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**Approved**

## Practice & Revision Kit

**Strategic Business Reporting –  
International & UK (SBR – INT & UK)**

For exams in September 2022,  
December 2022, March 2023  
and June 2023

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# ACCA

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## Strategic Business Reporting (SBR)

### Practice & Revision Kit

For exams in September 2022,  
December 2022, March 2023 and  
June 2023



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# Finding questions

## Question index

The questions in section 1 are preparation questions to help consolidate your knowledge before you move onto the exam-standard questions in section 2. The questions in section 2 are grouped according to the structure of the exam. Section A of the exam will contain two questions, the first on groups and the second on ethical and reporting issues. Section B of the exam will contain two 25-mark questions which could cover any area of the syllabus. Here we have generally categorised questions containing analysis/appraisal of information and current issues under 'Section B-type questions' however, these areas could be examined in either section of the exam.

Questions which require consideration of an issue from the perspective of an investor or other stakeholder are marked below with an asterisk \*.

Many of these questions are based on past real SBR exam questions (or predecessor exams P2 and ACR), which have been updated for changes in the syllabus or accounting standards as appropriate, as indicated in the question index below.

The IASB's *Conceptual Framework for Financial Reporting* was substantially revised and reissued in March 2018. References to the *Conceptual Framework* or the revised *Conceptual Framework* throughout this Kit refer to the March 2018 version unless otherwise stated.

			Time allocation	Page number	
		Marks	Mins	Question	Answer
Section 1: Preparation questions					
1	Financial instruments	6	12	3	89
2	Leases	10	20	4	89
3	Defined benefit plan	10	20	4	90
4	Sundry standards	30	59	6	91
5	Control	12	23	7	94
6	Associate	20	39	8	96
7	Part disposal	25	49	9	98
8	Step acquisition	15	29	11	101
9	Foreign operation	25	49	11	103
10	Consolidated statement of cash flows	20	39	13	106
Section 2: Exam-standard questions					
Groups questions					
11	Robby	30	59	17	109
12	Banana (SBR September 2018 (amended))	30	59	19	113
13	Hill (SBR Specimen exam 2)	30	59	21	116
14	Luploid (SBR September/December 2019)	30	59	22	120
15	Sugar Co (SBR September/December 2020)	30	59	24	124
16	Angel (Adapted from P2 December 2013)	30	59	26	128
17	Moyes (Adapted from SBR December 2018/P2 2015)	30	59	28	132
18	Humming Co (SBR March 2020)	30	59	30	135
19	Carbise (SBR March/June 2019)	30	59	32	139

			Time allocation	Page number	
		Marks	Mins	Question	Answer
Section 2: Exam-standard questions					
Ethical issues questions					
20	Bagshot Co (SBR March 2020)	20	39	33	142
21	Calibra Co (SBR September/December 2020)	20	39	34	145
22	Farham (SBR September 2018)	20	39	35	147
23	Gustoso* (SBR Specimen exam 2)	20	39	36	149
24	Fiskerton (SBR December 2018)	20	39	37	151
25	Hudson (SBR March/June 2019)	20	39	38	153
26	Stent (SBR September/December 2019)	20	39	39	156
Section-B-type questions					
Current issues					
27	Calendar Co (SBR Specimen exam 2)	25	49	40	159
28	Digiwire (SBR September/December 2019 (amended))	25	49	41	161
29	Ecoma Co (SBR March 2020)	25	49	43	165
30	Egin group	25	49	44	168
31	Alexandra* (Adapted from P2 June 2012/December 2011)	25	49	45	172
32	Yanong (Adapted from P2 June 2015)	25	49	46	175
33	Avco* (Adapted from P2 June 2014)	25	49	48	179
34	Lupin	25	49	49	182
35	Janne* (Adapted from P2 June 2013)	25	49	50	185
36	SunChem (P2 September/December 2015 (amended))	25	49	51	188
Question containing analysis					
37	KiKi* (SBR Specimen exam 2)	25	49	52	192
38	Skizer* (SBR September 2018 (amended))	25	49	53	194
39	Toobasco (SBR September 2018)	25	49	55	197
40	Holls* (SBR December 2018)	25	49	56	199
41	Crypto (SBR March/June 2019)	25	49	58	203
42	Guidance* (SBR September/December 2019)	25	49	59	205
43	Handfood Co (SBR September/December 2020)	25	49	60	208
44	Moorland*	25	49	61	211
45	Amster* (P2 December 2017 (amended))	25	49	62	213
46	Havanna (Adapted from P2 December 2013)	25	49	63	216
47	Operating segments* (adapted from P2 December 2011/ June 2010)	25	49	65	219
48	Cloud (P2 December 2015 (amended))	25	49	66	223

			Time allocation	Page number	
		Marks	Mins	Question	Answer
Financial reporting issues					
49	Leria Co (SBR March 2020)	25	49	66	226
50	Corbel Co (SBR September/December 2020)	25	49	68	229
51	Fill (SBR December 2018)	25	49	69	231
52	Zedtech (SBR Mar/Jun 2019 (amended))	25	49	70	234
53	Kayte (SBR December 2018 (amended)/adapted from P2 December 2014)	25	49	71	236
54	Pensions (adapted from P2 December 2007/P2 June 2012)	25	49	72	240
55	Emcee (P2 Mar/Jun 2016 (amended))	25	49	74	242
56	Estoil (P2 December 2014 (amended))	25	49	75	245
57	Evolve (P2 Sep/Dec 2016 (amended))	25	49	75	248
58	Gasnature (P2 Sep/Dec 2015 (amended))	25	49	76	250
59	Complexity* (Adapted from P2 December 2009)	25	49	77	253
60	Carsoon (P2 Mar/Jun 2017 (amended))	25	49	78	256
61	Leigh (ACR June 2007 (amended))	25	49	79	258
62	Mehran (P2 March/June 2016 (amended))	25	49	80	261
63	Ethan (P2 December 2012 (amended))	25	49	82	263
64	Whitebirk (P2 December 2010 (amended))	22	43	83	266
65	Revenue recognition	25	49	83	268
66	Seltec (P2 June 2010 (amended))	25	49	84	271
67	Della Co	25	49	85	275

### Mock exam 1

- 1 Joey
- 2 Ramsbury
- 3 Klancet\*
- 4 Jayach

### Mock exam 2 (ACCA Specimen exam 1, amended)

- 1 Kutchen Co
- 2 Abby Co
- 3 Africant Co\*
- 4 Rationale Co

### Mock exam 3 (March/June 2021 exam)

- 1 Columbia Co
- 2 Bismuth Co
- 3 Sitka Co
- 4 Colat Co\*

## Mock exam 4 (September/December 2021 exam)

- 1 Chuckle Co
- 2 Agency Co
- 3 Stem Co
- 4 Symbal Co\*

## Topic index

Listed below are the key SBR syllabus topics and the numbers of the questions in this Kit covering those topics. We have also included a reference to the relevant Chapter of the BPP SBR Workbook, the companion to the BPP SBR Practice and Revision Kit, in case you wish to revise the information on the topic you have covered.

If you need to concentrate your practice and revision on certain topics or if you want to attempt all available questions that refer to a particular subject, you will find this index useful.

Syllabus topic	Question numbers	Workbook chapter
Accounting policies (IAS 8)	27, 42 Mock exam 1: Q4	2
Alternative performance measures (APMs)	35, 39, 41, 42, 44 Mock exam 2: Q3 Mock exam 4: Q3	18
Associates	39, 41, 42, 61, Mock exam 4: Q1 Mock exam 4: Q3	
Business combinations (IFRS 3)	11 – 14, 36, Mock exam 1: Q1, Mock exam 2: Q1, Mock exam 3: Q1, Mock exam 4: Q1	11 – 13
Conceptual Framework	11, 28, 33, 34, 35, 38, 40, 48, 51, 52, 53 Mock exam 1: Q4, Mock exam 2: Q4	1
Consolidated statement of cash flows	15, 16, 17	17
Deferred tax (IAS 12)	13, 25, 34, 40, 57, 63 Mock exam 3: Q2	7
Disposals of investments	12, 13, 19 Mock exam 2: Q1, Mock exam 3: Q3 Mock exam 4: Q1	13
Ethics	20–26, Mock exam 1: Q2, Mock exam 2: Q2, Mock exam 3: Q2, Mock exam 4: Q2	2
Events after the reporting period (IAS 10)	13, 57, 58	6
Employee benefits (including pensions)	12, 15, 25, 29, 43, 54, Mock exam 2: Q1, Mock exam 3: Q1, Mock exam 4: Q4	5
Fair value measurement (IFRS 13)	14, 28, 32, 35, 36, 55, 60, 62, 63, Mock exam 1: Q4, Mock exam 2: Q3, Mock exam 3: Q3, Mock exam 4: Q1	4

Syllabus topic	Question numbers	Workbook chapter
Financial instruments (IFRS 9)	12, 13, 18, 23, 26, 28, 31, 33, 41, 45, 48, 57, 58, 59, 60, 62, 63, Mock exam 2: Q1, Mock exam 3: Q2, Mock exam 4: Q4	8
Foreign transactions and entities (IAS 21)	18, 19, Mock exam 4: Q2	16
IFRS for SMEs Standard	43, 64	19
IFRS Practice Statement 1 <i>Management Commentary</i>	40, 44	18
IFRS Practice Statement 2 <i>Making Materiality Judgments</i>	27, 30, 31, 35, 36, Mock exam 1: Q3, Mock exam 1: Q4, Mock exam 2: Q4	20
Impairment (IAS 36)	14, 22, 50, 51, 56, 63, Mock exam 3: Q2, Mock exam 3: Q4	4
Intangible assets (IAS 38)	27, 36, 38, 49, 50, 55, Mock exam 3: Q3, Mock exam 4: Q2, Mock exam 4: Q4	4
Integrated reporting	30, 38, 43, 48	18
Interim reporting (IAS 34)	53	18
Investment property (IAS 40)	24, 35, 57, 63	4
Joint arrangements (IFRS 11)	11, 28, 41, 58, Mock exam 4: Q3	15
Leases (IFRS 16)	24, 27, 28, 29, 34, 41, 46, 49, 60, Mock exam 3: Q3, Mock exam 4: Q3	9
Measurement	35, Mock exam 1: Q4, Mock exam 2: Q3	1
Non-current assets held for sale and discontinued operations (IFRS 5)	17, 18, 22, 46, 49, 50, 53, 55, 57	14
Operating segments (IFRS 8)	44, 47	18
Provisions, contingent liabilities and contingent assets	20, 23, 25, 29, 54, Mock exam 3: Q4, Mock exam 4: Q4	6
Related party transactions (IAS 24)	20, 26, 36, 30, 31, 55, Mock exam 2: Q2	2
Revenue recognition (IFRS 15)	21, 24, 27, 28, 37, 46, 52, 60, Mock exam 3: Q3	3
Segment reporting (IFRS 8)	44, 47, Mock exam 1: Q3, Mock exam 2: Q2	18

Syllabus topic	Question numbers	Workbook chapter
Share-based payment (IFRS 2)	14, 17, 34, 45, 61, Mock exam 1: Q1	10
Step acquisitions (IFRS 10)	11, 15, Mock exam 1: Q1, Mock exam 2: Q1, Mock exam 4: Q1	12
Sustainability	29, Mock exam 3: Q4	18, 20

# The Exam

## Computer-based exams

Strategic Professional exams are all computer-based exams (CBE).

