

# Examiner's report

## Strategic Business Reporting (SBR)

### March 2019



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

#### General Comments

##### Format of exam

The 3-hour exam comprises 2 Sections, all questions are compulsory. Section A contains two questions for 50 marks and includes 2 professional marks (for the clarity and quality of discussion) which are awarded for the candidate's ability to reflect on ethical issues contained in the second question and the degree of ethical reasoning demonstrated. Section B contains two questions of 25 marks each, with 2 professional marks relating, in this case, to the candidate's awareness of the impact of an accounting standard from an investor's perspective.

##### General Approach to the SBR examination

Candidates are examined on how they apply concepts and principles to life-like scenarios, demonstrating their ability to make strategic business reporting decisions. Consequently, candidates should be aware that reliance on a single textbook or revision course will not be sufficient to pass this examination. The required skills come through a deeper understanding and application of knowledge to the subject matter. Therefore, a well-prepared candidate will expand their reading beyond the textbook, to include sources such as the standard setters (the International Accounting Standards Board), the profession and the ACCA. This is because a broader reading challenges the candidate to fully understand the concepts and approaches to corporate reporting and brings the subject to life. Consequently, the examination is much more than a memory test because of its requirement to apply knowledge to scenarios and to exercise professional and ethical judgement.

The [ACCA website](#) offers a range of resources to support candidates' preparation for the SBR examination. Candidates should review the syllabus and study guide and the examinable documents for SBR. The intellectual and cognitive level applicable to SBR is predominantly level 3, where candidates are expected to synthesise and evaluate material. Whilst the examination may require some calculation and explanation of knowledge, the key focus will be on the application of that knowledge.

Specimen exams are available on the ACCA website. Although these provide an example of the style of examination and are representative of likely content, candidates should be aware that each SBR examination will provide a unique set of questions. Candidates should also note that P2 examinations do not reflect the nature of the questions in SBR. The SBR exam questions require a high level of understanding; for example, candidates will require an ability to appraise, assess, critically discuss, evaluate and apply knowledge, and not just be able to present a rote-learned knowledge of International Financial Reporting Standards® (IFRS). Regularly reading a quality business journal or newspaper and reviewing published company reports will bring a candidate's studies to life by linking their learning with the real world. In doing so, candidates will be better prepared to explain the content of annual reports to third parties, such as investors.

The SBR exam will also include ethical aspects requiring candidates to demonstrate their understanding of the professional and moral judgments that accountants must make in practice.

Merely quoting ethical guidance without application of it to the scenario will restrict the candidate's marks for both the question and the associated professional marks.

Candidates should read the examining team's guidance available on the ACCA website. In addition to the examiner reports, there are helpful articles outlining the changes in approach that are needed to succeed in SBR, and recommended exam techniques for success. The website also provides a list of frequently asked questions (FAQs) which provides further insight into the SBR exam; there are exam debriefs to listen to and a retake guide. The ACCA's Student Accountant e-magazine is another source of advice for study skills and exam technique.

An indication of some of the principles used in the marking process was provided in the December 2018 examiner's report and are worth repeating. Marks are allocated for relevant knowledge, and not for the reproduction of irrelevant knowledge or irrelevant parts of IFRSs. Full marks will only be gained by applying relevant knowledge to the scenario, although candidates can gain marks for discussion of issues that, whilst not appearing in the suggested solution, are logical and are relevant to the information in the question. **Comment on individual questions**

### **Question One**

This question will often be divided into several parts. For example, the first part (Q1a) is likely to require the candidate to prepare an explanatory note discussing several issues for instance: (i) an explanation of an entity's presentation and functional currency, and how each is determined in a given scenario, (ii) a calculation of goodwill relating to an overseas subsidiary on acquisition (some years ago), and on eventual disposal (after impairment) in the reporting period (iii) an explanation of the goodwill calculation and the treatment of exchange differences in the consolidated financial statements. Most of the marks in this section will be allocated for explanation and application of the relevant IFRS Standards. In these circumstances, weak answers tend to (i) list the factors determining the functional currency with little application to the scenario. The technical parts of a consolidation, in this case part (ii) are generally well-answered although some candidates are often less prepared to perform a translation from a foreign currency. Likewise, explanations of calculations within the consolidation process, part (iii), are often well-answered provided that the calculations have been performed well. Although the question is broken into several sections, some candidates insist on answering as if it is one question. Candidates are advised against this because it makes it difficult for markers to mark. Therefore, candidates should ensure that complex calculations are separated from written answers. For example, producing calculations on one sheet and simultaneously explaining them on a second will raise the chances of obtaining more marks, since each element is more likely to be explained when done so alongside the performance of the calculation (please refer to the [Exam techniques for success](#) article for more advice).

### **Question Two**

This question may also have several sections: for example, the first part may require a discussion on why it is incorrect to account for the curtailment of a defined benefit scheme as part of its remeasurement component, what the correct method is, and how to account for other restructuring costs. Q2b might ask for an explanation as to whether a deferred tax asset could be recognised where a company has significant unused trading losses in a depressed market and sales orders below previous years. Finally, the question might require a discussion of the ethical issues arising from the aspects described in the previous two sections, including any actions that an accountant should undertake to resolve these ethical issues. Better constructed answers usually adopt the approach suggested in the ACCA article [Exam techniques for success](#) (page 4). In these types of

questions, candidates should first scan the scenario to identify the accounting issues and then consider the scenario's suggested accounting treatment. Interwoven throughout the scenario is likely to be an ethical issue of the inappropriate behaviour by directors. Candidates with good exam technique should briefly plan the content of their written answer to avoid repetition: writing the same point twice loses valuable time and certainly will not score twice. Good practice is to have separate headings for each 'situation', with lines left in between them for ease of marking. Better answers apply ethical principles to the scenario. Indeed, it was pleasing to see fewer answers merely "listing out" rote-learned ethical requirements in this sitting. Most candidates identified that there was a second requirement to outline the implications for the accountant and many answers included suggestions for the accountant might resolve the ethical issue.

