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Strategic Business Reporting

– Examples of a change in approach

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Strategic Business Reporting – examples of a change in approach

The Strategic Business Reporting (SBR) exam tests professional competences within the corporate reporting environment. Candidates will be examined on concepts and principles and the ability to apply this knowledge to real life scenarios. Candidates should use their answers to demonstrate their ability to make strategic business reporting decisions.

The specimen exam and the examiner's approach article (which should be read in conjunction with this article) illustrate and explain how SBR differs from P2 Corporate Reporting. This article has been written to provide tutors with more insight into the styles of question that may be asked so that they can focus their teaching appropriately.

Explain the accounting principles behind their calculations.

Group Accounting

Question 1 will be based on the financial statements of group entities, or extracts thereof and, in addition, may require consideration of other financial reporting issues (not necessarily related to group reporting). Candidates will be required to discuss the principles behind any calculations they provide and the number of marks allocated to purely numerical answers will be restricted to a maximum of 25 marks. This, and the fact that candidates need to apply their answers to the scenario given, means that an answer which has been rote learned from a text book will not suffice. The question will require candidates to prepare calculation(s) for any aspect of group accounting (including statements of cash flow) and discuss or explain the accounting principles behind their calculations. **This is a significant change in approach.** The preparation of a full group statement of financial position, statement of profit or loss or statement of cash flows will not be required.

Example of a change in approach

P2 Question 1a March/June 2016

This question gave candidates a statement of financial position, a statement of profit or loss and other comprehensive income, nine notes of additional information and required candidates to prepare a group statement of cash flows using the indirect method in accordance with the requirements of IAS 7 Statement of Cash Flows. Let's look at how the same content might be examined in SBR.

The first difference in the SBR approach is that it is unlikely that there will be a full set of financial statements given in the question. Only **extracts** from the statement of financial position, statement of profit or loss and other comprehensive income will be provided and there will be fewer notes of additional information. The question will be broken down into smaller sections and will comprise several elements and not just a single requirement to prepare a group statement of cash flows for 35 marks.

For example, candidates may be asked to simply produce a statement of the cash generated from operations, or cash flows from investing activities, or cash flows from financing activities. Additionally, candidates may be required to explain the nature of the statement and the principles behind its preparation. Thus, the provision of a numerical answer without any further explanation of the accounting principles behind it will not be sufficient to gain a pass mark in SBR. Candidates should also note that they will need to **apply** their answer to the scenario provided and so the rote learning of narrative responses will also be insufficient.

In the March/June 2016 exam, the preparation of the statement of cash generated from operations was awarded 15 marks. In the SBR exam, a candidate might be asked to prepare only certain figures from that section of the statement of cash flows and the marks would potentially be split 7 marks for the numerical content and 8 marks for the discussion. Thus it would be unlikely that a candidate could achieve a pass mark by only providing the numerical content.

Possible discussion topics in this type of question might include some or all of the following:

- i. The meaning of 'Cash generated from operating activities' and its usefulness to users
- ii. The reasons behind the various adjustments to 'profit for the year' – for example for non-cash flows such as depreciation and impairment, any deferrals or accruals from past or future operating cash receipts or payments such as the gain on the contingent consideration, and any items of income or expense associated with investing or financing cash flows
- iii. The usefulness of the information contained in the movements in working capital
- iv. The motivation for entities to use the indirect method and its information content.

In the P2 question referred to above, the following note appeared:

The loss for the period from discontinued operations in the consolidated statement of profit or loss and other comprehensive income relates to Northern and can be analysed as follows:

	\$m
Profit before tax	6
Income tax expense	(2)
Loss on disposal	(29)
	<u>(25)</u>

In the P2 question, candidates would use this information within their workings for the numerical requirements. In the SBR exam, it is likely that the impact of the above information on the taxation calculation and profit for the year would have to be **explained** by candidates and not just shown as adjustments to the workings. This means that the discursive elements of the exam take on greater significance.

Another point to bear in mind when planning how to teach group accounting for SBR is that complex groups will not be examined in SBR.

It would be unlikely that a candidate could achieve a pass mark by only providing the numerical content.

Stakeholder perspective

The SBR questions will also adopt the perspective of a wider group of stakeholders; for example the investor perspective. This aspect is not strictly new to the syllabus for SBR, and has been examined from time to time in P2, but it will be examined regularly in SBR.

