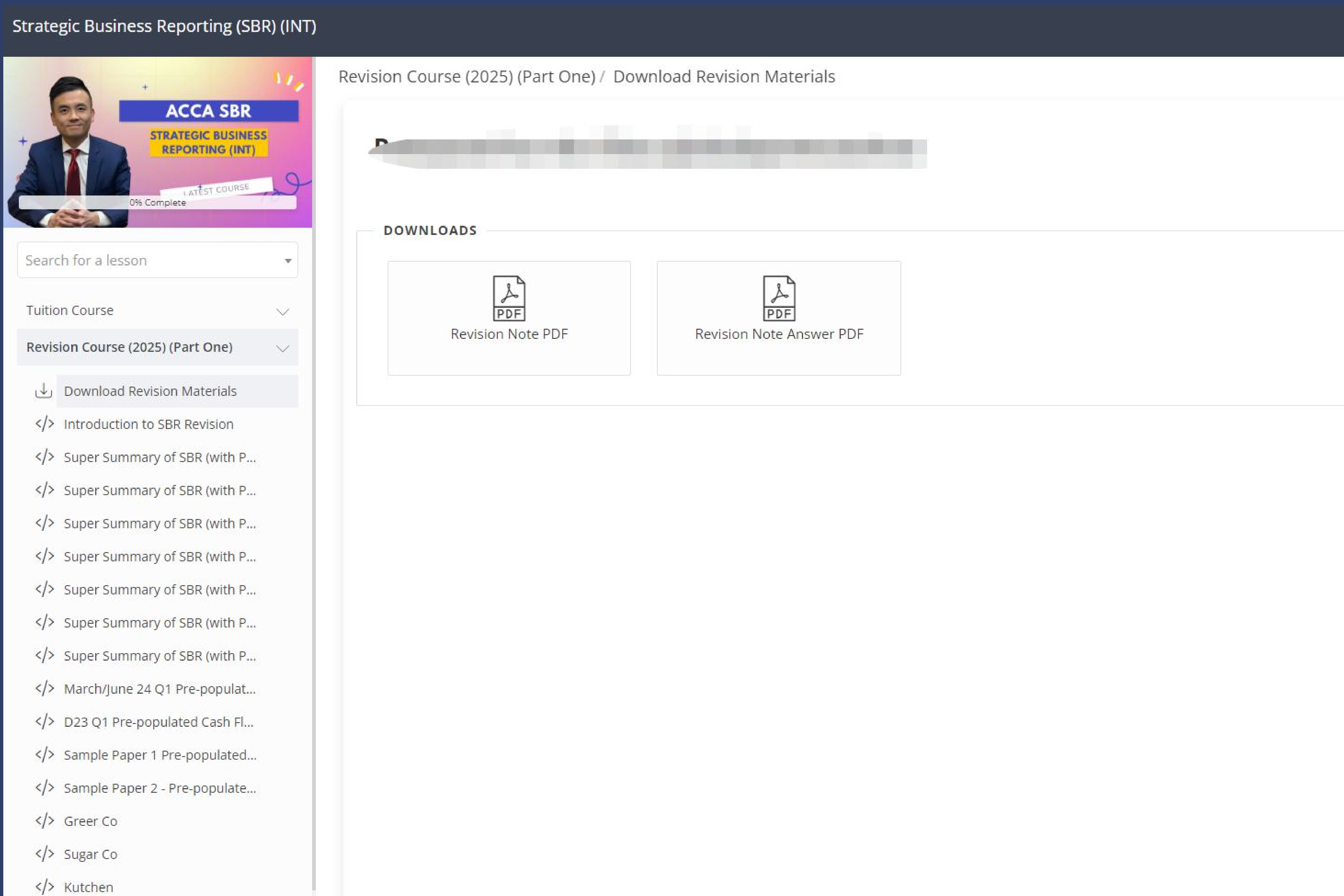
Our course will ensure you a quick pass in the SBR exam!

