



Examiner's report

Strategic Business Reporting (SBR)

September 2018

General Comments

This was the first sitting of the new Strategic Business Reporting (SBR) exam, which tests professional competences within the corporate reporting environment. The SBR syllabus is not significantly different to the P2 syllabus although the SBR exam requires (and therefore allocates significantly more marks to) written answers rather than numerical ones. Candidates should have referred to the many technical articles already available at the [ACCA website](#) for guidance on preparation for the examination. The articles provide excellent advice on how to approach questions and how to answer them in such a way as to maximise potential marks. This report uses the advice available in the following exam technique articles. These, alongside the technical articles available in the same location are essential reading for SBR candidates:

- [Examples of a change in approach](#)
- [Exam techniques for success](#)
- [Examiner's approach article](#)
- [Stepping up from Financial Reporting](#)

The September 2018 SBR examination consisted of two sections. Section A contained two questions which totalled 50 marks and Section B contained two questions of 25 marks each. All questions were compulsory. SBR candidates are examined on accounting concepts and principles and their ability to apply this knowledge to real life scenarios, demonstrating their ability to make strategic business reporting decisions. Candidates cannot rely on a single textbook or revision course to pass this examination because the required skills are not developed through rote learning but rather through a deeper understanding and application of knowledge and understanding to the scenario provided. A well-prepared candidate should have reviewed relevant websites including those of the standard setters (IASB), the profession, and the ACCA to maintain their knowledge and keep up to date with topical issues.

Studying and preparing for the exam:

Key advice for candidates preparing for this examination is available in the [Exam techniques for success](#) article: "The best way to achieve a good pass in SBR is to practise exam-style questions from the earliest opportunity, and in due course, full mock exams. This will help you to embed those exam techniques that work for you and help you develop good time management before your exam. Even if you don't have time to work all available questions in full, planning answers is often sufficient to understand whether they are on the right lines in terms of identification of issues, the split of marks and points to cover. Of course, practising questions and preparing answer plans is only useful if you review your work against a model answer. Or, even better, benefit from tutor feedback, so you can learn what you could do better next time."

Additional advice in exam technique is also available in the [Stepping up from Financial Reporting](#) article:

"You will score very little in this exam [SBR] for simply regurgitating the requirements of standards. You should start building the skills necessary to analyse scenarios, apply standards, consider the effects of required treatments on stakeholders and discuss wraparound issues such as rationale".

"You should also attempt exam style questions from an early stage of your studies. It's also very valuable to

get feedback on your answers – from a tutor, fellow students or work colleagues. Alternatively, you might join a study group on ACCA’s Learning Community and find a study buddy.”

Exam approach and technique

Be aware of the requirement of each question: “if the verbs used in the requirement are analyse/discuss/critically assess then this is what the candidate MUST do – the provision of numbers in isolation will not suffice” (from [Examples of a change in approach](#) article).

It’s important to consider the format of your answer: “A good answer is well signposted, in other words the marker is led through the answer to a question so that they can clearly identify that different issues or sub-requirements have been addressed. As well as labelling parts of questions, good exam technique is to use headings in the answer” (from [Exam techniques for success](#) article).

Specific Comment on the exam

Question One

This question was divided into three parts. The first part (Q1a) required the candidate to prepare an explanatory note discussing three separate issues: (i) how goodwill should be calculated and a correcting journal, (ii) why equity accounting is appropriate for recording an investment and (iii) how the gain or loss on disposal of the investment should be recorded, and how to treat the remaining investment post-disposal. Many candidates gained high marks in this section, provided they separated the complex calculations from their explanations. Techniques such as producing the calculations on one page whilst simultaneously explaining them on a second page proved an efficient exam technique and encouraged an explanation of each element of the calculation alongside the production of the goodwill working in (i), the carrying amount in (ii) and the gain on disposal in (iii). Whilst most candidates are naturally drawn to the numbers, most of the marks in this section were allocated to the explanation and the application of International Financial Reporting Standards (IFRS®) 3 Business Combinations. Weak answers to (i) provided insufficient explanation of the accounting treatment relating to each aspect of the goodwill calculation, for which marks were available if explained: the share exchange, the contingent consideration (where a significant minority of candidates erroneously referenced IAS® 37 Provisions, Contingent Liabilities and Contingent Assets), the appropriate valuation of non-controlling interest, and the fair value of net assets acquired. Part (ii) was generally well-answered although in some cases the carrying amount of the associate was overlooked or incorrect. In part (iii) explanations were generally good, although the disposal calculation often incorrect (for example, omitting the fair value of the retained investment).

Part Q1b required a discussion on the accounting treatment of an investment as a financial asset acquisition or a business acquisition, and whether this would change given the International Accounting Standards Board’s proposed amendments to the definition of a business. This section was generally weak; most candidates provided limited or no discussion of the exposure draft, and many answers focused on defining an asset, with minimal reference to the requirements of a business combination under IFRS 3. 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”. It is important that candidates read around the subject, and not rely on a single textbook or revision course. The level of knowledge and understanding required at this level does not come through rote

learning but through a deeper understanding and application of the subject matter, through researching websites and articles of standard setters (IASB), the profession, and the ACCA. Tutors should encourage candidates to consider how their knowledge can be applied in practice to, develop their understanding of the subject matter and integrate such an approach into their teaching through class discussions and activities.

