

ACCA

Strategic Professional

Strategic Business Reporting (INT & UK) (SBR)

EXAM KIT

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This document references IFRS® Standards and IAS® Standards, which are authored by the International Accounting Standards Board (the Board), and published in the 2018 IFRS Standards Red Book.

INDEX TO QUESTIONS AND ANSWERS

KEY TO THE INDEX

PAPER ENHANCEMENTS

We have added the following enhancements to the answers in this Exam Kit:



Key answer tips

All answers include key answer tips to help your understanding of each question.



Tutorial note

All answers include more tutorial notes to explain some of the technical points in more detail.



Top tutor tips

For selected questions, we 'walk through the answer' giving guidance on how to approach the questions with helpful 'tips from a top tutor', together with technical tutor notes.

These answers are indicated with the 'footsteps' icon in the index.

ONLINE ENHANCEMENTS



Question debrief

For selected questions, we recommend that they are to be completed in full exam conditions (i.e. without your notes).

In addition to the examiner's technical answer, enhanced with key answer tips and tutorial notes in this Exam Kit, online you can find an answer debrief by a top tutor that:

- works through the question in full
- points out how to approach the question
- how to ensure that the easy marks are obtained as quickly as possible, and
- emphasises how to tackle exam questions and exam technique.

These questions are indicated with the 'clock' icon in the index.



Online question assistance

Have you ever looked at a question and not know where to start, or got stuck part way through?

For selected questions, we have produced 'Online question assistance' offering different levels of guidance, such as:

- ensuring that you understand the question requirements fully, highlighting key terms and the meaning of the verbs used
- how to read the question proactively, with knowledge of the requirements, to identify the topic areas covered
- assessing the detail content of the question body, pointing out key information and explaining why it is important
- help in devising a plan of attack

With this assistance, you should then be able to attempt your answer confident that you know what is expected of you.

These questions are indicated with the 'signpost' icon in the index.

Online question enhancements and answer debriefs are available on MyKaplan:

www.MyKaplan.co.uk

SECTION A QUESTIONS

Group financial statements			Page number		Past exam (Adapted)
			Question	Answer	
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Reporting and ethical implications

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24	Holls		46	205	Dec 18
25	Skizer		47	212	Sep 18 (A)
26	Toobasco		49	218	Sep 18 (A)
27	Player Two		51	223	
28	Zack		52	225	

EXAM TECHNIQUE

- **Divide the time** you spend on questions in proportion to the marks on offer:
Whatever happens, always keep your eye on the clock and **do not over run on any part of any question!**
- If you **get completely stuck** with a question:
 - move on
 - **return to it later.**
- Stick to the question and **tailor your answer** to what you are asked.
 - pay particular attention to the verbs in the question.
- If you do not understand what a question is asking, **state your assumptions.**
Even if you do not answer in precisely the way the examiner hoped, you should be given some credit, if your assumptions are reasonable.
- You should do everything you can to make things easy for the marker.
The marker will find it easier to identify the points you have made if you leave plenty of space between the points that you are making.
- **Discursive questions:**
Your answer should have a clear structure. Use headings and paragraphs to provide focus.
Be concise and stay on topic. You will score no marks if you do not answer the question.
- **Workings:**
It is essential to include all your workings in your answers – method marks are available even if your final answer is incorrect.

PAPER SPECIFIC INFORMATION

THE EXAM

FORMAT OF THE EXAM

	<i>Number of marks</i>
Section A: Two compulsory questions	50
Section B: Two compulsory questions of 25 marks each	50
	——
	100
	——
Total time allowed: 3 hours 15 minutes.	

Note that:

- The first question in Section A will test group accounting. In addition to the consideration of the numerical aspects of group accounting (max 25 marks), a discussion and explanation of these numbers will be required. This question will also test other areas of the syllabus.
- The second question in Section A will require consideration of (i) the reporting implications and (ii) the ethical implications of specific events in a given scenario. Two professional marks will be awarded in this question for the application of ethical principles to the scenario.
- Section B consists of two questions, which may be scenario or case-study or essay based and will contain both discursive and computational elements. Section B could deal with any aspect of the syllabus but will always include either a full question, or part of a question, that requires the appraisal of financial and/or non-financial information from either the preparer's or another stakeholder's perspective. Two professional marks will be awarded in the Section B question that requires analysis.

PASS MARK

The pass mark for all ACCA Qualification examinations is 50%.

The UK exam

The Examiner has indicated that Section B questions in the UK exam will be adapted to assess UK specific content. This question may be based on either a single entity or a group and will be worth 15-20 marks. It may have discursive and/or numerical content and requirements, and could cover the following syllabus areas:

- The financial reporting requirements for UK and Republic of Ireland entities (UK GAAP) and their interaction with the Companies Act requirements
- The reasons why an entity might choose to adopt FRS 101 or FRS 102
- The scope and basis of preparation of financial statements under UK GAAP
- The concepts and pervasive principles set out in FRS 102
- The principal differences between UK GAAP and International Financial Reporting Standards.