## ACCA CBE practice platform

ACCA has launched a free on-demand resource, the **ACCA CBE practice platform**, designed to mirror the live CBE experience. You can access the ACCA CBE practice platform via the Study Support Resources section of the ACCA website: navigate to the CBE question practice section and log in with your myACCA credentials.

If you are sitting SBR as a CBE, practising as many exam-style questions as possible in the **ACCA CBE practice platform** will be key to passing the exam.

## Important note for UK students who are sitting the UK variant of Strategic Business Reporting

If you are sitting the UK variant of the Strategic Business Reporting exam you will be studying under International standards, but between 15 and 20 marks will be available for comparisons between International and UK GAAP.

This Practice & Revision Kit is based on IFRS Standards only. An online supplement covering the additional UK issues and providing additional illustrations and examples is available on the Exam Success Site; for details of how to access this, see the inside cover of this Kit.

## Approach to examining the syllabus

The Strategic Business Reporting syllabus is assessed by a 3 hour and 15 minute exam. The pass mark is **50%**. All questions in the exam are **compulsory**.

At the revision stage, we advise students to revisit the following main syllabus requirements so that you have a good understanding of the overall objectives of this exam. Remember, ACCA's examining team expect you to be able to:

- Demonstrate **professional competences** within the business reporting environment. You will be examined on concepts, theories, and principles, and on your ability to question and comment on proposed accounting treatments.
- Relate professional issues to relevant concepts and practical situations. The **evaluation of alternative accounting practices** and the **identification and prioritisation** of issues will be a key element of the exam.
- Exercise **professional** and **ethical judgement**, and **integrate technical knowledge** when addressing business reporting issues in a business context.
- Adopt **either a stakeholder or an external focus** in answering questions and demonstrate personal skills such as **problem solving, dealing with information** and **decision making**. You will also have to demonstrate **communication skills** appropriate to the scenario.
- Demonstrate specific professional knowledge appropriate to the **preparation and presentation of consolidated and other financial statements** from accounting data, to conform with relevant accounting standards. Here, you may be required to interpret financial statements for different stakeholders and/or communicate the impact of changes in accounting regulation on financial reporting.

The ACCA website contains a useful explanation of the verbs used in exam questions.

See: 'What is the examiner asking?' available at [www.accaglobal.com/uk/en/student/sa/study-skills/questions.html](http://www.accaglobal.com/uk/en/student/sa/study-skills/questions.html)

## Format of the exam

100 marks, two sections, each section 50 marks		Marks
<b>Section A</b>	<p>Two compulsory scenario-based questions, totalling 50 marks</p> <p>Question 1 (30 marks):</p> <ul style="list-style-type: none"> <li>Based on the financial statements of group entities, or extracts thereof (syllabus area D)</li> <li>Also likely to require consideration of some financial reporting issues (syllabus area C)</li> <li>Discussion and explanation of numerical aspects will be required</li> </ul> <p>Question 2 (20 marks):</p> <ul style="list-style-type: none"> <li>Consideration of the reporting implications and the ethical implications of specific events in a contemporary scenario</li> </ul> <p>Two professional marks will be awarded in Section A. Further guidance will be given in the questions clarifying what these professional marks will be awarded for.</p>	50 (incl. 2 professional marks)
<b>Section B</b>	<p>Two compulsory 25-mark questions</p> <p>Questions:</p> <ul style="list-style-type: none"> <li>May be scenario, case-study, or essay based</li> <li>Will contain both discursive and computational elements</li> <li>Could deal with any aspect of the syllabus</li> <li>Will always include either a full or part question that requires the appraisal of financial and/or non-financial information from either the preparer's or another stakeholder's perspective</li> </ul> <p>Two professional marks will be awarded in Section B. Further guidance will be given in the questions clarifying what these professional marks will be awarded for.</p>	50 (incl. 2 professional marks)
<p><b>Current issues</b></p> <p>The current issues element of the syllabus (Syllabus area F) may be examined in Section A or B but will not be a full question; it is more likely to form part of another question.</p>		

## Analysis of past exams

The table below shows when each element of the syllabus has been examined and the section in which the element was examined.

Workbook chapter		Specimen exam 1	Specimen exam 2	Sept 2018	Dec 2018	Mar/ Jun 2019	Sept/ Dec 2019	Mar 2020	Sept/ Dec 2020	Mar/ June 2021	Sept/ Dec 2021
	<b>Fundamental ethical and professional principles</b>										
2	Professional and ethical behaviour in corporate reporting	A	A	A	A	A	A	A	A	A	A
	<b>The financial reporting framework</b>										
1	The applications, strengths and weaknesses of an accounting framework	A, B	A	B	A, B	B	A, B	A			
	<b>Reporting the financial performance of a range of entities</b>										
3	Revenue		B	B	A	B	B		A	B	
4	Non-current assets		A, B	A, B	A, B			B	A, B	A, B	A, B
8	Financial instruments		A	A		B	A, B	A		A	B
9	Leases		B		A	B		B		B	B
5	Employee benefits	A				A	B	B	A, B	A	B
7	Income taxes		A		B	A	A				
6	Provisions, contingencies and events after the reporting period		A	B		A		A		B	B
10	Share-based payment						A				
4, 8	Fair value measurement	B					A			B	
19	Reporting requirements of small and medium-sized entities (SMEs)								B		
2, 4, 9, 18	Other reporting issues		B				B	A			

Workbook chapter		Specimen exam 1	Specimen exam 2	Sept 2018	Dec 2018	Mar/ Jun 2019	Sept/ Dec 2019	Mar 2020	Sept/ Dec 2020	Mar/ June 2021	Sept/ Dec 2021
	<b>Financial statements of groups of entities</b>										
11, 14–17	Group accounting including statements of cash flows	A	A	A	A	A	A, B	A	A	A	A
11, 15	Associates and joint arrangements		A	A		B	B				A, B
12, 13	Changes in group structures	A	A	A	A	A		A	A	A, B	A
16	Foreign transactions and entities					A		A			A
	<b>Interpreting financial statements for different stakeholders</b>										
18	Analysis and interpretation of financial information and measurement of performance	A, B	B	B	B	B	B	B	B	B	B
	<b>The impact of changes and potential changes in accounting regulation</b>										
20	Discussion of solutions to current issues in financial reporting	A, B	B	A, B	A, B	B	B	B		B	

### IMPORTANT!

The table above gives a broad idea of how frequently major topics in the syllabus are examined. It should **not be used to question spot** and predict, for example, that a certain topic will not be examined because it has been examined in the last two sittings. The examiner's reports indicate that they are well aware that some students try to question spot. The examining team avoid predictable patterns and may, for example, examine the same topic two sittings in a row, particularly if there has been a recent change in legislation. Equally, just because a topic has not been examined for a long time, this does not necessarily mean it will be examined in the next exam!

## Syllabus and Study Guide

The complete SBR syllabus and study guide can be found by visiting the exam resource finder on the ACCA website.

## Examinable documents

The following documents are examinable for sittings up from September 2021 to June 2022. Knowledge of new examinable regulations issued by 31 August will be required in examination sessions being held in the following exam year. Documents may be examinable even if the effective date is in the future.

The syllabus and study guide offers more detailed guidance on the depth and level at which the examinable documents will be examined.

	<b>International Accounting Standards (IASs)/International Financial Reporting Standards (IFRSs)</b>
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Statement of Cash Flows
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events After the Reporting Period
IAS 12	Income Taxes
IAS 16	Property, Plant and Equipment
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 27	Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures
IAS 32	Financial Instruments: Presentation
IAS 33	Earnings per Share
IAS 34	Interim Financial Reporting
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 40	Investment Property
IAS 41	Agriculture
IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 7	Financial Instruments: Disclosures

	International Accounting Standards (IASs)/International Financial Reporting Standards (IFRSs)
IFRS 8	Operating Segments
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in other Entities
IFRS 13	Fair Value Measurement
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS for SMEs	IFRS for Small and Medium-sized Entities

	Other Statements
	Conceptual Framework for Financial Reporting (March 2018)
	The International Integrated Reporting <IR> Framework
IFRS Practice Statement 1	Management Commentary
IFRS Practice Statement 2	Making Materiality Judgements

### Important note

Many of these IFRS standards are also tested in Financial Reporting (FR). The technical knowledge required for SBR is **an extension** of that required for FR. The SBR examining team have commented that many student responses do not demonstrate a good technical FR knowledge. However, a good understanding of FR is vital to pass your SBR exam and you need to be able to demonstrate it. Before you begin your studies for SBR, be sure that you have revised all FR topics.

# Helping you with your revision

## BPP Learning Media – ACCA Approved Content Provider

As an ACCA Approved Content Provider, BPP Learning Media gives you the **opportunity** to use revision materials reviewed by the ACCA examining team. By incorporating the ACCA examining team's comments and suggestions regarding the depth and breadth of syllabus coverage, the BPP Learning Media Practice & Revision Kit provides excellent, **ACCA-approved** support for your revision.

These materials are reviewed by the ACCA examining team. The objective of the review is to ensure that the material properly covers the syllabus and study guide outcomes, used by the examining team in setting the exams, in the appropriate breadth and depth. The review does not ensure that every eventuality, combination or application of examinable topics is addressed by the ACCA Approved Content. Nor does the review comprise a detailed technical check of the content as the Approved Content Provider has its own quality assurance processes in place in this respect.

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## The structure of this Practice & Revision Kit

This Practice & Revision Kit is divided into three sections. The questions in Section 1 are preparation questions to help develop your knowledge. Section 2 contains exam-standard questions which are of appropriate complexity and format to mimic the style of the final exam. Section 3 contains four mock exams. You should attempt all four mock exams, preferably under exam conditions, as this will provide excellent preparation before you take the real exam.

## Question practice

Question practice is a core part of learning new topic areas. When you practice questions, you should focus on improving the Exam success skills – personal to your needs – by obtaining feedback or through a process of self-assessment.

Practising as many exam-style questions as possible (using the ACCA CBE practice platform as much as you can) will be the key to passing this exam. You should attempt questions under timed conditions and ensure you produce full answers to the discussion parts as well as doing the calculations. Also ensure that you attempt all mock exams under exam conditions.