Part Q1c asked candidates to discuss whether a bond sold with favourable repurchase rights should be derecognised under IFRS 9 Financial Instruments and to prepare calculations to show the impact on the financial statements. Providing that candidates identified the key aspect of substance, marks were awarded accordingly.

Question Two

This question had two sections: Q2a required a discussion on the appropriate accounting treatment for two issues, and Q2b asked for a discussion of the ethical issues arising, including any actions that the accountant and business should undertake. This question was generally well-answered, although some candidates made it difficult for markers to award marks because of the way their answer was laid out. A good approach to answering this style of question is provided in the ACCA article [Exam techniques for success](#) (page 4). Adopting the same approach to this question, candidates should first scan the scenario to identify the 'situations' (for Q2ai: impairment, use of revaluation reserve, provision; for Q2aii: Held for Sale, restructuring provision), identify the accounting issues and reconsider the suggested accounting treatment. Interwoven throughout the scenario is the ethical issue of the inappropriate behaviour of the chief operating officer (COO). 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 marks twice. Good practice is to have separate headings for each 'situation', with lines left in between them for ease of marking.

Q2ai was well-answered and candidates easily identified the subsidence as an impairment indicator. Good answers explained the impairment process and its impact upon the financial statements. Most answers correctly explained why the use of the revaluation reserve was inappropriate in this case; although care should be taken not to use up time expanding on the ethical implications (the answer to Q2b): it is worth referring back to the requirements - "discuss the accounting treatment". Answers to Q2ai that spent too long considering the need for a provision limited their potential for marks. In this case, no constructive obligation existed: the key aspect was the need for impairment.

Q2aii was better answered with most candidates explaining the need for treatment as a disposal group and restructuring provision.

Q2b was also well-answered in most cases, with better answers applying ethical principles to the scenario. It was pleasing to see fewer answers merely "listing out" rote-learned ethical requirements in this sitting.

Question Three

This question had two sections, each with subsections. Q3a described two situations involving stakes in, and sales of, a development project; and Q3b required a discussion on the external disclosures on intangible assets from the perspective of an investor.

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". Q3ai is a good illustration of how candidates can be tested on this; it required candidates 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, and consider whether the criteria are the same under IAS 38 Intangible Assets. Answers to this section were weak in general; many answers began by defining an asset, without then providing the recognition criteria (probable future economic benefit, and a reliable measure). Most answers referred the additional need under IAS 38 for an identifiable non-monetary asset without physical substance. However, the importance of probable future benefits and the assumption that externally-acquired assets meet this requirement was often overlooked. A significant number of answers did not refer to the exposure draft and those that did tended to state merely the removal of the 'probability criterion'.

Q3aii asked candidates to discuss the impact on the financial statements over two years if the recognition criteria under IAS 38 Intangible Assets were met, and – briefly - if not met. Answers to this section were generally weak. Some candidates missed that the question specifically referred to the recognition criteria being met, in which case derecognition would be inappropriate. Very few candidates identified the need for an impairment review under IAS 36 Impairment of Assets if there were doubts over recoverability from the intangible assets. The scenario describes how the directors wish to write the intangibles off as a change in accounting estimate. Most candidates highlighted this, and discussed the applicability of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Candidates who considered the accounting treatment if the recognition criteria were not met tended to distinguish between research and development costs, rather than considering the need for retrospective correction of an error under IAS 8.

Q3aiii required a discussion on the treatment of the proceeds of the sale of a development project as revenue. Some candidates outlined the IFRS 15 "list" which was not applicable to the scenario. Surprisingly few identified the disposal as not part of normal operations but a gain/(loss) on disposal. It is worth reminding candidates of the advice from 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."

The requirements of Q3b also tie in with comments outlined in the 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". In this case, candidates' answers to Q3b were generally good, where discussion included the accounting choices and subjective aspects of IAS 38 and IFRS 3. However, some answers limited opportunities for marks by not considering both standards. Q3bii asked for a discussion on whether integrated reporting can enhance reporting for intangible assets. Whilst many candidates were familiar with integrated reporting, fewer applied it to the situation (relating to intangible assets).

Question Four

The final question came in two parts: Q4a asked for advice on whether four aspects of alternative performance measures (APMs) achieve fair presentation in the financial statements. Q4b described a

scenario in which an erroneous net cash generated from operating activities was presented, with narrative provided requiring candidates to prepare (i) an adjusted statement of net cash generated from operating activities, (ii) a reconciliation from net cash generated by operating activities to operating free cash flow and (iii) an explanation of the adjustments made

For Q4a, a relevant technical article, [Additional Performance Measures](#), was available on the ACCA website. Candidates who had read the article [Stepping up from Financial Reporting](#) would be aware that this aspect is examinable: “One area on the Strategic Business Reporting syllabus that is worthy of specific mention is ‘additional performance measures’. This area is not examined in the earlier levels of the Qualification. Examples include adjusted revenue or profit and key performance indicators”. It was pleasing to see that Q4a was often well-described, reasoned and applied to the scenario. However, answers to Q4b were more varied, with the explanation requirement (Q4biii) and attempts to Q4bi and Q4bii varying in quality.

To summarise, whilst the performance in this first SBR exam was pleasing, future SBR candidates need to prepare differently than they might previously have done for P2, even though the content of the syllabus is almost identical. SBR is assessed differently than P2. Lots of advice on how to do this is available in the articles and links provided in this examiners report. Please read these thoroughly and follow the strategies suggested therein.