### Question Three

The first question in Section B is likely to have several sections, with possibly more subsections. For example, the question may require advice on the treatment of an investment in which 45% of the voting shares were owned by an entity, with additional information provided on powers of board membership nomination and a lack of shareholder agreement on operating decisions. The second part of the question may require advice on the treatment of a contract to purchase a non-financial item (for example electricity for own use) denominated in a foreign currency, which was then modified into an executory contract. A further sub-part may require a discussion on the key changes from an investor perspective of the application of the lessee accounting requirements in IFRS® 16. Finally, it may require a discussion on how IFRS 16 would impact on three accounting ratios and more generally from the financial statements now that previously reported "off-balance sheet" leases are now on-balance sheet.

Answers to the first part of the question were relatively weak. The scenario explained that the company held half of the board's nominations and that the directors sought advice over the applicability of IFRS 11. Most answers focused on this standard, but better answers began by considering the aspect of control: first, whether control was exhibited in accordance with IFRS 10 (individual control), then if joint control existed (IFRS 11), before finally considering the treatment without control, but with significant influence (IAS 28). The second part was not well-answered, with a significant minority of candidates failing to answer this part at all or providing a very limited answer.

Many candidates explained the key changes on the application of IFRS 16; although the explanation was in some cases limited to a description of the accounting adjustments (the introduction of a right of use asset and corresponding liability) with limited consideration of the investor's viewpoint. Better answers described how certain industries would be more significantly affected, outlined the benefits to the investor of the change (increased comparability, no need to estimate off-balance sheet liabilities), and how disclosures should aid understanding. Answers to the last part of the question were generally good, provided the impact on each stated ratio was linked to the change in accounting treatment.

Some of the requirements of the question are good examples of the explanations provided in the ACCA article [Examples of a change in approach](#): "SBR questions will adopt the perspective of a wider group of stakeholders; for example the investor perspective. Investors have to deal with many uncertainties that surround the preparation of financial statements and thus the interpretation of published information from an investor's/user's viewpoint is also an issue for an accountant." Likewise, the article [Stepping up from Financial Reporting](#) advises that candidates should "practise

thinking from the point of view of different stakeholder groups, as the syllabus places a significant emphasis on stakeholder impact”.

## Question Four

Finally, question 4 might focus on accounting principles; for example, candidates might be asked to discuss and contrast the recognition of assets and liabilities in financial statements as set out in the current Conceptual Framework (2010) and the 2015 Exposure Draft on the Conceptual Framework. In addition, candidates might be required to have a discussion of how recognition under IAS 12 and IAS 37 are inconsistent with the Conceptual Framework (2010), and how items recognised in a business combination may not be recognised in individual financial statements. Readers of the [Examiner's approach article](#) should be aware that “candidates should be able to produce reports relating to corporate performance and to evaluate proposed changes to reporting financial performance. Within the question that examines current issues, it is likely that Exposure Drafts may be examined in terms of the key areas of change”. The ACCA's [Examiner's approach](#) article states: “candidates require an in-depth knowledge of the Conceptual Framework which sets out the concepts upon which International Financial Reporting Standards (IFRS) are based. Therefore, candidates should be able to discuss the consistency of the Framework (and the proposed Framework) with each IFRS that is examined”.

A good example of how candidates might be questioned on this is where they might be asked to explain the recognition criteria of an asset under the 2010 version of the IASB's Conceptual Framework for Financial Reporting (the Conceptual Framework) and the 2015 proposed revision. Often, answers to this type of question are weak; many answers begin by defining an asset, without then providing the recognition criteria (probable future economic benefit, and a reliable measure). A significant number of answers often do not refer to the exposure draft's proposed changes on recognition (where users are provided with relevant information, a faithful representation and where the resulting information results in benefits exceeding costs of providing it). Those that do not refer to the exposure draft tend to state merely the removal of the 'probability criterion'. A similar question was asked in September 2018 (Q3), and candidates should ensure that they are able to discuss the proposals contained in the Conceptual Framework (2018).

Where a question requires a discussion of the principles of IFRS 15 to determine the recognition of for instance two software packages (one with distinct contracts for hardware and software, the other where hardware is integral to the software), candidates should ensure that they apply those principles to the scenario. For example, some candidates are still providing a IFRS 15 “list” rather than further explaining the importance of each step with regard to recognition. Referring to the article [exam techniques for success](#): “You will score very little, if your approach to the SBR exam is to simply memorise technical material and then ‘brain dump’ it in your answer booklet. Written answers must be relevant to the given scenario.” Those candidates that applied the principles of IFRS 15 to the scenario – and distinguished between the separate performance obligations in one contract and the integrated performance obligation in the second contract – scored well in their explanation and application.

In conclusion, candidates should ensure that they refer to the learning support articles that have been mentioned in this article. There are others in addition to those mentioned here which would be beneficial for future SBR candidates.