ACCA

Strategic Business Reporting (SBR (INT/UK))

Pocket Notes

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Contents

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The exam

Paper background

The exam requires students to examine corporate reporting from a number of perspectives. Students will be required to assess and evaluate reporting decisions made by management, their implications for a range of stakeholders, and the professional and ethical issues raised. Students are expected to be able to prepare and discuss consolidated financial statements. Knowledge of current issues in corporate reporting is also required.

Exam format

The exam is three hours and fifteen minutes. All questions are compulsory.

Section A (50%) consists of two scenario based questions. The first questions will be based on financial statements of group entities. The second question will require consideration of the reporting and ethical implications of specific events.

Section B (50%) consists of two questions. These may be scenario or case-study or essay-based and could deal with any part of the syllabus. Section B will always include a full question or a part of a question that requires the appraisal of financial and/or non-financial information.

UK syllabus

UK syllabus students sit an exam that is almost identical to the International syllabus exam. In the UK exam, one of the Section B questions will be adapted to test UK specific content for 15-20 marks. This content is covered in Chapter 24.

Keys to success in SBR

- Read widely
- Study the whole syllabus
- Do not neglect the ‘softer’ topics – analysis and current issues are core parts of the syllabus
- Manage your time carefully to ensure that you finish the paper
- Knowledge of the accounting standards is not enough. You must be able to apply the standards to unfamiliar scenarios
- Practice exam questions to time.

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chapter

1

Frameworks

In this chapter

- Conceptual Framework.
- IFRS 13 Fair Value Measurement.

The Conceptual Framework

Exam focus

The Conceptual Framework is an important topic in SBR. You should expect it to feature in every exam.

Purposes

The key purposes of the Conceptual Framework are to assist:

- the Board when developing new IFRS Standards
- preparers of financial statements when no IFRS Standard applies to a transaction, or when an IFRS Standard offers a choice of accounting policy
- all parties when understanding and interpreting IFRS Standards.

The purpose of financial reporting

The purpose of financial reporting is to provide information to current and potential investors, lenders and other creditors that will enable them to make decisions about providing economic resources to an entity.

User groups need information to assess:

- an entity's potential future cash flows, and
- management's stewardship of the entity's economic resources.

This information is provided in financial statements.

Qualitative characteristics

Key Point

Financial information is only useful if it embodies the fundamental characteristics.

The enhancing characteristics make financial information more useful.

Qualitative characteristics of useful financial information

Fundamental characteristics:

- Relevance
- Faithful representation

Enhancing characteristics:

- Verifiability
- Timeliness
- Understandability
- Comparability

The elements

Definition

The elements are the building blocks of financial statements.

An economic resource is a **'right that has the potential to produce economic benefits'** (para 4.4).

Asset	**'A present economic resource controlled by an entity as a result of a past event'** (para 4.3)
Liability	**'A present obligation of the entity to transfer an economic resource as a result of a past event'** (para 4.26).
Equity	The residual interest in the net assets of an entity.
Income	Increases in assets or decreases in liabilities that result in an increase to equity (excluding contributions from equity holders).
Expenses	Decreases in assets or increases in liabilities that result in decreases to equity (excluding distributions to equity holders).

Recognition

Items are recognised in financial statements if:

- they meet the definition of an element, and
- recognition provides relevant information, and
- recognition faithfully represents the entity's financial performance and position.

Derecognition

Derecognition from financial statements normally occurs when the entity:

- loses control of the asset, or
- has no present obligation for the liability.

Accounting for derecognition should faithfully represent the changes in an entity's net assets, as well as any assets or liabilities retained. This involves:

- derecognising any transferred, expired or consumed component, and
- recognising a gain or loss on the above, and
- recognising any retained component.

Measurement

If recognised in the financial statements, an element must be quantified.

The Conceptual Framework outlines two measurement bases:

- historical cost
- current value (this includes fair value, value-in-use, and current cost).

When selecting a measurement basis, relevance is maximised if the following are considered:

- the characteristics of the asset or liability
- how the asset or liability contributes to future cash flows.

Presentation and disclosure

The statement of profit or loss is the primary source of information about an entity's financial performance. Income and expenses should normally be recognised in this statement.

The Board might require an income or expense to be presented in other comprehensive income if it results from remeasuring an item to current value and if this means that:

- profit or loss provides more relevant information, or
- a more faithful representation is provided of an entity's performance.

Income and expenditure included in other comprehensive income should be reclassified to profit or loss when doing so results in profit or loss providing more relevant information.

IFRS 13 Fair Value Measurement

Definition

Fair value is defined as '**the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date**' (IFRS 13, para 9).

Fair value hierarchy

Level 1 inputs

- Quoted prices for identical assets in active markets

Level 2 inputs

- Quoted prices for identical assets in less active markets
- Quoted prices for similar assets in active markets

Level 3 inputs

- Unobservable inputs

Priority is given to level 1 inputs when determining fair value.

Markets

Key Point

IFRS 13 says that fair value should be determined by reference to the principal market.

This is the market with the greatest volume of activity.

If the principal market cannot be determined then fair value should be measured based on the price in the most advantageous market.

Non-financial assets

Non-financial assets include:

- Property, plant and equipment
- Intangible assets

The fair value of a non-financial asset should be based on its **highest and best use.**

Exam focus

Exam Kit questions in this area

- Mehran
- Klancet