Platform Overview

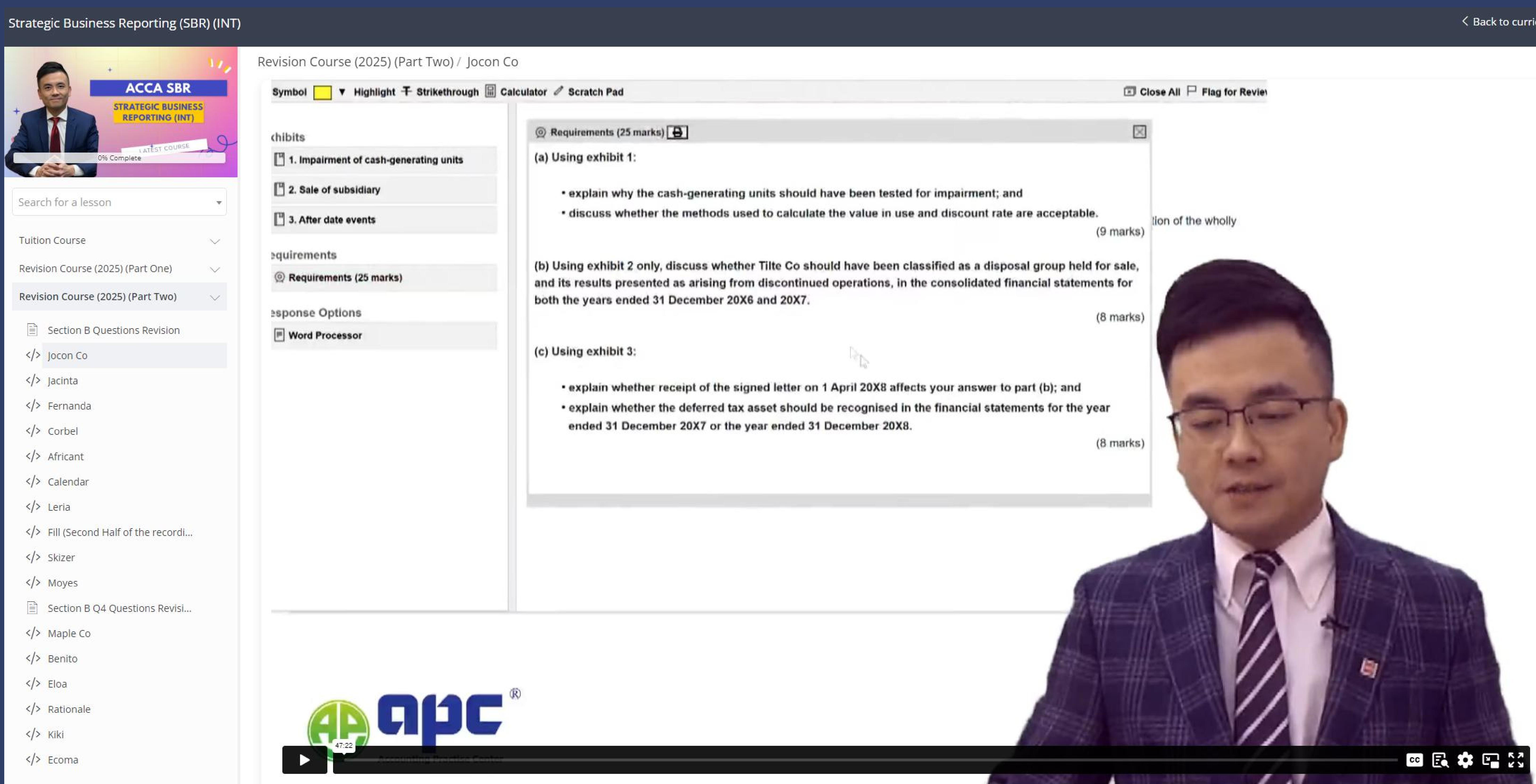
Tuition Course

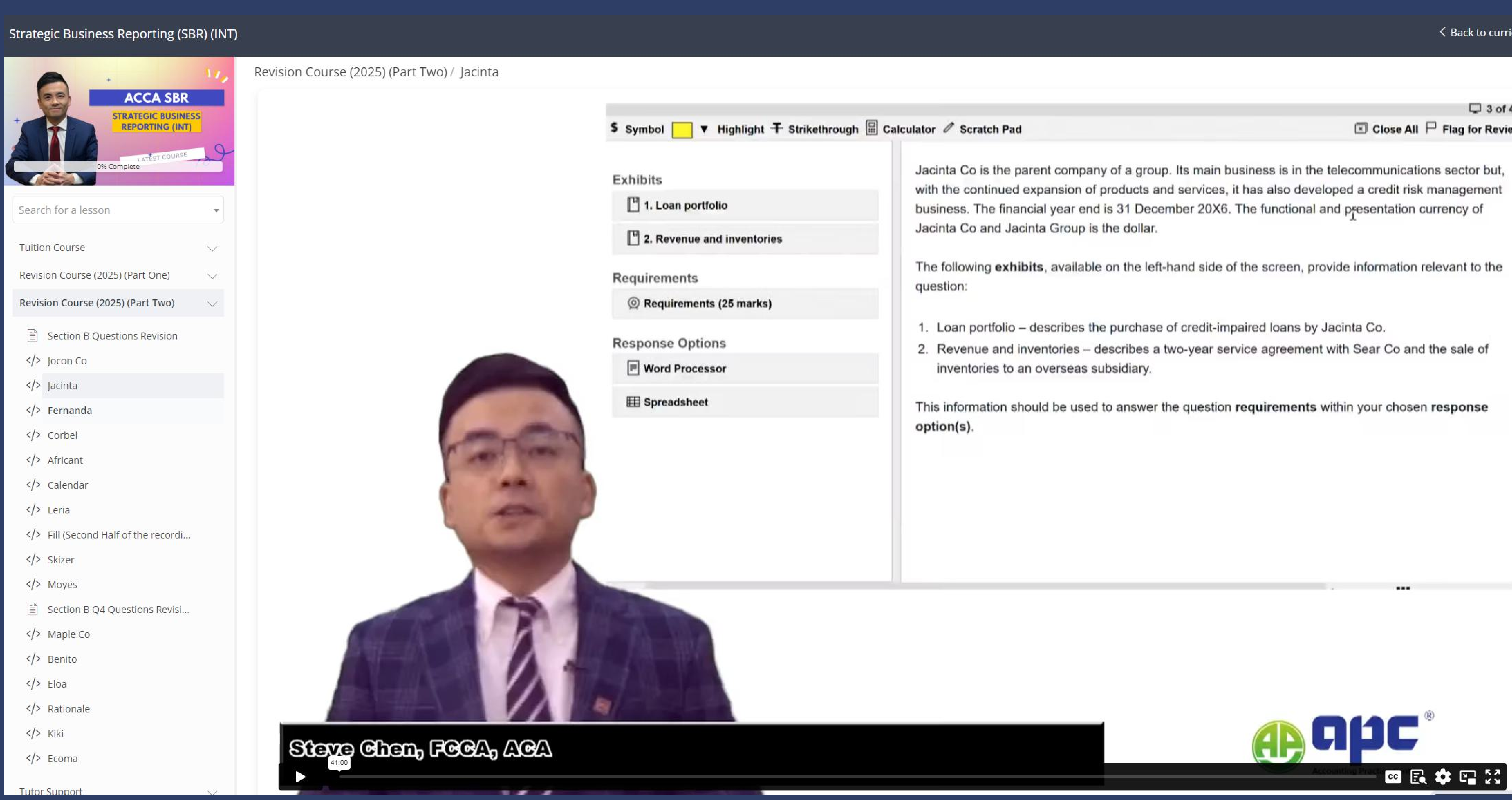


Revision Course

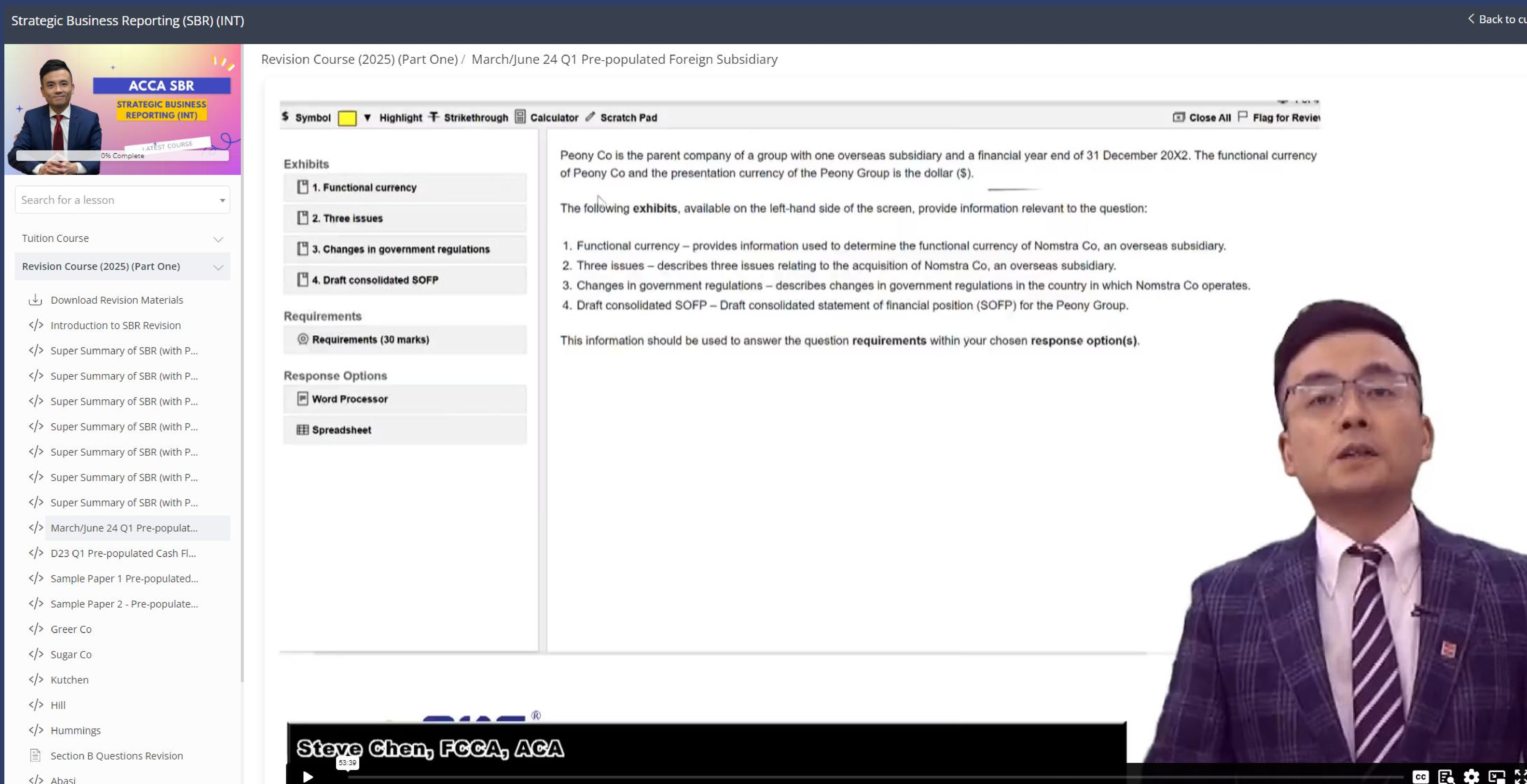


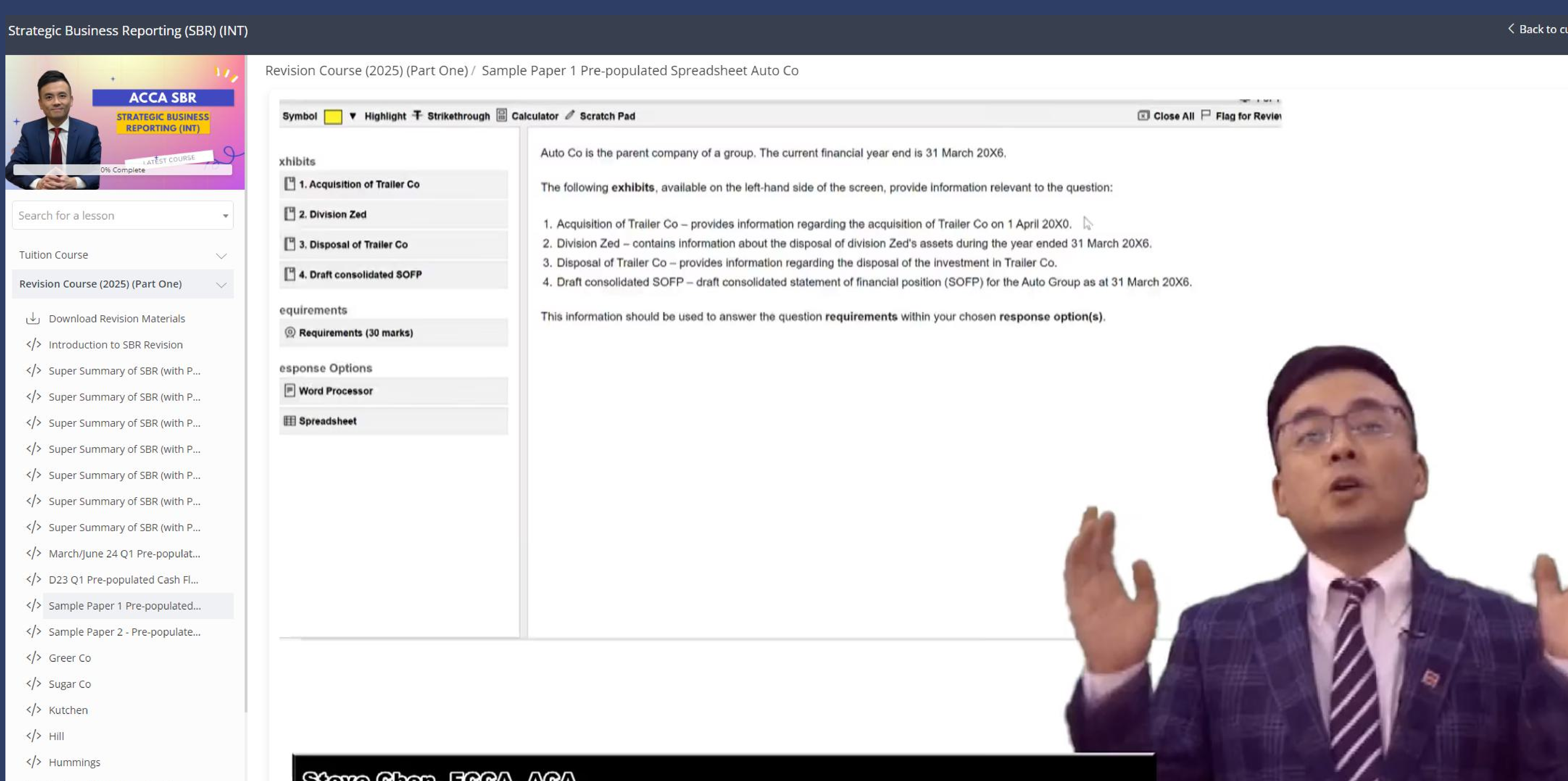
Revision Course





Revision Course

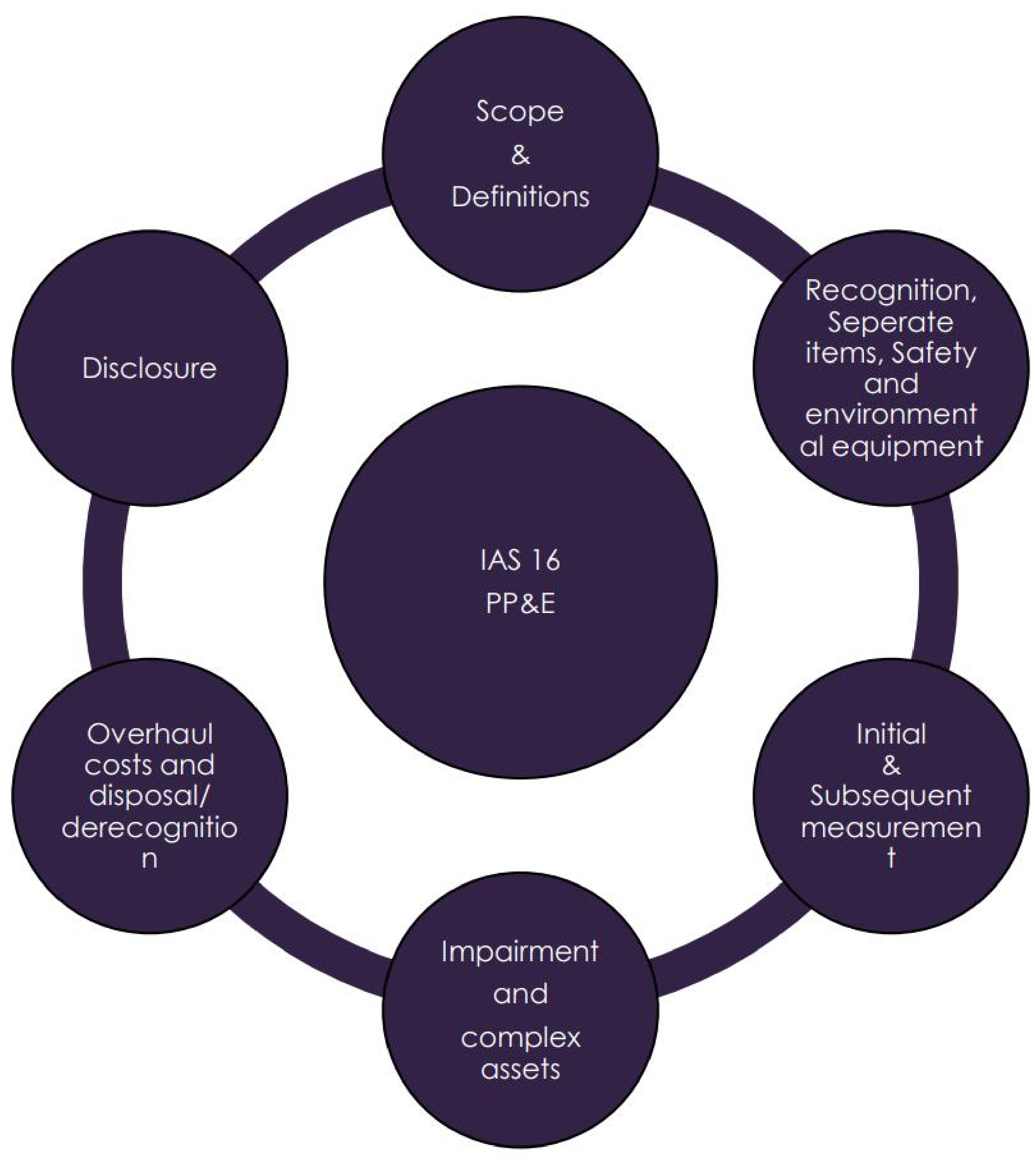




Demo of Tuition Note

Chapter 2 IAS 16 Property, Plant & Equipment

Topic outline:



WHEN ISSUED:

		$m
Dr	Bank	100.
Cr	Financial liability (FV)	

$$\rightarrow \frac{\overset{\text{interest}}{6}}{1.09^1} + \frac{\overset{\text{interest}}{6}}{1.09^2} + \frac{\overset{\text{interest + principal.}}{6+100}}{1.09^3} = 92.4. \quad (92.4)$$

Cr	Reserve.	7.6 (β) (7.6)

• issue cost:

Dr	Reserve ↄ	0.076	7.524
Dr	Financial liability ↄ	0.924	
Cr	Bank ↄ	1	

Exam rehearsal question – Traveler (Dec 2011 Q1)