Question 4a September/December 2017

A good example of a question which illustrates this type of approach. The question asked the following:

- (a) (i)** *Discuss why the information about the capital of a company is important to investors, setting out the nature of the published information available to investors about a company's capital (8 marks)*

Note: *Your answer should briefly set out the nature of financial capital in integrated reports.*

- (ii)** *Discuss the importance of the classification of equity and liabilities under International Financial Reporting Standards and how this classification has an impact on the information disclosed to users in the statement of profit or loss and other comprehensive income and the statement of financial position (6 marks)*
- (b)** *Discuss whether the accounting treatment of the above transactions is acceptable under International Financial Reporting Standards including any adjustment which is required to the capitalisation table and the effect on the gearing and the return on capital employed ratios.*

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. This question required candidates to explain the importance of a company's capital to investors/users. The same question also required candidates to adjust a capitalisation table. This question reflects the nature of potential future questions as it deals with the investor's view of published information and demonstrates this with a typical piece of disclosure utilised by entities. A capitalisation table is a common feature of published financial statements. Candidates answered this question even though it is likely that some had never seen a capitalisation table before. This demonstrates an ability to understand and utilise corporate information – this is a professional skill that is required in the workplace.

This question illustrates several points. Firstly, investors have to interpret a significant amount of information disclosed in published financial statements and the SBR exam will require candidates to adopt a stakeholder/investor focus in answering some questions. This may involve the discussion of specific aspects of the financial statements or the supplementary information disclosed by entities or issues faced by investors in the understanding of those corporate reports. Hence, candidates could be asked to discuss topics which impact on investor decisions. This could range from the capital of an entity as above through to impairment, taxation effects, fair valuation etc.

Integrated Reporting can also be combined with a range of topic areas and thus it is an important element of the syllabus. Questions will be asked upon common features of published financial information and not simply based upon text book scenarios. Hence, there is a need for candidates to read widely.

The SBR exam will require candidates to adopt a stakeholder/investor focus in answering some questions.

Conceptual Framework

The SBR questions will also make use of the principles in the Conceptual Framework. This is another area which has always been in the syllabus for P2, but is likely to take on greater importance in SBR.

For example, Question 4 in the March/June 2017

P2 examination required candidates to answer the following question.

- i. Discuss the features of the concept of prudence and the arguments for and against its re-introduction into the Conceptual Framework
(6 marks)*
- ii. Explain why it is important for there to be guidance in the Conceptual Framework on the role of substance over form, and the principles relating to derecognition set out in the Exposure Draft on the Conceptual Framework.
(8 marks)*

It can be seen from the above question that candidates were specifically asked questions on the Conceptual Framework but they have seldom been asked to discuss the consistency of the Framework with IFRS.

International Financial Reporting Standards (IFRS) are principles-based accounting standards and require considerable judgement in their application. Many aspects of financial reporting are based upon judgements underlying the application of IFRS. It is extremely important that candidates are aware of the nature of judgements made in the application of IFRS and their potential impact on the outcome of the financial reporting process; ie candidates require an awareness of the judgements that are pervasive in the application of IFRS. These include going concern assumption, materiality, key disclosures, classification, recognition, derecognition, and measurement of transactions. The SBR exam will require candidates to discuss the application of the above judgements in the context of mini case studies and to discuss whether the criteria are the same in specific IFRSs.

To pass this exam, candidates require an in-depth knowledge of the Conceptual Framework which sets out the concepts upon which International Financial Reporting Standards (IFRS) are based. Candidates should be able to discuss the consistency of the Framework (and the proposed Framework) with each IFRS that is examined. IFRS can be understood by comparing their principles with those set out in the Conceptual Framework and this approach should be used to answer SBR questions.

To pass this exam, candidates require an in-depth knowledge of the Conceptual Framework.

How to prepare for the SBR exam

It will be difficult to pass this examination if candidates do not provide the information requested in the question requirements; for example, 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.

Candidates should not simply memorise information without understanding the meaning behind the material. They should understand the principles behind their learning. Candidates have to interact with the material by thinking critically about the information and relating it to practical examples. Rather than simply relying upon a tutor's manual and revision pack, candidates should read articles published in professional magazines and try to see how this knowledge can be applied in practice in order to develop their understanding of the subject matter. This approach is something that tutors should encourage and integrate into their teaching through class discussions and activities.

This practice will create understanding and complement the instruction of the tutor. There is a need to develop an understanding of the important corporate reporting concepts and their application to the scenarios presented in the examination. The syllabus outlines the level of understanding required and by implication, rote learning of the subject is insufficient to pass the examination. The method of examining SBR emphasises and rewards the application of personal understanding and so candidates who adopt a superficial approach to learning are unlikely to succeed.

UK Adapted Exam

Candidates should be aware that, from September 2018, the UK adapted SBR exam will assess the differences between **full IFRS** and some chapters of UK FRS 102. Candidates may also be examined on areas where the provisions of IFRSs and FRS 102 are the same. Details of any differences can be found in the SBR Examinable Documents for September 2018 to June 2019. Candidates should note that this is a significant change from the UK P2 exam which examined the differences between **IFRS for SMEs** and UK FRS 102.

Conclusion

The new SBR syllabus does not require substantially different knowledge to that which was required in P2. However, there will be significantly more marks allocated to written answers than numerical answers. Simply practising numerical questions will not result in success in this examination and brief narrative answers are unlikely to meet the requirement of the question even though the numerical content may be correct.

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