ACCA have launched a free on-demand resource designed to mirror the live exam experience helping you to become more familiar with the exam format. You can access the platform via the Study Support Resources section of the ACCA website navigating to the CBE question practice section and logging in with your myACCA credentials.

### Selecting questions

To help you plan your revision, we have provided a full topic index which maps the questions to topics in the syllabus (see page vii).

### Making the most of question practice

At BPP Learning Media we realise that you need more than just questions and model answers to get the most from your question practice.

- Our **Top tips**, included for certain questions, provide essential advice on tackling questions, presenting answers and the key points that answers need to include.
- We include **marking guides** to show you what the examining team rewards.
- We include **comments from the examining team** to show you where students struggled or performed well in the actual exam

## Attempting mock exams

This Kit has four mock exams, including ACCA's Specimen exam 1, the March/June 2021 hybrid exam and the September/December 2021 hybrid exam, all of which have been updated for applicable changes in examinable documents. We strongly recommend that you attempt the mock exams under exam conditions.

## Topics to revise

ACCA's examining team consistently warn very strongly against question-spotting and trying to predict the topics that will be included in the exam. Students should not be surprised if the same topic area is examined in two successive sittings. ACCA's examining team regards few areas as off-limits for questions, and all of the syllabus can be tested.

That said, the following areas of the syllabus are very important, and your revision therefore needs to cover them particularly well.

- **Group accounts:** Group accounts will always be examined as part of Section A but may also feature in Section B. You will not be asked to prepare full consolidated financial statements in SBR but do need to be able to prepare extracts from them or key calculations within. You must also be able to explain the accounting treatment, as the marks for numerical aspects will be limited. The group accounts question could feature consolidated statements of cash flows, foreign subsidiaries or changes in group structure, as well as the underlying principles of group accounting, all of which are included in the SBR syllabus.
- **Ethical issues:** Ethical issues will feature in Section A of every exam. It is important that you can analyse ethical issues with regards to the fundamental principles of ACCA's *Code of Ethics and Conduct*.
- **Analysis and appraisal of information** will be tested in Section B. You should not focus only on 'traditional' financial analysis such as ratios. You will need to appraise companies using a range of financial and non-financial information, and from the perspective of different stakeholders.
- An in-depth **knowledge of the Conceptual Framework** is required. You are expected to be able discuss the consistency of each examinable IFRS with the *Conceptual Framework*.
- **Developments in Financial Reporting:** You need to be able to discuss the effect of a change or proposed change in accounting standards and other developments, such as the IFRS Practice Statement 2 *Making Materiality Judgements*, including the effect it may have on how stakeholders will analyse the financial statements. You need to read widely to develop your knowledge of current issues, including reading articles published on ACCA's website and looking at real published annual reports.
- More complex IFRS Standards such as IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*, as there is significant scope for discussion and justification in more complex standards.

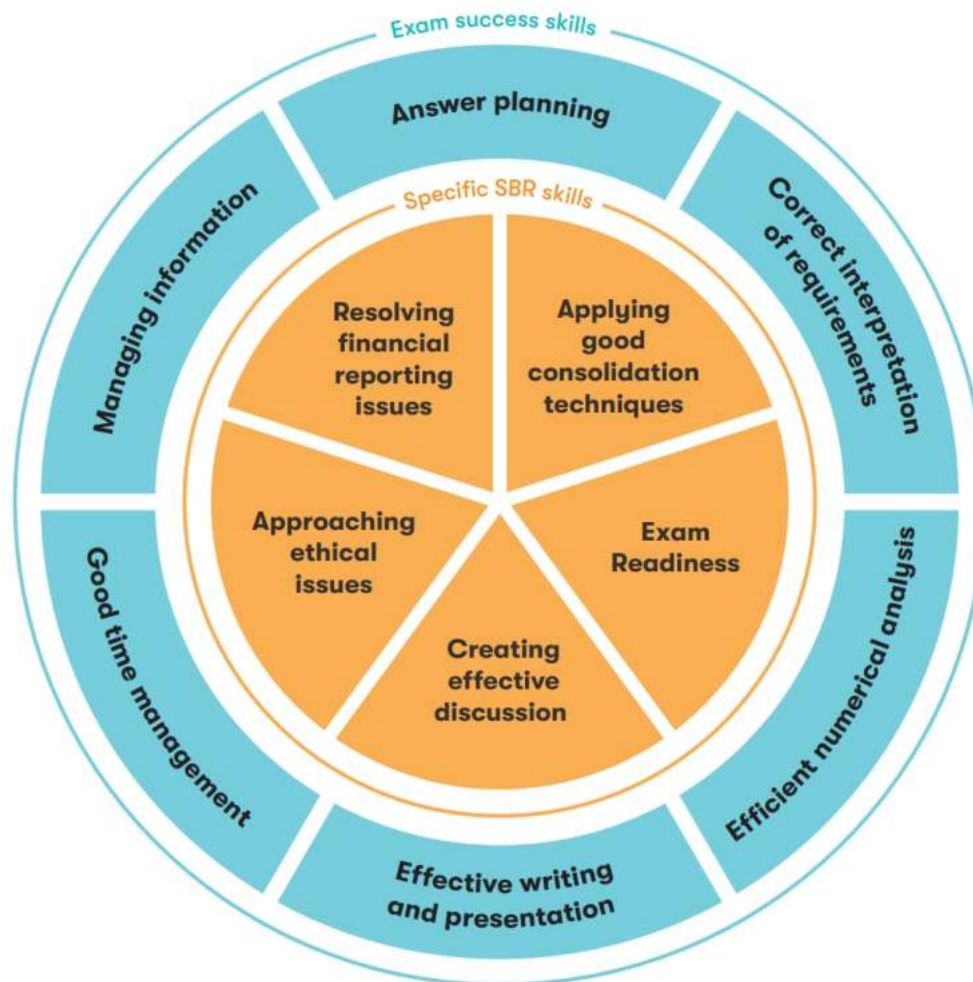
## Essential skill areas

There are three areas you should develop in order to achieve exam success in Strategic Business Reporting (SBR). These are:

- (1) Knowledge application
- (2) Specific Strategic Business Reporting skills
- (3) Exam success skills

At the revision and final exam preparation phases these should be developed together as part of a comprehensive study plan of focused question practice.

Take some time to revisit the **Specific Strategic Business Reporting skills** and **Exam success skills**. These are shown in the diagram below and followed by tutorial guidance of how to apply them.



## Specific SBR skills

These are the skills specific to SBR that we think you need to develop in order to pass the exam.

In the BPP Strategic Business Reporting Workbook, there are five **Skills Checkpoints** which define each skill and show how it is applied in answering a question. A brief summary of each skill is given below.

### Skill 1: Approaching ethical issues

Question 2 in Section A of the exam will require you to consider the **reporting implications** and the **ethical implications** of specific events in a given scenario.

Given that ethics will feature in every exam, it is essential that you master the appropriate technique for approaching ethical issues in order to maximise your mark.

BPP recommends a step-by-step technique for approaching questions on ethical issues:

- Step 1** Copy and paste the question requirements to the word processor response option. Work out how many minutes you have to answer the question and make a note of the time under the question requirements.
- Step 2** Read the requirements and analyse them. Underline each sub-requirement separately and identify the verb(s). Ask yourself what each sub-requirement means.
- Step 3** Read the scenario, identify which IFRS Standard may be relevant, whether the proposed accounting treatment complies with that IFRS Standard. Identify which fundamental principles from the ACCA Code of Ethics are relevant and whether there are any threats to these principles.
- Step 4** Prepare an answer plan using key words from the requirements as headings. Ensure your plan makes use of the information given in the scenario.
- Step 5** Complete your answer using key words from the requirements as headings.

Skills Checkpoint 1 in the BPP Workbook for Strategic Business Reporting covers this technique in detail through application to an exam-standard question. Consider revisiting Skills Checkpoint 1 and completing the scenario-based question to specifically improve this skill.

## **Skill 2: Resolving financial reporting issues**

Financial reporting issues are highly likely to be tested in both sections of your Strategic Business Reporting exam, so it is essential that you master the skill for resolving financial reporting issues in order to maximise your chance of passing the exam.

The basic approach BPP recommends for resolving financial reporting issues is very similar to the one for ethical issues. This consistency is important because in Question 2 of the exam, both will be tested together.

- Step 1** Copy and paste the question requirements to the word processor response option. Work out how many minutes you have to answer the question and make a note of the time under the question requirements.
- Step 2** Read the requirements and analyse them. Underline each sub-requirement separately, identify the verb(s) and ask yourself what each sub-requirement means.
- Step 3** Read the scenario, identify which IFRS Standard may be relevant and whether the proposed accounting treatment complies with that IFRS Standard.
- Step 4** Prepare an answer plan using key words from the requirements as headings. Ensure your plan makes use of the information given in the scenario.
- Step 5** Complete your answer, using separate headings for each item in the scenario.

Skills Checkpoint 2 in the BPP Workbook for Strategic Business Reporting covers this technique in detail through application to an exam-standard question. Consider revisiting Skills Checkpoint 2 and completing the scenario based question to specifically improve this skill.

## **Skill 3: Applying good consolidation techniques**

Question 1 of Section A of the exam will be based on the financial statements of group entities, or extracts thereof. Section B of the exam could deal with any aspect of the syllabus so it is also possible that groups feature in Question 3 or 4.

Good consolidation techniques are therefore essential when answering both narrative and numerical aspects of group questions.

Skills Checkpoint 3 focuses on the more challenging technique for correcting errors in group financial statements that have already been prepared.

A step-by-step technique for applying good consolidation techniques is outlined below.

- Step 1** Copy and paste the question requirements to the word processor response option. Work out how many minutes you have to answer the question and make a note of the time under the question requirements.
- Step 2** Read the requirements and analyse them. Underline each sub-requirement separately and identify the verb(s). Ask yourself what each sub-requirement means.
- Step 3** Read the scenario, identify exactly what information has been provided and what you need to do with this information. Identify which consolidation workings/adjustments may be required and which IFRS Standards or parts of the *Conceptual Framework* you may need to explain.
- Step 4** Make notes on the group structure. Identify which consolidation working, adjustment or correction to error is required. Do not perform any detailed calculations at this stage.
- Step 5** Complete your answer using key words from the requirements as headings. Ensure your explanations refer to underlying accounting concepts and the relevant standards. If you are asked for calculations, perform the calculation first, then explain it.

Skills Checkpoint 3 in the BPP Workbook for Strategic Business Reporting covers this technique in detail through application to an exam-standard question. Consider revisiting Skills Checkpoint 3 and completing the scenario based question to specifically improve this skill.

## **Skill 4: Creating effective discussion**

More marks in your SBR exam will relate to narrative answers than numerical answers. It is very tempting to practise only numerical questions, as they are easy to mark because the answer is right or wrong, whereas narrative questions are more subjective and a range of different answers will be given credit. Even when attempting narrative questions, it is tempting to do a brief answer plan and then look at the answer rather than attempting a full answer. Unless you practise narrative questions in full, to time, you will never acquire the necessary skills to tackle discussion questions.