Traveler acquired a new factory on 1 December 2010. The cost of the factory was $50 million and it has a residual value of $2 million. The factory has a flat roof, which needs replacing every five years. The cost of the roof was $5 million. The useful economic life of the factory is 25 years. No depreciation has been charged for the year. Traveler wishes to account for the factory and roof as a single asset and depreciate the whole factory over its economic life. Traveler uses straight-line depreciation.

Answer:

Depreciation

Roof ($5m/5 years)	$1m
Factory ($50m -$5m -$2m)/25 years	$1.72m
	$2.72m

Dr Depreciation expense (P/L) $2.72m
Cr PP&E at carrying value $2.72m

#1

The SBR Course Note (with handout) builds on SBR past exam question, reflecting the way that SBR examiner expects from students.

Demo of Revision Note

Relevance

- <u>Learned paragraph</u>:

This meets relevance concept because it helps investors make different economic decisions, ie

- <u>Fair value</u> confirms the current market conditions of the asset (<u>applied to (IAS 16 PP&E Revaluation model, IAS 40 Investment property Fair value model, IFRS 9 Financial instruments where instruments are carried at fair value)</u>);
- The disclosure helps confirm business transactions with third parties (<u>applied to IAS 24 Related party disclosures</u>) ;
- The disclosure helps confirm operating results (<u>applied to IFRS 8 Operating segments</u>) ;
- The recognition of deferred tax liability helps predict the true value of the business (<u>applied to IAS 12 Income Taxes</u>).

Accounting Practise Center

Popular IFRS	Areas to be tested	Key points	Key questions