Note that the UK syllabus exam will be denominated in dollars (identified as \$); this Exam Kit adopts the same notation and style for UK syllabus content.

Section 1

PRACTICE QUESTIONS

SECTION A QUESTIONS – GROUP FINANCIAL STATEMENTS

1 MOYES (DEC 2018) *Walk in the footsteps of a top tutor*

Background

The following are extracts from the consolidated financial statements of the Moyes group.

Group statement of profit or loss for the year ended 30 September 20X8:

	\$m
Revenue	612
Cost of sales	(347)
	——
Gross profit	265
Operating expenses	(123)
Share of profit of associate	67
	——
Profit before tax	209
	——

Extracts from the group statement of financial position:

	<i>30 September 20X8</i>	<i>30 September 20X7</i>
	\$m	\$m
Inventories	126	165
Trade receivables	156	149
Trade payables	215	197

The following information is also relevant to the year ended 30 September 20X8:

Pension scheme

Moyes operates a defined benefit scheme. A service cost component of \$24 million has been included within operating expenses. The remeasurement component for the year was a gain of \$3 million. Benefits paid out of the scheme were \$31 million. Contributions into the scheme by Moyes were \$15 million.

Goodwill

Goodwill was reviewed for impairments at the reporting date. Impairments arose of \$10 million in the current year.

Property, plant and equipment

Property, plant and equipment (PPE) at 30 September 20X8 included cash additions of \$134 million. Depreciation charged during the year was \$99 million and an impairment loss of \$43 million was recognised. Prior to the impairment, the group had a balance on the revaluation surplus of \$50 million of which \$20 million related to PPE impaired in the current year.

Inventory

Goods were purchased for Dinar 80 million cash when the exchange rate was \$1:Dinar 5. Moyes had not managed to sell the goods at 30 September 20X8 and the net realisable value was estimated to be Dinar 60 million at 30 September 20X8. The exchange rate at this date was \$1:Dinar 6. The inventory has been correctly valued at 30 September 20X8 with any expense correctly included within cost of sales.

Changes to group structure

During the year ended 30 September 20X8, Moyes acquired a 60% subsidiary, Davenport, and also sold all of its equity interests in Barham for cash. The consideration for Davenport consisted of a share for share exchange together with some cash payable in two years. 80% of the equity shares of Barham had been acquired several years ago but Moyes had decided to sell as the performance of Barham had been poor for a number of years. Consequently, Barham had a substantial overdraft at the disposal date. Barham was unable to pay any dividends during the financial year but Davenport did pay an interim dividend on 30 September 20X8.

Discontinued operations

The directors of Moyes wish advice as to whether the disposal of Barham should be treated as a discontinued operation and separately disclosed within the consolidated statement of profit or loss. There are several other subsidiaries which all produce similar products to Barham and operate in a similar geographical area. Additionally, Moyes holds a 52% equity interest in Watson. Watson has previously issued share options to other entities which are exercisable in the year ending 30 September 20X9. It is highly likely that these options would be exercised which would reduce Moyes' interest to 35%. The directors of Moyes require advice as to whether this loss of control would require Watson to be classified as held for sale and reclassified as discontinued.

Required:

- (a) Draft an explanatory note to the directors of Moyes which should include:
- (i) a calculation of cash generated from operations using the indirect method; and
 - (ii) an explanation of the specific adjustments required to the group profit before tax to calculate the cash generated from operations.

Note: Any workings can either be shown in the main body of the explanatory note or in an appendix to the explanatory note. (12 marks)

- (b) Explain how the changes to the group structure and dividend would impact upon the consolidated statement of cash flows at 30 September 20X8 for the Moyes group. You should not attempt to alter your answer to part (a). (6 marks)

- (c) Advise the directors as to whether Watson should be classified as held for sale and whether both it and Barham should be classified as discontinued operations. (6 marks)

- (d) The recognition criteria in the 2010 *Conceptual Framework* stated that a flow of economic benefits must be probable before an element can be recognised in the financial statements. However, IFRS and IAS Standards were criticised for applying this probability criterion inconsistently. The 2018 *Conceptual Framework* addressed these concerns.

Required:

Explain how the probability criterion has been inconsistently applied across accounting standards. Illustrate your answer with reference to the measurement of assets held for sale, provisions, and contingent consideration transferred in a business combination. Your answer should discuss the Board's revised recognition criteria in the 2018 *Conceptual Framework*. (6 marks)

(Total: 30 marks)

2 BANANA (SEP 2018)  *Walk in the footsteps of a top tutor*

Background

Banana is the parent of a listed group of companies which have a year end of 30 June 20X7. Banana 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 acquisition of Grape

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

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

The purchase consideration comprised 10 million of Banana'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 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 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 at 1 January 20X7.