The basic five steps adopted in Skills Checkpoints 1-3 should also be used in discussion questions. Steps 2 and 4 are particularly important for discussion questions. You will definitely need to spend a third of your time reading and planning. Generating ideas at the planning stage to create a comprehensive answer plan will be the key to success in this style of question. Consideration of the *Conceptual Framework*, ethical principles and the perspective of stakeholders will often help with discursive questions in SBR.

Remember that very few marks are available for just stating relevant knowledge. You must make sure your answers are applied to the scenario given.

A step-by-step technique is outlined below.

- Step 1** Copy and paste the question requirements to the word processor response option. Work out how many minutes you have to answer the question and make a note of the time under the question requirements.
- Step 2** Read the requirements and analyse them. Underline each sub-requirement separately, identify the verb(s) and ask yourself what each sub-requirement means.

- Step 3** Read and analyse the scenario
- Step 4** Prepare an answer plan
- Step 5** Complete your answer

Skills Checkpoint 4 in the BPP Workbook for Strategic Business Reporting covers this technique in detail through application to an exam-standard question. Consider revisiting Skills Checkpoint 4 and completing the scenario based question to specifically improve this skill.

## **Skill 5: Exam readiness**

Skills Checkpoint 5 gives general advice on being 'exam ready' and focusses on how to make best use of the computer-based exam software.

Consider revisiting Skills Checkpoint 5 in the BPP Workbook for SBR to prepare for your exam.

## **Exam success skills**

Passing the SBR exam requires more than applying syllabus knowledge and demonstrating the Specific SBR skills; it also requires the development of excellent exam technique through question practice.

We consider the following six skills, or exam techniques, to be vital for exam success. These skills were introduced in the BPP Workbook and you can revisit the five Skills Checkpoints in the BPP Workbook for tutorial guidance of how to apply each of the six Exam success skills in your question practice and in the exam.

Aim to consider your performance in all six Exam success skills during your revision stage question practice and reflect on your particular strengths and weaker areas which you can then work on.

## **Exam success skill 1**

### **Managing information**

Questions in the exam will present you with a lot of information. The skill is how you handle this information to make the best use of your time. The key is determining how you will approach the exam and then actively reading the questions.

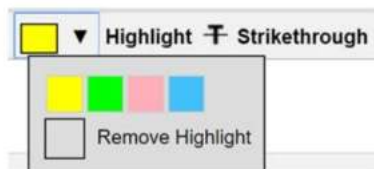
## **Advice on developing this skill**

### **Active reading**

To avoid being overwhelmed by the quantity of information provided, you must take an active approach to reading each question

Active reading means focussing on the question's requirement first, highlighting key verbs such as 'prepare', 'comment', 'explain', 'discuss', to ensure you answer the question properly. Then read the rest of the question, and as you now have an understanding of what the question requires you to do, you can highlight important and relevant information, and use the scratchpad with the exam software to make notes of any relevant technical information you think you will need.

In the CBE the highlighter tool provided in the toolbar at the top of the screen offers a range of colours:



This allows you to choose **different colours to answer different aspects to a question**. For example, if a question asked you to discuss the pros and cons of an issue then you could choose a different colour for highlighting pros and cons within the relevant section of an exhibit.

The **strikethrough function** allows you to delete areas of an exhibit that you have dealt with - this can be useful in managing information if you are dealing with numerical questions because it can allow you to ensure that all numerical areas have been accounted for in your answer.

The CBE also allows you to **resize windows** by clicking and dragging on the bottom right-hand corner of the window.

This functionality allows you to **display a number of windows at the same time**, so this could allow you review:

- the question requirements and the exhibit relating to that requirement, at the same time, or
- the window containing your answer (whether a word processing or spreadsheet document) and the exhibit relating to that requirement, at the same time.

## Exam success skill 2

### Correct interpretation of the requirements

The active verb used often dictates the approach that written answers should take (eg 'explain', 'discuss', 'evaluate'). It is important you identify and use the verb to define your approach. The **Correct interpretation of the requirements** skill is correctly producing only what is being asked for by a requirement. Anything not required will not earn marks.

## Advice on developing this skill

This skill can be developed by analysing question requirements and applying this process:

### Step 1 Read the requirement

Firstly, read the requirement a couple of times slowly and carefully and highlight the active verbs. Use the active verbs to define what you plan to do. Make sure you identify any sub-requirements.

In SBR, the **detailed aspects of a requirement are often embedded in the scenario**. For example, in the scenario, the directors may ask you explain something, and then the requirement will ask you to respond to the director's instruction. Therefore, the initial requirement by itself may not provide a complete understanding of a question's requirement, although it is a useful starting point.

We recommend you copy the requirements into the word processor response option, in order to form the basis of your answer plan. See Exam success skill 3: Answer planning below.

### Step 2 Read the rest of the question

By reading the requirement first, you will have an idea of what you are looking out for as you read through the scenario and exhibits. This is a great time saver and means you don't end up having to read the whole question in full twice. You should do this in an active way – see Exam success skill 1: Managing information.

### Step 3 Read the requirement again

Read the requirements again to remind yourself of the exact wording before

starting your written answer. This will capture any misinterpretation of the requirements or any requirements missed entirely.

It is particularly important to pay attention to any dates you are given in requirements. This is especially the case when, for example, discussing an accounting treatment up to a particular date. No marks will be awarded for discussing the treatment at a different date than that asked for in the requirement.

### Exam success skill 3

#### Answer planning: Priorities, structure and logic

This skill requires the planning of the key aspects of an answer which accurately and completely responds to the requirement.

#### Advice on developing this skill

We recommend that you plan your answer directly in the word processor response option and then fill out the detail of the plan with your answer. This will save you time spent on creating a separate plan, say in the scratchpad, and then typing up your answer separately - though you could copy and paste between the scratchpad and response option if you wanted to do so.

The easiest way to start your answer plan is to **copy the question requirements to your chosen response option** (eg word processor). This will allow you to ensure that your answer plan addresses all parts of the question requirements. Then, as you **read through the exhibits, you can copy and paste any relevant information into your chosen response option** under the relevant requirement. This approach also has the advantage of making sure your answer is applied to the scenario given, which is crucial in the SBR exam.

Copying and pasting simply involves selecting the relevant information and either right clicking to access the copy and paste functions, or alternatively using Ctrl-C to copy and Ctrl-V to paste.

### Exam success skill 4

#### Efficient numerical analysis

This skill aims to maximise the marks awarded by making clear to the marker the process of arriving at your answer. This is achieved by laying out an answer such that, even if you make a few errors, you can still score subsequent marks for follow-on calculations. It is vital that you do not lose marks purely because the marker cannot follow what you have done.

#### Advice on developing this skill

This skill can be developed by applying the following process:

##### Step 1 Use a standard proforma working where relevant

If answers can be laid out in a standard proforma then always plan to do so. This will help the marker to understand your working and allocate the marks easily. It will also help you to work through the figures in a methodical and time-efficient way.

##### Step 2 Show your workings

Keep your workings as clear and simple as possible and ensure they are cross-referenced to the main part of your answer. Where it helps, provide brief narrative explanations to help the marker understand the steps in the calculation. This means that if a mistake is made then you do not lose any subsequent marks for follow-on calculations.

### Step 3 Keep moving!

It is important to remember that, in an exam situation, it is difficult to get every number 100% correct. The key is therefore ensuring you do not spend too long on any single calculation. If you are struggling with a solution then make a sensible assumption, state it and move on.

You can use the spreadsheet to prepare calculations, if you wish. If you do so, you can make use of formulas to help with calculations, instead of using a calculator. For example, the 'sum' function: `=SUM(A1:10)` would add all the numbers in spreadsheet cells A1 to A10. You can use the symbol ^ to calculate a number 'to the power of...', eg `=1.10^2` calculates 1.10 squared - this is very useful if you need to perform a discounting calculation.

If you use the spreadsheet for calculations, make sure the spreadsheet cell includes your formula and not just the final answer, so that the marker can see what you have done and can award follow-on marks even if you have made a mistake earlier in the calculation.

If you do decide to use a calculator instead, don't just put the final answer into a cell without including your workings - make sure you type up your workings as well and cross refer to them in your final answer.

## Exam success skill 5

### Effective writing and presentation

Written answers should be presented so that the marker can clearly see the points you are making, presented in the format specified in the question. The skill is to provide efficient written answers with sufficient breadth of points that answer the question, in the right depth, in the time available.

## Advice on developing this skill

### Step 1 Use headings

Using the headings and sub-headings from your answer plan will give your answer structure, order and logic. This will ensure your answer links back to the requirement and is clearly signposted, making it easier for the marker to understand the different points you are making. Underlining your headings will also help the marker.

### Step 2 Write your answer in short, but full, sentences

Use short, punchy sentences with the aim that every sentence should say something different and generate marks. Write in full sentences, ensuring your style is professional.

### Step 3 Do your calculations first, explanation second

Questions often ask for an explanation with suitable calculations, the best approach is to prepare the calculation first but present it on the bottom half of the page of your answer. Then add the explanation before the calculation. Performing the calculation first should enable you to explain what you have done.

In a CBE, this is easy to do - prepare your calculation, then type up your answer above it. If you wish, you can use the word processor to type up narrative discussion and the spreadsheet to prepare any calculations. If you do so, make sure you clearly cross reference to your calculation so the marker can follow what you have done. See Exam success skill 4 - efficient numerical analysis.

## Exam success skill 6

### Good time management

This skill means planning your time across all the requirements so that all tasks have been attempted at the end of the 3 hours 15 minutes available and actively checking on time during your exam. This is so that you can flex your approach and prioritise requirements which, in your judgement, will generate the maximum marks in the available time remaining.

### Advice on developing this skill

The exam is 3 hours 15 minutes long, which translates to 1.95 minutes per mark. Therefore a 10-mark requirement should be allocated a maximum of 20 minutes to complete your answer before you move on to the next task. At the beginning of a question, work out the amount of time you should be spending on each requirement and write the finishing time next to each requirement on your exam. In a CBE, you could put the time allocation next to the requirements in your answer plan. If you take the approach of spending 10–15 minutes reading and planning at the start of the exam, adjust the time allocated to each question accordingly, eg if you allocate 15 minutes to reading, then you will have 3 hours remaining which is 1.8 minutes per mark.

### Keep an eye on the clock

Aim to attempt all requirements, but be ready to be ruthless and move on if your answer is not going as planned. The challenge for many is sticking to planned timings. Be aware this is difficult to achieve in the early stages of your studies and be ready to let this skill develop over time.