Non-current assets (Part two)	• **IAS 36 Impairment of assets**	• **Impairment indicator** – internal and external • **Conceptual framework** – Prudence; Completeness; Relevance.	Page 78 Fill (b) (Dec 2018): Whether decrease in mine prices is an impairment indicator? (short term price fluctuation – may not be; longer term price reduction - yes). But prudent to test for impairment.
		• **Cash generating units (CGU)** – Order for impairment: 1. Specific assets; 2. Allocated goodwill; 3. Pro-rata to other non-current assets.	
	• **IAS 38 Intangible assets**	• **Definition** – identifiable non-monetary asset without physical substance. • **If part of business combination** – at fair value • **Goodwill, and trademark** – impairment tested (indefinite useful lives). If finite useful lives – amortisation • **R&D** – expensed; Capitalisation criteria • **Sale of intangible** – not revenue.	Page 104 - Calendar (SBR Specimen Paper 2 (a) (i)) Page 105 - Skizer (Sept 2018)

Demo of Revision Note

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Strategic Business Reporting (SBR)

(INT)

Revision Note

Contents

Accounting Practise Center

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Introduction to SBR Revision

Accounting Practise Center

apc

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. Q4 with 2 professional marks – usually the impact to investors. You can get them if
...e tricky to many students.
...rks in Section A Q1, one of the
...ional)
...ith control is lost, disposal
...binations including assets
...g Full or Proportionate method,
... per IAS 28.

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 investee's equity (including net profits and OCI), this is then added to the investment in associate and the associated income from associate and OCI.
- Subjective criteria to determine the significant influence would be to use shareholdings, ie 20%-50% shareholdings.
- However, objective assessments include representati... ability to influence policy making, these confirm sign...

IFRS 3 Business Combinations

Asset acquisition or business combination

- Concentration test could be applied, ie if the price pa... of one or similar assets, the transaction is asset acqu... business combination.
- Asset transaction is where historical cost method wo...
- Business combination is where fair value would be ap...
- If concentration test confirms the transaction is busi... analysis of input, process and output should be perfo... are purchases from the transaction and if yes, this c... combination, and if not, this is an asset acquisition t...

Revision Question 3: Auto (Sample 1)

Auto Co is the parent company of a group. The current financial year end is 31 March 20X6.

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

1.Acquisition of Trailer Co – provides information regarding the acquisition of Trailer Co on 1 April 20X0.

2.Division Zed – contains information about the disposal of division Zed's assets during the year ended 31 March 20X6.

3.Disposal of Trailer Co – provides information regarding the disposal of the investment in Trailer Co.

4.Draft consolidated SOFP – draft consolidated statement of financial position (SOFP) for the Auto Group as at 31 March 20X6.

This information should be used to answer the question requirements within your chosen response option(s).

Exhibit 1 Acquisition of Trailer Co

On 1 April 20X0, Auto Co acquired 80% of the 15 million $1 ordinary shares of Trailer Co. Consideration transferred comprised cash of $45 million and one share of Auto Co for every 10 shares of Trailer Co acquired. The market price of Auto Co's shares on 1 April 20X0 was $5. The fair value of the identifiable net assets of Trailer Co at acquisition was $40 million.

The group's policy is to measure non-controlling interests using the proportionate share of net assets method.

Exhibit 2 Division Zed

The activities of Trailer Co differed significantly from the rest of the group. To enable the group to focus upon its core activities, Auto Co decided to sell the majority of its shares in Trailer Co.Until recently, Trailer Co consisted of three divisions: Tuc, Fos and Zed. On 30 September 20X5, a third-party, Wheel Co, agreed to purchase 90% of Auto Co's investment in Trailer Co.

Demo of Revision Answer

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Strategic Business Reporting (SBR)
(INT)

Revision Note Answer

Revision Q2: Kabelo (SD23)

(a) (ii)

The depreciation expense is the non-cash item which should be added back to the operating cash flows, for 625060.

The goodwill impairment is the non-cash item, which should be added back to the operating cash flows for 31100.

The acquisition of T will result in an increase in inventories, ie $256,800 which should be added back as adjustments in inventories.

The acquisition of T will result in an increase in receivables, ie $220,300 which should be added back as adjustments in receivables.

The acquisition of T will result in an increase in payables, ie 175400. Therefore, the net cash paid for payables would be $81500.

The taxation paid should include both $385,600 as the P/L adjustment, with the increase in deferred tax liability from the fair value adjustment of 15,000. Therefore the net cash paid in tax would be $413200.

The acquisition of PP&E in cash in investing cash flows should also include the fair value adjustment, subtracting depreciation expenses, before arriving at 697,660 payment in cash to increase the PP&E.

The consideration paid to acquire T should net off its own cash with the cash payment made to the T company at $400,000.

The share for share exchange of $260000 is the non-cash item, however, we disclose it in the note because this is the significant financing transaction.

The NCI is non-cash, however, if there are changes in NCI which may be due to impairment of goodwill which is also non-cash item, or the parent paid dividends to NCI shareholders. If it's the latter case, we will need to show that in the statement of cash flows.

(b)

A1 =SUM(D19:D20)

	A	B	C	D	E	F
1						
2	**Draft extracts from the consolidated statement**					
3	**the year ended 31 December 20X5:**					
4						
5	**Cash inflow from operating activities:**					
6	Profit before taxation					
7	Depreciation					
8	Goodwill impairment W2					
9	Increase in inventories					
10	Increase in trade and other receivables					
11	Increase in trade and other payables					
12						
13	**Cash generated from operations**					
14	Taxation paid					
15						
16	**Cash inflow from operating activities**					
17						
18	**Cash-flow from investing activities**					
19	Acquisition of property, plant and equipment					
20	Consideration paid for acquisition of Trudos Co et					

In word processor:

Defined benefit scheme

In SFP:

Net pension assets of $25m pension asset ceiling should be recognised.

In P/L:

Net interest cost of $27m ($10m+$30m-$13m) should be recognised.

In OCI:

Remeasurement losses of $19m ($11m+$8m) should be recognised.

Under defined benefit scheme, when money is transferred to the trustee, the risks and rewards remain in Columbia Co, and therefore, separate pension assets and liabilities should be accounted for in Columbia Co's account.

Per prudence concept, pension asset should not be overstated, ie the maximum amount of pension asset to be recognised is the present value of the economic benefits in the form of refunds from the plan or reductions in the future combinations, and in this case, $25m.

Demo Mock Exams

Q3:

Allask Co develops cryptocurrency funds and is a leading authority on crypto investing. Allask Co specializes in Initial Coin Offerings ('ICO') that raises funds from investors in the form of cash or a crypto asset such as Bitcoin. The year-end of Allask Co is 31 March 20X7.

Development costs The diagram below illustrates how the ICO is used by Allask Co.

Note: The terms token and coin mean the same and investors are often referred to as supporters.

An ICO issues tokens to investors for cryptocurrency or cash. For each ICO, Allask Co establishes a separate payment platform on which the investors can trade the tokens. These tokens do not represent an ownership interest in the entity. Allask Co promises to produce gains for investors from trading the tokens on the platform and in return, the company takes a percentage of the profit as a fee.

As at 31 March 20X7, Allask Co has incurred significant cost in promoting the issue of the ICO tokens, and developing the trading platform for dealing with the purchase and sale of the ICO tokens. These costs have been met from its own capital and expensed to profit or loss. Allask Co will earn revenue from supporting the purchase and sale of tokens.

ICO arrangements Occasionally, Allask Co enters into pre-sale agreements to raise funding from selected investors prior to a public sale of tokens. Allask Co has entered into a pre-sale agreement with an investor which entitles the investor to a 10% discount on the price for tokens compared to other investors at the time of the ICO. On 1 March 20X7, the investor paid Allask Co $1 million in cash. The issue date of the ICO is 30 April 20X7. The cash is only refundable if the ICO is abandoned before 30 April 20X7 because the minimum funding level of $9 million has not been achieved.

Once the tokens are issued, ICO investors can readily convert them into cash or cryptocurrencies on Allask Co's platform but they do not entitle the holder to future goods and services from Allask Co other than supporting the purchase and sale of tokens. The inflows received for tokens are used by Allask Co to fund the future development of the payment platform and other projects.

Q2:

(a) (i) Foreign Exchange (3 marks)

Mr. Raavi's accounting treatment of foreign exchange gains on the subsidiary held for sale was incorrect. (1 mark)

IAS 21 dictates that such gains should initially be recognized in other comprehensive income (OCI) and reclassified to the statement of profit or loss (SOPL) upon disposal. (1 mark)

Thus, these gains shouldn't have been included in SOPL until the subsidiary was actually sold. (1 mark)

(ii) Ethics (6 marks)

Despite being a student accountant, Mr. Raavi is bound by ethical codes. (1 mark)

The termination clause in his employment contract raises questions about fairness and ethical behavior. (1 mark)

Fear of job loss can indeed motivate unethical actions. (1 mark)

Accountability and responsibility significantly influence ethical behavior. (1 mark)

Ms. Malgun's failure to correct the accounting error for personal gain is unethical. (1 mark)

She should have allocated time to assist Mr. Raavi in ensuring accurate reporting, which is an ethical obligation. (1 mark)

(b) Sale of License (5 marks)

According to IAS 38, intangible assets may be derecognized when no future economic benefits are expected. (1 mark)

The gain or loss on derecognition depends on the difference between net proceeds and carrying amount. (1 mark)

Gains from derecognition are not classified as revenue. (1 mark)

#2

Our Mock Exams are meticulously designed to cover the hottest topics, ensuring you're fully prepared for what's most likely to appear.

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