If you find yourself running short on time and know that a full answer is not possible in the time you have, consider recreating your plan in overview form and then add key terms and details as time allows. Remember, some marks may be available, for example, simply stating a conclusion which you don't have time to justify in full.



# Question Bank





## Section 1 – Preparation questions

### Tutorial note.

The Section 1 questions are designed to help you prepare for the SBR examination. They are not of a full exam standard but are still very helpful in testing your understanding of key areas of the syllabus. The number of marks and time allocated to each question in this section is for indicative purposes only.

### 1 Financial instruments

**12 mins**

- (a) Graben Co purchases a bond for \$441,014 on 1 January 20X1. It will be redeemed on 31 December 20X4 for \$600,000. The bond is held at amortised cost and carries no coupon.

#### Required

Calculate the valuation of the bond for the statement of financial position as at 31 December 20X1 and the finance income for 20X1 shown in profit or loss. **(3 marks)**

Compound sum of \$1:  $(1 + r)^n$

Year	2%	4%	6%	8%	10%	12%	14%
1	1.0200	1.0400	1.0600	1.0800	1.1000	1.1200	1.1400
2	1.0404	1.0816	1.1236	1.1664	1.2100	1.2544	1.2996
3	1.0612	1.1249	1.1910	1.2597	1.3310	1.4049	1.4815
4	1.0824	1.1699	1.2625	1.3605	1.4641	1.5735	1.6890
5	1.1041	1.2167	1.3382	1.4693	1.6105	1.7623	1.9254

- (b) Baldie Co issues 4,000 convertible bonds on 1 January 20X2 at par. The bonds are redeemable three years later at a par value of \$500 per bond, which is the nominal value.

The bonds pay interest annually in arrears at an interest rate (based on nominal value) of 5%. Each bond can be converted at the maturity date into 30 \$1 shares.

The prevailing market interest rate for three year bonds that have no right of conversion is 9%.

#### Required

Show how the convertible bond would be presented in the statement of financial position at 1 January 20X2. **(3 marks)**

Cumulative three year annuity factors:

5%	2.723
9%	2.531

**(Total = 6 marks)**

## 2 Leases

20 mins

Sugar Co leased a machine from Spice Co. The terms of the lease are as follows:

Inception of lease	1 January 20X1
Lease term	4 years at \$78,864 per annum payable in arrears
Present value of future lease payments	\$250,000
Useful life of asset	4 years

### Required

- (a) Calculate the interest rate implicit in the lease, using the table below. (3 marks)

This table shows the cumulative present value of \$1 per annum, receivable or payable at the end of each year for n years.

Years (n)	Interest rates		
	6%	8%	10%
1	0.943	0.926	0.909
2	1.833	1.783	1.736
3	2.673	2.577	2.487
4	3.465	3.312	3.170
5	4.212	3.993	3.791

- (b) Explain, with suitable workings and extracts from the financial statements, how Sugar Co should account for the lease for the year ended 31 December 20X1. Notes to the accounts are not required. (7 marks)

(Total = 10 marks)

## 3 Defined benefit plan

20 mins

**BPP note.** In this question, proforma are given to you to help you get used to setting out your answer. You may wish to transfer them to a separate sheet, or alternatively to use a separate sheet for your workings.

Brutus operates a defined benefit pension plan for its employees. The present value of the future benefit obligations and the fair value of its plan assets on 1 January 20X1 were \$110 million and \$150 million respectively.

The pension plan received contributions of \$7 million and paid pensions to former employees of \$10 million during the year.

Extracts from the most recent actuarial report shows the following:

Present value of pension plan obligation at 31 December 20X1	\$116m
Fair value of plan assets at 31 December 20X1	\$140m
Present cost of pensions earned in the period	\$11m
Yield on high quality corporate bonds at 1 January 20X1	10%

On 1 January 20X1, the rules of the pension plan were changed to improve benefits for plan members. The actuary has advised that this will cost \$10 million.

### Required

Prepare extracts from the notes to Brutus' financial statements for the year ended 31 December 20X1 which show how the pension plan should be accounted for. (10 marks)

**Note.** Assume contributions and benefits were paid on 31 December.

## NOTES TO THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

### Defined benefit expense recognised in profit or loss

	\$m
Current service cost	
Past service cost	
Net interest on the net defined benefit asset	—
	==

### Other comprehensive income (items that will not be reclassified to profit or loss)

#### Remeasurement of defined benefit plans

	\$m
Remeasurement gain on defined benefit obligation	
Remeasurement loss on plan assets	—
	==

## NOTES TO THE STATEMENT OF FINANCIAL POSITION

### Net defined benefit asset recognised in the statement of financial position

	31 December 20X1 \$m	31 December 20X0 \$m
Present value of pension obligation		
Fair value of plan assets	—	—
Net asset	==	==

### Changes in the present value of the defined benefit obligation

	\$m
Opening defined benefit obligation	
Interest on obligation	
Current service cost	
Past service cost	
Benefits paid	
Gain on remeasurement of obligation (balancing figure)	—
Closing defined benefit obligation	==

### Changes in the fair value of plan assets

	\$m
Opening fair value of plan assets	
Interest on plan assets	
Contributions	
Benefits paid	
Loss on remeasurement of assets (balancing figure)	—
Closing fair value of plan assets	==

## 4 Sundry standards

59 mins

- (a) Penn has a defined benefit pension plan.

### Required

Using the information below, prepare extracts from the statement of financial position and the statement of profit or loss and other comprehensive income for the year ended 31 January 20X8. Ignore taxation. (10 marks)

- (i) The opening plan assets were \$3.6 million on 1 February 20X7 and plan liabilities at this date were \$4.3 million.
  - (ii) Company contributions to the plan during the year amounted to \$550,000. The contributions were paid at the start of the year.
  - (iii) Pensions paid to former employees amounted to \$330,000. These were paid at the start of the year.
  - (iv) The yield on high quality corporate bonds was 8% at 1 February 20X7.
  - (v) On 31 January 20X8, five staff were made redundant, and an extra \$58,000 in total was added to the value of their pensions.
  - (vi) Current service costs as provided by the actuary are \$275,000.
  - (vii) At 31 January 20X8, the actuary valued the plan liabilities at \$4.64 million and the plan assets at \$4.215 million.
- (b) Sion operates a defined benefit pension plan for its employees. Sion has a 31 December year end. The following details relate to the plan.

	\$'000
Present value of obligation at 1 January 20X8	40,000
Market value of plan assets at 1 January 20X8	40,000

	20X8	20X9
	\$'000	\$'000
Current service cost	2,500	2,860
Benefits paid out	1,974	2,200
Contributions paid by entity	2,000	2,200
Present value of obligation at end of the year	46,000	40,800
Market value of plan assets at end of the year	43,000	35,680
Yield on corporate bonds at start of the year	8%	9%

During 20X8, the benefits available under the plan were improved. The resulting increase in the present value of the defined benefit obligation was \$2 million as at 31 December 20X8.

Contributions were paid into the plan and benefits were paid out of the plan on the final day of each accounting period.

On 31 December 20X9, Sion divested of part of its business, and as part of the sale agreement, transferred the relevant part of its pension fund to the buyer. The present value of the defined benefit obligation transferred was \$11.4 million and the fair value of plan assets transferred was \$10.8 million. Sion also made a cash payment of \$400,000 to the buyer in respect of the plan.

### Required

- (i) Calculate the net defined benefit liability as at the start and end of 20X8 and 20X9 showing clearly any remeasurement gain or loss on the plan each year.
  - (ii) Show amounts to be recognised in the financial statements in each of the years 20X8 and 20X9 in respect of the plan. **(15 marks)**
- (c) Bed Investment Co entered into a contract on 1 July 20X7 with Em Bank. The contract consisted of a deposit of a principal amount of \$10 million, carrying an interest rate of 2.5% per annum and with a maturity date of 30 June 20X9. Interest will be receivable at maturity together with the principal. In addition, a further 3% interest per annum will be payable by Em Bank if the exchange rate of the dollar against the Ruritanian kroner (RKR) exceeds or is equal to \$1.15 to RKR 1.

Bed's functional currency is the dollar.

### Required

Explain how Bed should account for the above investment in the financial statements for the year ended 31 December 20X7 (no calculations are required). **(5 marks)**

**(Total = 30 marks)**

## 5 Control

**23 mins**

- (a) IFRS 10 *Consolidated Financial Statements* focuses on control as the key concept underlying the parent/subsidiary relationship.

### Required

Explain the circumstances in which an investor controls an investee according to IFRS 10. **(3 marks)**

- (b) Twist holds 40% of the voting rights of Oliver and 12 other investors each hold 5% of the voting rights of Oliver. A shareholder agreement grants Twist the right to appoint, remove and set the remuneration of management responsible for directing the relevant activities. To change the agreement, a two-thirds majority vote of the shareholders is required. To date, Twist has not exercised its rights with regard to the management or activities of Oliver.

### Required

Explain whether Twist should consolidate Oliver in accordance with IFRS 10. **(3 marks)**

- (c) Copperfield holds 45% of the voting rights of Spenlow. Murdstone and Steerforth each hold 26% of the voting rights of Spenlow. The remaining voting rights are held by three other shareholders, each holding 1%. There are no other arrangements that affect decision-making.

### Required

Explain whether Copperfield should consolidate Spenlow in accordance with IFRS 10. **(3 marks)**

- (d) Scrooge holds 70% of the voting rights of Cratchett. Marley has 30% of the voting rights of Cratchett. Marley also has an option to acquire half of Scrooge's voting rights, which is exercisable for the next two years, but at a fixed price that is deeply out of the money (and is expected to remain so for that two-year period).

### Required

Explain whether either of Scrooge or Marley should consolidate Cratchett in accordance with IFRS 10. **(3 marks)**

**(Total = 12 marks)**

## 6 Associate

39 mins

The statements of financial position of J Co and its investee companies, P Co and S Co, at 31 December 20X5 are shown below.

### STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 20X5

	J Co \$'000	P Co \$'000	S Co \$'000
<b>Assets</b>			
Non-current assets			
Freehold property	1,950	1,250	500
Plant and equipment	795	375	285
Investments	<u>1,500</u>	<u>–</u>	<u>–</u>
	<u>4,245</u>	<u>1,625</u>	<u>785</u>
Current assets			
Inventories	575	300	265
Trade receivables	330	290	370
Cash	<u>50</u>	<u>120</u>	<u>20</u>
	<u>955</u>	<u>710</u>	<u>655</u>
	<u>5,200</u>	<u>2,335</u>	<u>1,440</u>
<b>Equity and liabilities</b>			
Equity			
Share capital (\$1 ordinary shares)	2,000	1,000	750
Retained earnings	<u>1,460</u>	<u>885</u>	<u>390</u>
	<u>3,460</u>	<u>1,885</u>	<u>1,140</u>
Non-current liabilities			
12% debentures	<u>500</u>	100	–
Current liabilities			
Bank overdraft	560		
Trade payables	<u>680</u>	<u>350</u>	<u>300</u>
	<u>1,240</u>	<u>350</u>	<u>300</u>
	<u>5,200</u>	<u>2,335</u>	<u>1,440</u>

### Additional information

- J Co acquired 600,000 ordinary shares in P Co on 1 January 20X0 for \$1,000,000 when the accumulated retained earnings of P Co were \$200,000.
- At the date of acquisition of P Co, the fair value of its freehold property was considered to be \$400,000 greater than its value in P Co's statement of financial position. P Co had acquired the property ten years earlier and the buildings element (comprising 50% of the total value) is depreciated on cost over 50 years.
- J Co acquired 225,000 ordinary shares in S Co on 1 January 20X4 for \$500,000 when the retained profits of S Co were \$150,000.
- P Co sells goods to J Co at cost plus 25%. J Co held \$100,000 of these goods in inventories at 31 December 20X5.
- It is the policy of J Co to review goodwill for impairment annually. The goodwill in P Co was written off in full some years ago. An impairment test conducted at the year end revealed impairment losses on the investment in S Co of \$92,000.
- It is the group's policy to value the non-controlling interest at acquisition at fair value. The market price of the shares of the non-controlling shareholders just before the acquisition was \$1.65.

### Required

Prepare, in a format suitable for inclusion in the annual report of the J Group, the consolidated statement of financial position at 31 December 20X5. **(20 marks)**

## 7 Part disposal

49 mins

**BPP note.** In this question, proforma are given to you to help you get used to setting out your answer. You may wish to transfer them to a separate sheet or to use a separate sheet for your workings.

Angel Co bought 70% of the share capital of Shane Co for \$120,000 on 1 January 20X6. At that date Shane Co's retained earnings stood at \$10,000.

The statements of financial position at 31 December 20X8, summarised statements of profit or loss and other comprehensive income to that date and movement on retained earnings are given below.

	Angel Co \$'000	Shane Co \$'000
<b>STATEMENTS OF FINANCIAL POSITION</b>		
<i>Non-current assets</i>		
Property, plant and equipment	200	80
Investment in Shane Co	<u>120</u>	<u>–</u>
	320	80
<i>Current assets</i>	<u>890</u>	<u>140</u>
	<u>1,210</u>	<u>220</u>
<i>Equity</i>		
Share capital – \$1 ordinary shares	500	100
Retained reserves	<u>400</u>	<u>90</u>
	900	190
<i>Current liabilities</i>	<u>310</u>	<u>30</u>
	<u>1,210</u>	<u>220</u>

### SUMMARISED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	\$'000	\$'000
Profit before interest and tax	100	20
Income tax expense	<u>(40)</u>	<u>(8)</u>
Profit for the year	60	12
Other comprehensive income (not reclassified to P/L), net of tax	<u>10</u>	<u>6</u>
Total comprehensive income for the year	<u>70</u>	<u>18</u>

### MOVEMENT IN RETAINED RESERVES

Balance at 31 December 20X7	330	72
Total comprehensive income for the year	<u>70</u>	<u>18</u>
Balance at 31 December 20X8	<u>400</u>	<u>90</u>

Angel Co sells one half of its holding in Shane Co for \$120,000 on 30 June 20X8. At that date, the fair value of the 35% holding in Shane was slightly more at \$130,000 due to a share price rise. The remaining holding is to be dealt with as an associate. This does not represent a discontinued operation.

No entries have been made in the accounts for the above transaction.

Assume that profits accrue evenly throughout the year.

It is the group's policy to value the non-controlling interest at acquisition fair value. The fair value of the non-controlling interest on 1 January 20X6 was \$51.4 million.

## Required

- (a) Prepare the consolidated statement of financial position, statement of profit or loss and other comprehensive income and a reconciliation of movement in retained reserves for the year ended 31 December 20X8.

(20 marks)

Ignore income taxes on the disposal. No impairment losses have been necessary to date.

### PART DISPOSAL PROFORMA

ANGEL GROUP  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 20X8

\$'000

Non-current assets	
Property, plant and equipment	
Investment in Shane	
Current assets	
Equity attributable to owners of the parent	
Share capital	
Retained earnings	
Current liabilities	

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 20X8

\$'000

Profit before interest and tax	
Profit on disposal of shares in subsidiary	
Share of profit of associate	
Profit before tax	
Income tax expense	
Profit for the year	
Other comprehensive income (not reclassified to P/L) net of tax:	
Share of other comprehensive income of associate	
Other comprehensive income for the year	
Total comprehensive income for the year	
Profit attributable to:	
Owners of the parent	
Non-controlling interests	
Total comprehensive income attributable to:	
Owners of the parent	
Non-controlling interests	

CONSOLIDATED RECONCILIATION OF MOVEMENT IN RETAINED RESERVES

\$'000

Balance at 31 December 20X7	
Total comprehensive income for the year	
Balance at 31 December 20X8	

- (b) Explain the accounting treatment that would be required if Angel had disposed of 10% of its holding in Shane.

(5 marks)

(Total = 25 marks)

## 8 Step acquisition

29 mins

SD acquired 60% of the 1 million \$1 ordinary shares of KL on 1 July 20X0 for \$3,250,000 when KL's retained earnings were \$2,760,000. The group policy is to measure non-controlling interests at fair value at the date of acquisition. The fair value of non-controlling interests at 1 July 20X0 was \$1,960,000. There has been no impairment of goodwill since the date of acquisition.

SD acquired a further 20% of KL's share capital on 1 March 20X1 for \$1,000,000.

The retained earnings reported in the financial statements of SD and KL as at 30 June 20X1 are \$9,400,000 and \$3,400,000 respectively.

KL sold goods for resale to SD with a sales value of \$750,000 during the period from 1 March 20X1 to 30 June 20X1. 40% of these goods remain in SD's inventories at the year-end. KL applies a mark-up of 25% on all goods sold.

Profits of both entities can be assumed to accrue evenly throughout the year.

### Required

- (a) Explain the impact of the additional 20% purchase of KL's ordinary share capital by SD on the consolidated financial statements of the SD Group for the year ended 30 June 20X1. (5 marks)
- (b) Calculate the amounts that will appear in the consolidated statement of financial position of the SD Group as at 30 June 20X1 for:
- (i) Goodwill;
  - (ii) Consolidated retained earnings; and
  - (iii) Non-controlling interests. (10 marks)

(Total = 15 marks)

## 9 Foreign operation

49 mins

**BPP note.** In this question, proformas for the translation workings are given to assist you with the approach. You will need to also need to draw up proformas for the consolidated financial statements and the remaining group workings.

Standard acquired 80% of Odense SA for \$520,000 on 1 January 20X5 when the retained reserves of Odense were 2,500,000 Danish krone.

The financial statements of Standard and Odense for the year ended 31 December 20X6 are as follows:

### STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 20X6

	Standard \$'000	Odense Kr'000
Property, plant and equipment	1,285	4,400
Investment in Odense	520	—
	<u>1,805</u>	<u>4,400</u>
Current assets	410	2,000
	<u>2,215</u>	<u>6,400</u>
Share capital	500	1,000
Retained earnings	1,115	4,300
	<u>1,615</u>	<u>5,300</u>
Loans	200	300
Current liabilities	400	800
	<u>600</u>	<u>1,100</u>
	<u>2,215</u>	<u>6,400</u>

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR YEAR ENDED 31 DECEMBER 20X6

	Standard \$'000	Odense Kr'000
Revenue	1,125	5,200
Cost of sales	<u>(410)</u>	<u>(2,300)</u>
Gross profit	715	2,900
Other expenses	(180)	(910)
Dividend from Odense	<u>40</u>	<u>–</u>
Profit before tax	575	1,990
Income tax expense	<u>(180)</u>	<u>(640)</u>
Profit/Total comprehensive income for the year	<u>395</u>	<u>1,350</u>

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR 31 DECEMBER 20X6 (EXTRACT FOR  
RETAINED EARNINGS)

	Standard \$'000	Odense Kr'000
Balance at 1 January 20X6	915	3,355
Dividends paid on 31 December 20X6	(195)	(405)
Total comprehensive income for the year	<u>395</u>	<u>1,350</u>
Balance at 31 December 20X6	<u>1,115</u>	<u>4,300</u>

In the year ended 31 December 20X5, Odense's total comprehensive income was 1,200,000 Danish krone. On 31 December 20X5, Odense paid dividends of 345,000 Danish krone.

An impairment test conducted at 31 December 20X6 revealed impairment losses of 148,000 Danish krone relating to Odense's goodwill. No impairment losses had previously been recognised. It is group policy to translate impairment losses at the closing rate.

At the date of acquisition, Standard chose to measure the non-controlling interest in Odense at the proportionate share of the fair value of net assets.

Exchange rates were as follows:

	Kr to \$1
1 January 20X5	9.4
31 December 20X5	8.8
Average 20X5	9.1
31 December 20X6	8.1
Average 20X6	8.4

**Required**

Prepare the consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income of the Standard Group for the year ended 31 December 20X6 (round your answer to the nearest \$'000). **(25 marks)**

## TRANSLATION OF ODENSE – STATEMENT OF FINANCIAL POSITION

	Kr'000	Rate	\$'000
Property, plant and equipment		X6 CR	
Current assets		X6 CR	
Share capital		HR	
Pre-acquisition retained earnings		HR	
Post-acquisition retained earnings:			
20X5 profit		X5 AR	
20X5 dividend		X5 Actual	
20X6 profit		X6 AR	
20X6 dividend		X6 Actual	
Exchange difference on net assets		Bal. fig.	
Loans		X6 CR	
Current liabilities		X6 CR	

## TRANSLATION OF ODENSE – STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Odense Kr'000	Rate (AR)	Odense \$'000
Revenue			
Cost of sales			
Gross profit			
Other expenses			
Profit before tax			
Income tax expense			
Profit/Total comprehensive income for the year			

## 10 Consolidated statement of cash flows

**39 mins**

**BPP note.** In this question, proformas are given to you to help you get used to setting out your answer. You may wish to transfer them to a separate sheet, or alternatively to use a separate sheet for your workings.

On 1 September 20X5 Swing Co acquired 70% of Slide Co for \$5,000,000 comprising \$1,000,000 cash and 1,500,000 \$1 shares.

The statement of financial position of Slide Co at acquisition was as follows:

	\$'000
Property, plant and equipment	2,700
Inventories	1,600
Trade receivables	600
Cash	400
Trade payables	(300)
Income tax payable	(200)
	<u>4,800</u>

The consolidated statement of financial position of Swing Co as at 31 December 20X5 was as follows:

	20X5 \$'000	20X4 \$'000
<i>Non-current assets</i>		
Property, plant and equipment	35,500	25,000
Goodwill	<u>1,400</u>	<u>–</u>
	<u>36,900</u>	<u>25,000</u>
<i>Current assets</i>		
Inventories	16,000	10,000
Trade receivables	9,800	7,500
Cash	<u>2,400</u>	<u>1,500</u>
	<u>28,200</u>	<u>19,000</u>
	<u>65,100</u>	<u>44,000</u>
<i>Equity attributable to owners of the parent</i>		
Share capital	12,300	10,000
Share premium	5,800	2,000
Revaluation surplus	350	–
Retained earnings	<u>32,100</u>	<u>21,900</u>
	<u>50,550</u>	<u>33,900</u>
<i>Non-controlling interest</i>	<u>1,750</u>	<u>–</u>
	<u>52,300</u>	<u>33,900</u>
<i>Current liabilities</i>		
Trade payables	7,600	6,100
Income tax payable	<u>5,200</u>	<u>4,000</u>
	<u>12,800</u>	<u>10,100</u>
	<u>65,100</u>	<u>44,000</u>

The consolidated statement of profit or loss and other comprehensive income of Swing Co for the year ended 31 December 20X5 was as follows:

	20X5 \$'000
Profit before tax	16,500
Income tax expense	<u>(5,200)</u>
Profit for the year	11,300
Other comprehensive income (not reclassified to P/L)	
Revaluation surplus	<u>500</u>
Total comprehensive income for the year	<u>11,800</u>
Profit attributable to:	
Owners of the parent	11,100
Non-controlling interest	<u>200</u>
	<u>11,300</u>
Total comprehensive income for the year attributable to:	
Owners of the parent	11,450
Non-controlling interest 200 + (500 × 30%)	<u>350</u>
	<u>11,800</u>

## Notes

- Depreciation charged for the year was \$5,800,000. The group made no disposals of property, plant and equipment.
- Dividends paid by Swing Co amounted to \$900,000.

It is the group's policy to value the non-controlling interest at its proportionate share of the fair value of the subsidiary's identifiable net assets.

## Required

Prepare the consolidated statement of cash flows of Swing Co for the year ended 31 December 20X5. No notes are required. (20 marks)

### CONSOLIDATED STATEMENT OF CASH FLOWS PROFORMA

#### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 20X5

	\$'000	\$'000
<i>Cash flows from operating activities</i>		
Profit before tax		
Adjustments for:		
Depreciation		
Impairment losses		
Increase in trade receivables (W4)	_____	
Increase in inventories (W4)		
Increase in trade payables (W4)	_____	
Cash generated from operations		
Income taxes paid (W3)	_____	
Net cash from operating activities		
<i>Cash flows from investing activities</i>		
Acquisition of subsidiary, net of cash acquired (W5)		
Purchase of property, plant & equipment (W1)	_____	
Net cash used in investing activities		
<i>Cash flows from financing activities</i>		
Proceeds from issue of share capital		
Dividends paid		
Dividends paid to non-controlling interest (W2)	_____	
Net cash used in financing activities		_____
Net increase in cash and cash equivalents		
Cash and cash equivalents at the beginning of the period		
Cash and cash equivalents at the end of the period		

#### Workings

##### 1 Assets

	Property, plant and equipment \$'000	Goodwill \$'000
b/d		-
OCI (revaluation)		
Depreciation/Impairment		β
Acquisition of sub/associate		
Cash paid/(rec'd) β	_____	_____
c/d	=====	=====

##### 2 Equity

	Share capital \$'000	Share premium \$'000	Retained earnings \$'000	Non- controlling interest \$'000
b/d				-
P/L				
Acquisition of subsidiary				
Cash (paid)/rec'd β	_____	_____	_____*	_____
c/d	=====	=====	=====	=====

\*Dividend paid is given in question but working shown for clarity.

3 *Liabilities*

	Tax payable \$'000
b/d	
P/L	
Acquisition of subsidiary	
Cash (paid)/rec'd	— β
c/d	==

4 *Working capital changes*

	Inventories \$'000	Receivables \$'000	Payables \$'000
Balance b/d			
Acquisition of subsidiary			
Increase/(decrease) (balancing figure)	—	—	—
Balance c/d	—	—	—

5 *Purchase of subsidiary*

	\$'000
Cash received on acquisition of subsidiary	
Less cash consideration	—
Cash outflow	==

**Note.** Only the **cash** consideration is included in the figure reported in the statement of cash flows. The **shares** issued as part of the consideration are reflected in the share capital working (W2) above.

Goodwill on acquisition (to show no impairment):

	\$'000
Consideration	
Non-controlling interest	
Net assets acquired	—
Goodwill	==

## Section 2 – Exam-standard questions

### 11 Robby

59 mins

Adapted from P2 June 2012

You work in the finance department of Robby, an entity which has two subsidiaries, Hail and Zinc. Robby has recently appointed two new directors, with limited finance experience, to its board. You have received an email from the finance director, which is shown in **Exhibit 1**.

The following exhibits provide information relevant to the question.

#### Exhibit 1 – Email from finance director

To: An accountant  
From: Finance director  
Subject: New directors – help required

Hi, our two new directors are keen to understand the group financial statements. In particular, they want to understand the effect of acquisitions and joint operations on the consolidated accounts.

I am putting together a briefing document for them and would like you to prepare sections for inclusion in the document on goodwill and on joint operations. Please use the acquisitions of Hail and Zinc (**Exhibit 2**) to explain how the goodwill on acquisition of subsidiaries is accounted for in the group financial statements at 31 May 20X3. Use the gas station joint operation (**Exhibit 3**) to explain what a joint operation is and how we account for it in the group financial statements. Make sure you explain the financial reporting principles that underlie both of these.

#### Exhibit 2 – Details of acquisitions of Hail and Zinc

**Accounting policy:** measure non-controlling interests at acquisition at fair value.

- (1) **Hail acquisition.** On 1 June 20X2, acquisition of 80% of the equity interests of Hail. The purchase consideration comprised cash of \$50 million payable on 1 June 20X2 and \$24.2 million payable on 31 May 20X4. A further amount is payable on 31 August 20X6 if the cumulative profits of Hail for the four-year period from 1 June 20X2 to 31 May 20X6 exceed \$150 million. On 1 June 20X2, the fair value of the contingent consideration was measured at \$40 million. On 31 May 20X3, this fair value was remeasured at \$42 million.

On the acquisition date, the fair value of the identifiable net assets of Hail was \$130 million.

The notes to the financial statements of Hail at acquisition disclosed a contingent liability. On 1 June 20X2, the fair value of this contingent liability was reliably measured at \$2 million. The non-controlling interest at fair value was \$30 million on 1 June 20X2. An appropriate discount rate to use is 10% per annum.

- (2) **Zinc acquisition.** On 1 June 20X0, acquisition of 5% of the ordinary shares of Zinc. Robby had treated this investment at fair value through profit or loss.

On 1 December 20X2, acquisition of a further 55% of the ordinary shares of Zinc, obtaining control.

Consideration:

	Shareholding	Consideration
	%	\$m
1 June 20X0	5	2
1 December 20X2	55	16
	<u>60</u>	<u>18</u>

At 1 December 20X2, the fair value of the equity interest in Zinc before the business combination was \$5 million.

The non-controlling interest at fair value was \$9 million on 1 December 20X2.

The fair value of the identifiable net assets at 1 December 20X2 of Zinc was \$26 million, and the retained earnings were \$15 million. The excess of the fair value of the net assets was due to an increase in the value of property, plant and equipment (PPE), which was provisional pending receipt of the final valuations. These valuations were received on 1 March 20X3 and resulted in an additional increase of \$3 million in the fair value of PPE at the date of acquisition. This increase does not affect the fair value of the non-controlling interest at acquisition.

At 31 May 20X2 the carrying amount of the investment in Zinc in Robby's separate financial statements was \$3 million.

### Exhibit 3 – Details of joint operation

Robby holds a 40% share of a natural gas station. No separate entity was set up under the joint operation. Assets, liabilities, revenue and costs are apportioned on the basis of shareholding.

- 1 The natural gas station cost \$15 million to construct, was completed on 1 June 20X2 and is to be dismantled at the end of its life of ten years. The present value of this dismantling cost to the joint operation at 1 June 20X2, using a discount rate of 5%, was \$2 million.
- 2 In the year, gas with a direct cost of \$16 million was sold for \$20 million. Additionally, the joint operation incurred operating costs of \$0.5 million during the year.

The revenue and costs are receivable and payable by the other joint operator who settles amounts outstanding with Robby after the year end.

### Exhibit 4 – Factoring agreement

Robby held a portfolio of trade receivables with a carrying amount of \$4 million at 31 May 20X3. At that date, the entity entered into a factoring agreement with a bank, whereby it transferred the receivables in exchange for \$3.6 million in cash. Robby has agreed to reimburse the bank for any shortfall between the amount collected and \$3.6 million. Once the receivables have been collected, any amounts above \$3.6 million, less interest on this amount, will be repaid to Robby. The directors of Robby believe that these trade receivables should be derecognised.

### Required

- (a) Prepare for inclusion in the briefing note to the new directors:
  - (i) An explanation, with suitable calculations, of how the goodwill on acquisition of Hail and Zinc should be accounted for in the consolidated financial statements at 31 May 20X3. (16 marks)
  - (ii) An explanation as to the nature of a joint operation and, showing suitable calculations, of how the joint operation should be accounted for in Robby's separate and consolidated statements of financial position at 31 May 20X3. (Ignore retained earnings in your answer.) (7 marks)

**Note.** Marks will be allocated in (a) for a suitable discussion of the principles involved as well as the accounting treatment.

- (b) Explain the appropriate accounting treatment of the factoring agreement in the financial statements for the year ended 31 May 20X3, and evaluate this treatment in the context of the *Conceptual Framework for Financial Reporting*. (7 marks)

(Total = 30 marks)

## SBR September 2018 (amended)

Banana Co is the parent of a listed group of companies which have a year end of 30 June 20X7. Banana Co has made a number of acquisitions and disposals of investments during the current financial year and the directors require advice as to the correct accounting treatment of these acquisitions and disposals.

The following exhibits provide information relevant to the question.

**Exhibit 1 – The acquisition of Grape Co**

On 1 January 20X7, Banana Co acquired an 80% equity interest in Grape Co. The following is a summary of Grape Co's equity at the acquisition date.

	\$m
Equity share capital (\$1 each)	20
Retained earnings	42
Other components of equity	<u>8</u>
Total	<u>70</u>

The purchase consideration comprised 10 million of Banana Co's shares which had a nominal value of \$1 each and a market price of \$6.80 each. Additionally, cash of \$18 million was due to be paid on 1 January 20X9 if the net profit after tax of Grape Co grew by 5% in each of the two years following acquisition. The present value of the total contingent consideration at 1 January 20X7 was \$16 million. It was felt that there was a 25% chance of the profit target being met. At acquisition, the only adjustment required to the identifiable net assets of Grape Co was for land which had a fair value \$5 million higher than its carrying amount. This is not included within the \$70 million equity of Grape Co at 1 January 20X7.

Goodwill for the consolidated financial statements has been incorrectly calculated as follows:

	\$m
Share consideration	68
Add NCI at acquisition (20% × \$70 million)	14
Less net assets at acquisition	<u>(70)</u>
Goodwill at acquisition	<u>12</u>

The financial director did not take into account the contingent cash since it was not probable that it would be paid. Additionally, he measured the non-controlling interest using the proportionate method of net assets despite the group having a published policy to measure non-controlling interest at fair value. The share price of Grape Co at acquisition was \$4.25 and should be used to value the non-controlling interest.

**Exhibit 2 – Acquisition/disposal of Strawberry Co**

Banana Co had purchased a 40% equity interest in Strawberry Co for \$18 million a number of years ago when the fair value of the identifiable net assets was \$44 million. Since acquisition, Banana Co had the right to appoint one of the five directors on the board of Strawberry Co. The investment has always been equity accounted for in the consolidated financial statements of Banana Co. Banana Co disposed of 75% of its 40% investment on 1 October 20X6 for \$19 million when the fair values of the identifiable net assets of Strawberry Co were \$50 million. At that date, Banana Co lost its right to appoint one director to the board. The fair value of the remaining 10% equity interest was \$4.5 million at disposal but only \$4 million at 30 June 20X7. Banana Co has recorded a loss in reserves of \$14 million calculated as the difference between the price paid of \$18 million and the fair value of \$4 million at the reporting date. Banana Co has stated that they have no intention to sell their remaining shares in Strawberry Co and wish to classify the remaining 10% interest as fair value through other comprehensive income in accordance with IFRS 9 *Financial Instruments*.

### Exhibit 3 – The acquisition of Melon Co

On 30 June 20X7, Banana Co acquired all of the shares of Melon Co, an entity which operates in the biotechnology industry. Melon Co was only recently formed and its only asset consists of a licence to carry out research activities. Melon Co has no employees as research activities were outsourced to other companies. The activities are still at a very early stage and it is not clear that any definitive product would result from the activities. A management company provides personnel for Melon Co to supply supervisory activities and administrative functions.

Banana Co believes that Melon Co does not constitute a business in accordance with IFRS 3 *Business Combinations* since it does not have employees nor carries out any of its own processes. Banana Co intends to employ its own staff to operate Melon Co rather than to continue to use the services of the management company. The directors of Banana Co have concluded that Melon Co does not meet the definition of a business specified in IFRS 3 and should therefore be treated as an asset acquisition.

### Exhibit 4 – The acquisition of bonds

On 1 July 20X5, Banana Co acquired \$10 million 5% bonds at par with interest being due at 30 June each year. The bonds are repayable at a substantial premium so that the effective rate of interest was 7%. Banana Co intended to hold the bonds to collect the contractual cash flows arising from the bonds and measured them at amortised cost.

On 1 July 20X6, Banana Co sold the bonds to a third party for \$8 million. The fair value of the bonds was \$10.5 million at that date. Banana Co has the right to repurchase the bonds on 1 July 20X8 for \$8.8 million and it is likely that this option will be exercised. The third party is obliged to return the coupon interest to Banana Co and to pay additional cash to Banana Co should bond values rise. Banana Co will also compensate the third party for any devaluation of the bonds.

#### Required

- (a) Draft an explanatory note to the directors of Banana Co, discussing the following:
- (i) How goodwill should have been calculated on the acquisition of Grape Co and show the accounting entry which is required to amend the financial director's error (8 marks)
  - (ii) Why equity accounting was the appropriate treatment for Strawberry Co in the consolidated financial statements up to the date of its disposal showing the carrying amount of the investment in Strawberry Co just prior to disposal (4 marks)
  - (iii) How the gain or loss on disposal of Strawberry Co should have been recorded in the consolidated financial statements and how the investment in Strawberry Co should be accounted for after the part disposal (4 marks)
- Note.** Any workings can either be shown in the main body of the explanatory note or in an appendix to the explanatory note.
- (b) Discuss whether the directors are correct to treat Melon Co as an asset acquisition. (7 marks)
- (c) Discuss how the derecognition requirements of IFRS 9 *Financial Instruments* should be applied to the sale of the bond including calculations to show the impact on the consolidated financial statements for the year ended 30 June 20X7. (7 marks)

(Total = 30 marks)

**SBR Specimen exam 2**

Hill Co is a public limited company which has investments in two other entities, Chandler Co and Doyle Co. All three entities prepare their financial statements in accordance with International Financial Reporting Standards.

**Exhibit 1 - Financial statement extracts**

Extracts from the draft individual statements of profit or loss for Hill Co, Chandler Co and Doyle Co for the year ended 30 September 20X6 are presented below.

	Hill Co	Chandler Co	Doyle Co
	\$m	\$m	\$m
Profit/(loss) before taxation	(45)	67	154
Taxation	9	(15)	(31)
Profit/(loss) for the period	<u>(36)</u>	<u>52</u>	<u>123</u>

**Exhibit 2 - Acquisition of 80% of Chandler Co**

Hill Co purchased 80% of the ordinary shares of Chandler Co on 1 October 20X5. Cash consideration of \$150 million has been included when calculating goodwill in the consolidated financial statements. The purchase agreement specified that a further cash payment of \$32 million becomes payable on 1 October 20X7 but no entries have been posted in the consolidated financial statements in respect of this. A discount rate of 5% should be used.

In the goodwill calculation, the fair value of Chandler Co's identifiable net assets was deemed to be \$170 million. Of this, \$30 million related to Chandler's non-depreciable land. However, on 31 December 20X5, a survey was received which revealed that the fair value of this land was actually only \$20 million as at the acquisition date. No adjustments have been made to the goodwill calculation in respect of the results of the survey. The non-controlling interest at acquisition was measured using the proportionate method as \$34 million ( $\$170\text{m} \times 20\%$ ).

As at 30 September 20X6, the recoverable amount of Chandler Co was calculated as \$250 million. No impairment has been calculated or accounted for in the consolidated financial statements.

**Exhibit 3 - Disposal of 20% holding in Doyle Co**

On 1 October 20X4, Hill Co purchased 60% of the ordinary shares of Doyle Co. At this date, the fair value of Doyle Co's identifiable net assets was \$510 million. The non-controlling interest at acquisition was measured at its fair value of \$215 million. Goodwill arising on the acquisition of Doyle Co was \$50 million and had not been impaired prior to the disposal date. On 1 April 20X6, Hill disposed of a 20% holding in the shares of Doyle Co for cash consideration of \$140 million. At this date, the net assets of Doyle Co, excluding goodwill, were carried in the consolidated financial statements at \$590 million.

From 1 April 20X6, Hill Co has the ability to appoint two of the six members of Doyle Co's board of directors. The fair value of Hill Co's 40% shareholding was \$300 million at that date.

**Exhibit 4 - Convertible bond issue**

On 1 October 20X5, Hill Co issued a convertible bond at par value of \$20 million and has recorded it as a non-current liability. The bond is redeemable for cash on 30 September 20X7 at par. Bondholders can instead opt for conversion in the form of a fixed number of shares. Interest on the bond is payable at a rate of 4% a year in arrears. The interest paid in the year has been presented in finance costs. The interest rate on similar debt without a conversion option is 10%.

Discount factors:

Year	Discount rate 5%	Discount rate 10%
1	0.952	0.909
2	0.907	0.826

### Exhibit 5 - Deferred tax asset

Hill Co has made a loss in the year ended 30 September 20X6, as well as in the previous two financial years. In the consolidated statement of financial position it has recognised a material deferred tax asset in respect of the carry-forward of unused tax losses. These losses cannot be surrendered to other group companies. On 30 September 20X6, Hill Co breached a covenant attached to a bank loan which is due for repayment in 20X9. The loan is presented in non-current liabilities on the statement of financial position. The loan agreement terms state that a breach in loan covenants entitles the bank to demand immediate repayment of the loan. Hill Co and its subsidiaries do not have sufficient liquid assets to repay the loan in full. However, on 1 November 20X6 the bank confirmed that repayment of the loan would not be required until the original due date. Hill Co has produced a business plan which forecasts significant improvement in its financial situation over the next three years as a result of the launch of new products which are currently being developed.

#### Required

Draft an explanatory note to the directors of Hill Co addressing the following:

- (a) how goodwill should have been calculated in respect of the investment in Chandler Co. Your answer should include suitable calculations and show the adjustments which need to be made to the consolidated financial statements for this as well as any implications of the recoverable amount calculated at 30 September 20X6. **(13 marks)**
- (b) a calculation of the profit or loss arising from the disposal of the investment in Doyle Co for inclusion in the consolidated financial statements for the year ended 30 September 20X6. **(4 marks)**
- (c) how the convertible bond should be accounted for, with suitable calculations, in the consolidated financial statements for the year ended 30 September 20X6. **(5 marks)**
- (d) discuss the proposed treatment of Hill's deferred tax asset and the financial reporting issues raised by its loan covenant breach. **(8 marks)**

**(Total = 30 marks)**

## 14 Luploid

**59 mins**

### SBR September/December 2019

Luploid Co is the parent company of a group undergoing rapid expansion through acquisition. Luploid Co has acquired two subsidiaries in recent years, Colyson Co and Hammond Co. The current financial year end is 30 June 20X8.

#### Exhibit 1 - Acquisition of Colyson Co

Luploid Co acquired 80% of the five million equity shares (\$1 each) of Colyson Co on 1 July 20X4 for cash of \$90 million. The fair value of the non-controlling interest (NCI) at acquisition was \$22 million. The fair value of the identifiable net assets at acquisition was \$65 million, excluding the following asset. Colyson Co purchased a factory site several years prior to the date of acquisition. Land and property prices in the area had increased significantly in the years immediately prior to 1 July 20X4. Nearby sites had been acquired and converted into residential use. It is felt that, should the Colyson Co site also be converted into residential use, the factory site would have a market value of \$24 million. \$1 million of costs are estimated to be required to demolish the factory and to obtain planning permission for the conversion. Colyson Co was not intending to convert the site at the acquisition date and had not sought planning permission at that date. The depreciated replacement cost of the factory at 1 July 20X4 has been correctly calculated as \$17.4 million.

#### Exhibit 2 - Impairment of Colyson Co

Colyson Co incurred losses during the year ended 30 June 20X8 and an impairment review was performed. The recoverable amount of Colyson Co's assets was estimated to be \$100 million. Included in this assessment was the only building owned by Colyson Co which had been damaged in a storm and impaired to the extent of \$4 million. The carrying amount of the net assets of Colyson Co at 30 June 20X8 (including fair value adjustments on acquisition but excluding goodwill) are as follows: