Strategic Business Reporting (INT)
Sample Exam – September/December 2021

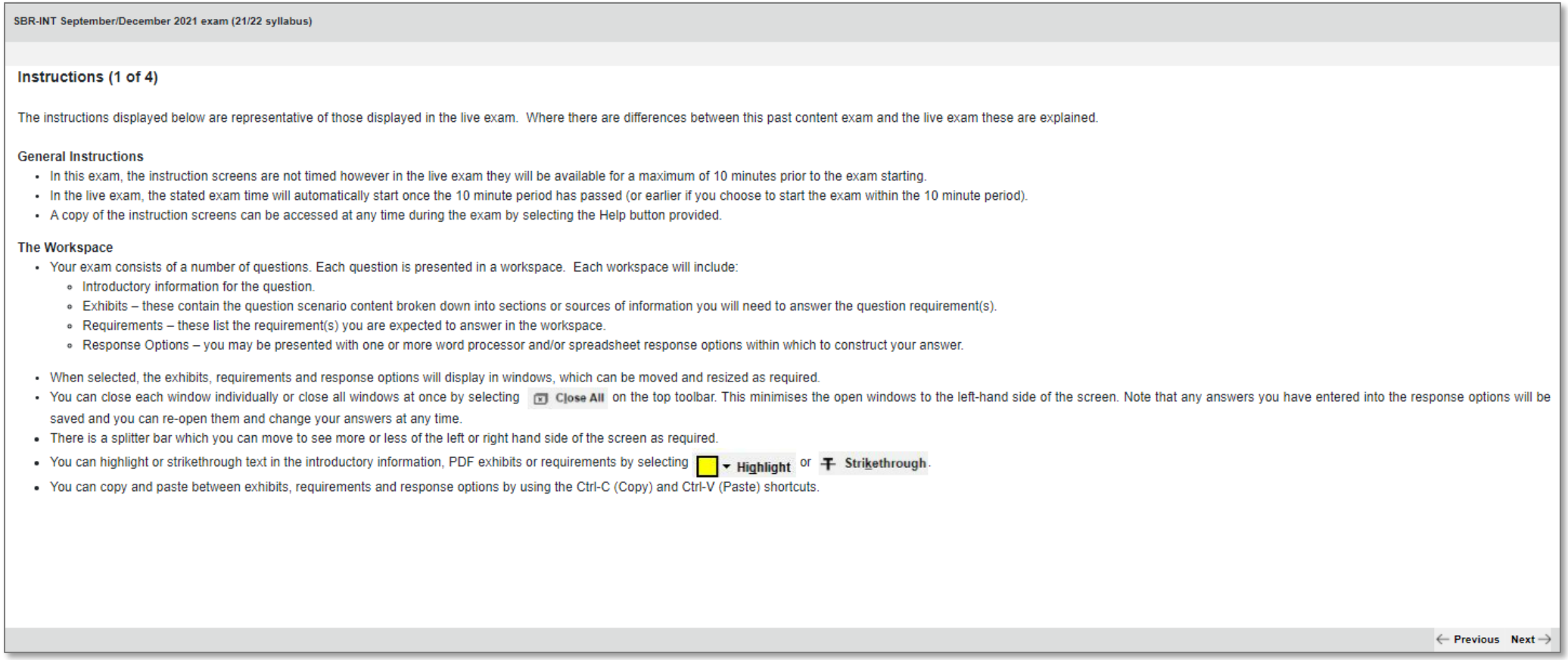
Get to know your exam

These graphical representations are intended to give an indication of exam requirements and associated question content.

Please note that you will not be able to complete answers within these documents and in isolation they will not sufficiently prepare you for your exam.

We encourage you to visit the ACCA Practice Platform in order to attempt up to date practice exams within the computer-based exam environment.

Instruction screens



SBR-INT September/December 2021 exam (21/22 syllabus)

Instructions (1 of 4)

The instructions displayed below are representative of those displayed in the live exam. Where there are differences between this past content exam and the live exam these are explained.

General Instructions

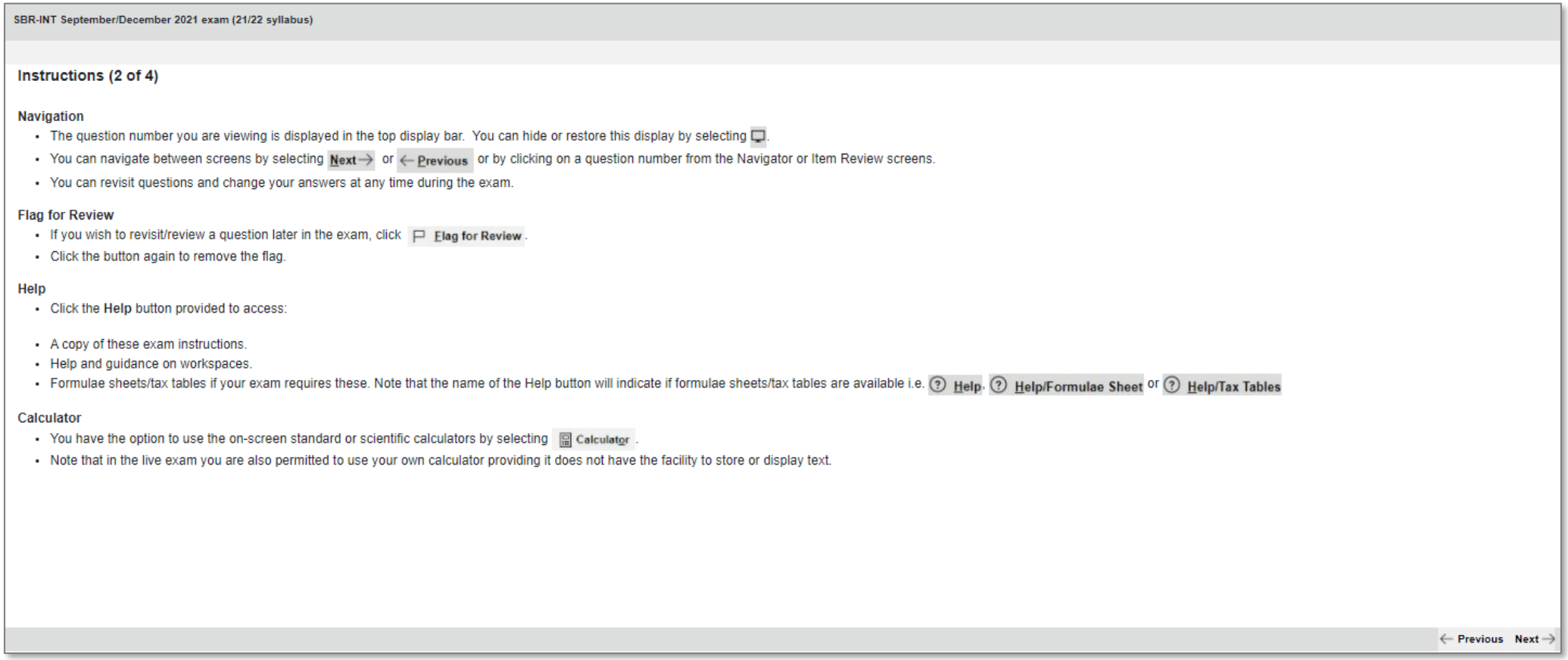
- In this exam, the instruction screens are not timed however in the live exam they will be available for a maximum of 10 minutes prior to the exam starting.
- In the live exam, the stated exam time will automatically start once the 10 minute period has passed (or earlier if you choose to start the exam within the 10 minute period).
- A copy of the instruction screens can be accessed at any time during the exam by selecting the Help button provided.

The Workspace

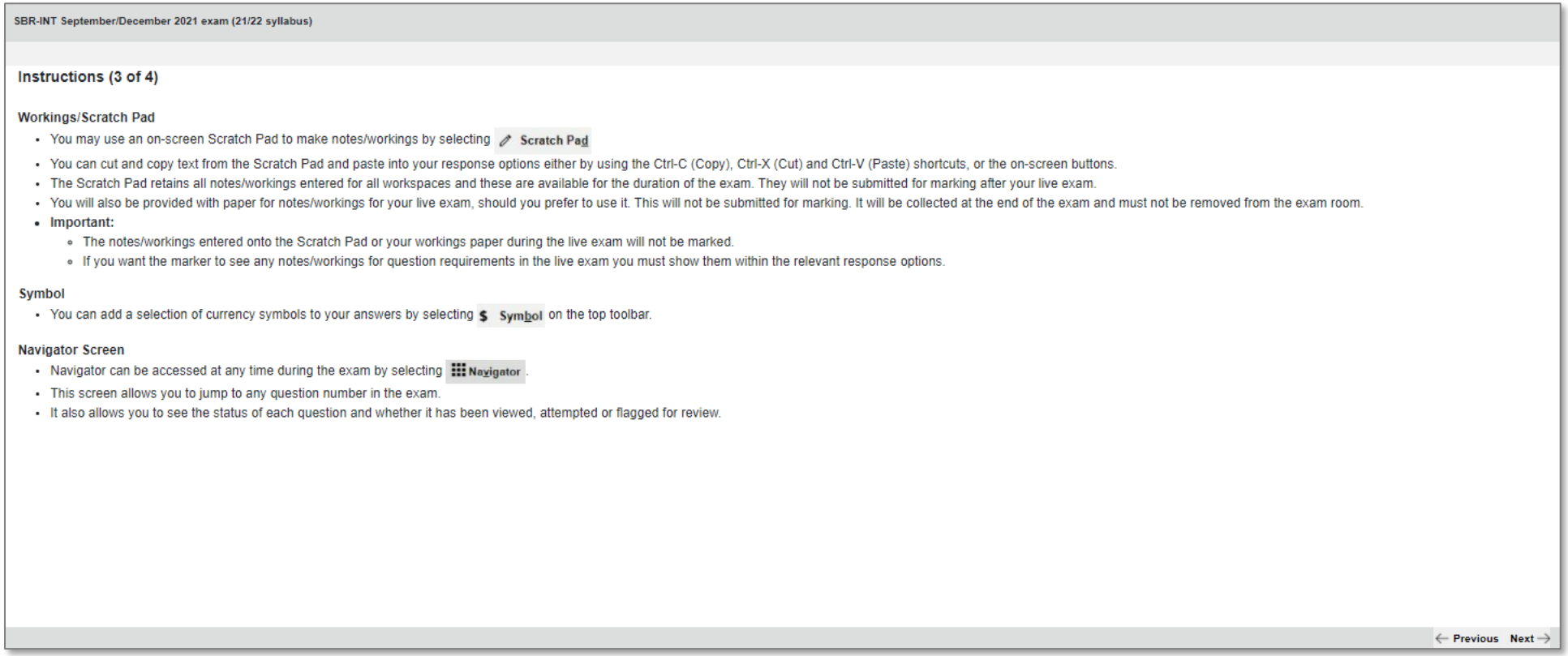
- Your exam consists of a number of questions. Each question is presented in a workspace. Each workspace will include:
  - Introductory information for the question.
  - Exhibits – these contain the question scenario content broken down into sections or sources of information you will need to answer the question requirement(s).
  - Requirements – these list the requirement(s) you are expected to answer in the workspace.
  - Response Options – you may be presented with one or more word processor and/or spreadsheet response options within which to construct your answer.
- When selected, the exhibits, requirements and response options will display in windows, which can be moved and resized as required.
- You can close each window individually or close all windows at once by selecting Close All on the top toolbar. This minimises the open windows to the left-hand side of the screen. Note that any answers you have entered into the response options will be saved and you can re-open them and change your answers at any time.
- There is a splitter bar which you can move to see more or less of the left or right hand side of the screen as required.
- You can highlight or strikethrough text in the introductory information, PDF exhibits or requirements by selecting Highlight or Strikethrough.
- You can copy and paste between exhibits, requirements and response options by using the Ctrl-C (Copy) and Ctrl-V (Paste) shortcuts.

Previous Next

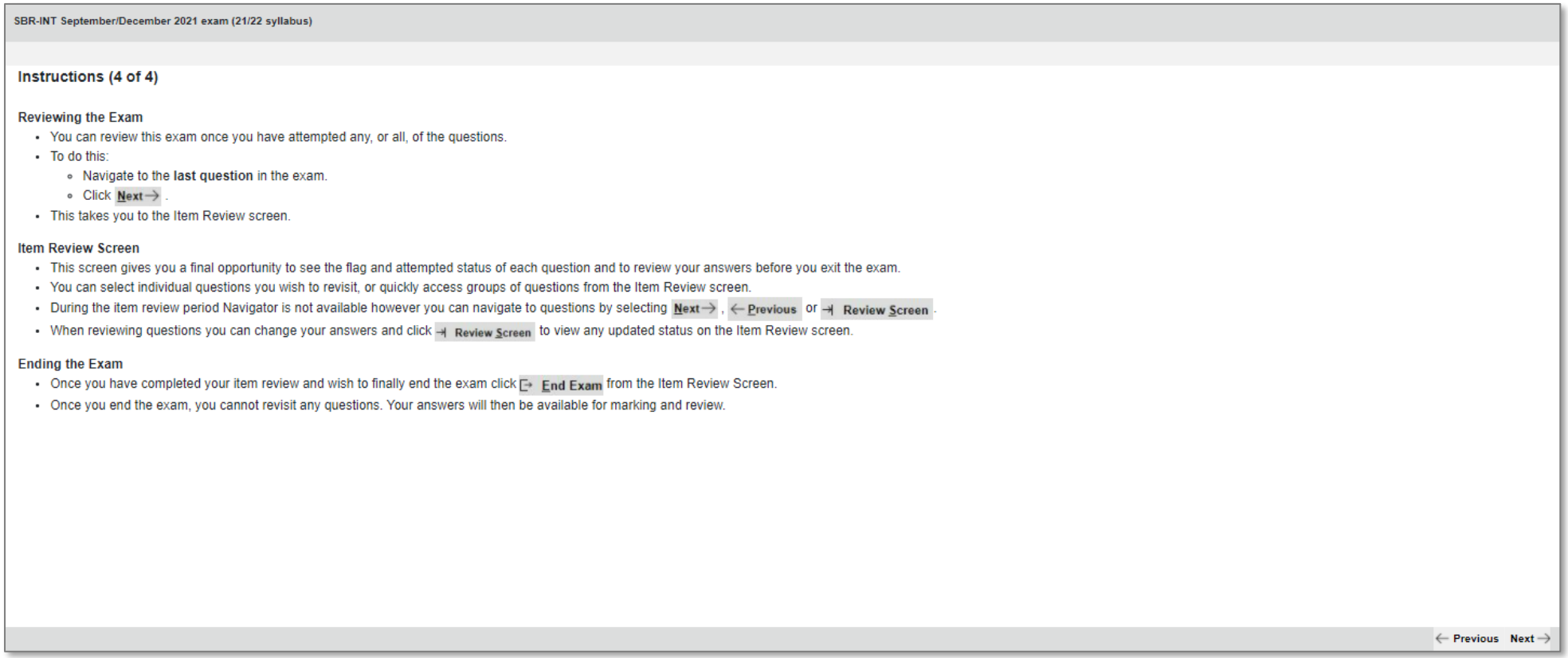
Instruction screens (continued)



Instruction screens (continued)



Instruction screens (continued)

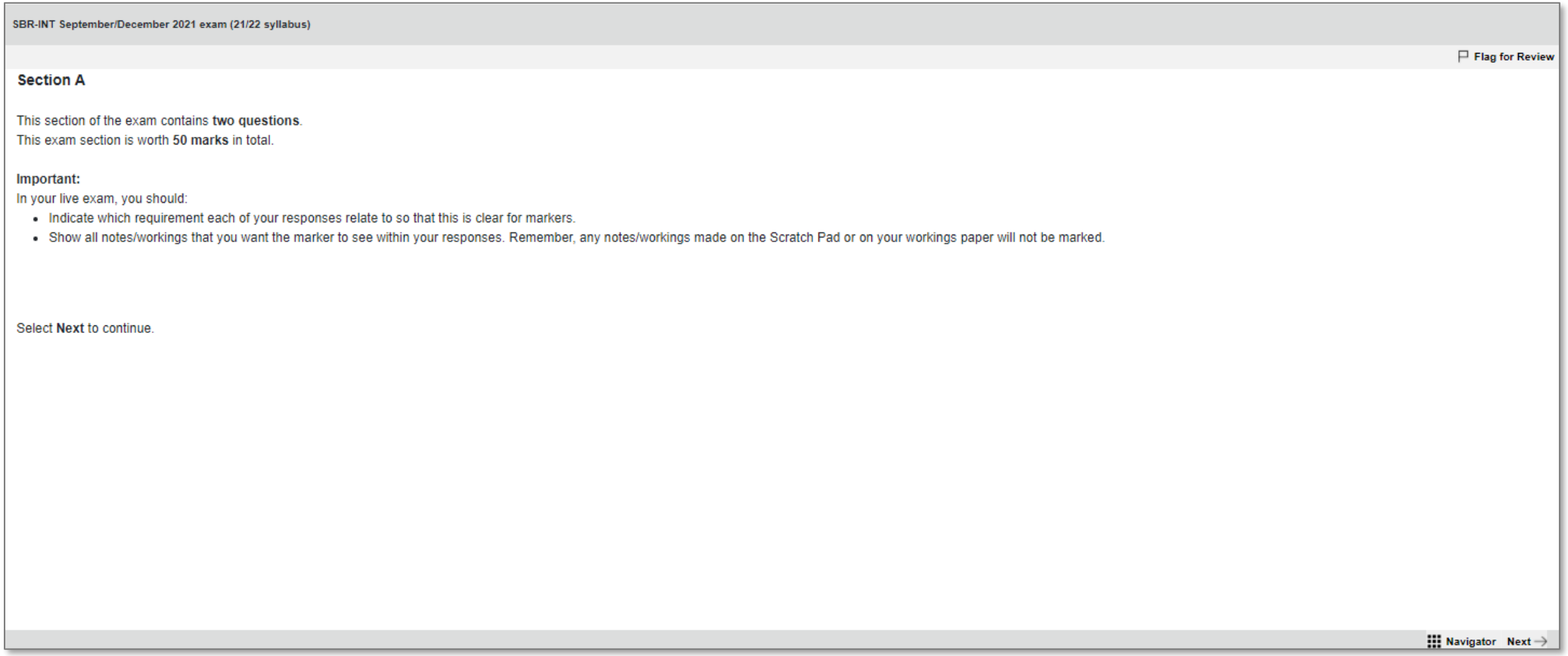


Exam summary screen

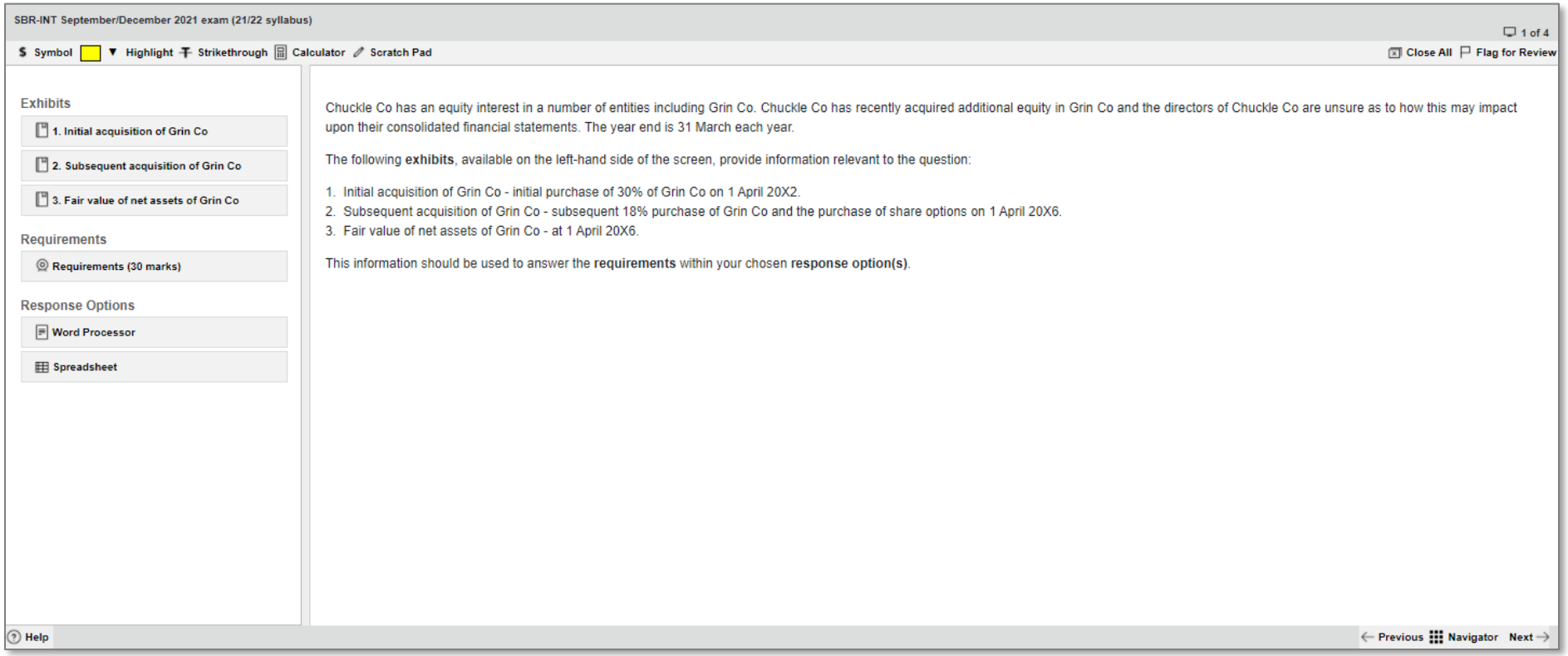


Exam questions

Section A – summary screen



Section A – question 1



Requirements

Requirements (30 marks)

Draft an explanatory note to the directors of Chuckle Co to address the following issues:

(a)(i) why it was correct to initially classify Grin Co as an associate, as opposed to a subsidiary, on 1 April 20X2;

(4 marks)

(ii) how Grin Co should be accounted for as an associate using equity method in the consolidated statement of financial position of Chuckle Co at 31 March 20X6. Your answer should also explain how the revaluation of the land at 1 April 20X5 was accounted for (exhibit 2) and include all relevant calculations; and

(5 marks)

(iii) whether the classification of Chuckle Co's investment in Grin Co should change on 1 April 20X6.

(5 marks)

(b) On the assumption that Chuckle Co obtains control on 1 April 20X6, explain:

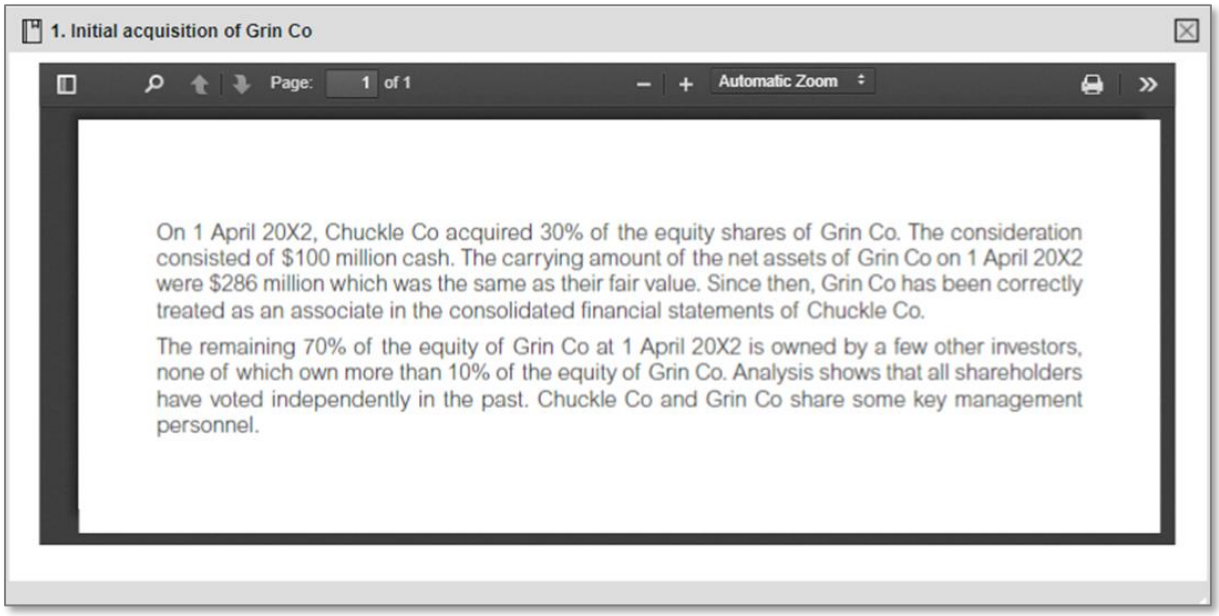
(i) how the fair value of the non-current and current assets at acquisition (including any deferred tax adjustments) should be calculated; and

(8 marks)

(ii) how goodwill/gain on bargain purchase should be calculated at 1 April 20X6. Your discussion should include a brief description of the accounting treatment arising from the additional purchase of the 18% equity in Grin Co.

(8 marks)

Exhibit 1


1. Initial acquisition of Grin Co
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Automatic Zoom
On 1 April 20X2, Chuckle Co acquired 30% of the equity shares of Grin Co. The consideration consisted of $100 million cash. The carrying amount of the net assets of Grin Co on 1 April 20X2 were $286 million which was the same as their fair value. Since then, Grin Co has been correctly treated as an associate in the consolidated financial statements of Chuckle Co.
The remaining 70% of the equity of Grin Co at 1 April 20X2 is owned by a few other investors, none of which own more than 10% of the equity of Grin Co. Analysis shows that all shareholders have voted independently in the past. Chuckle Co and Grin Co share some key management personnel.

Exhibit 2

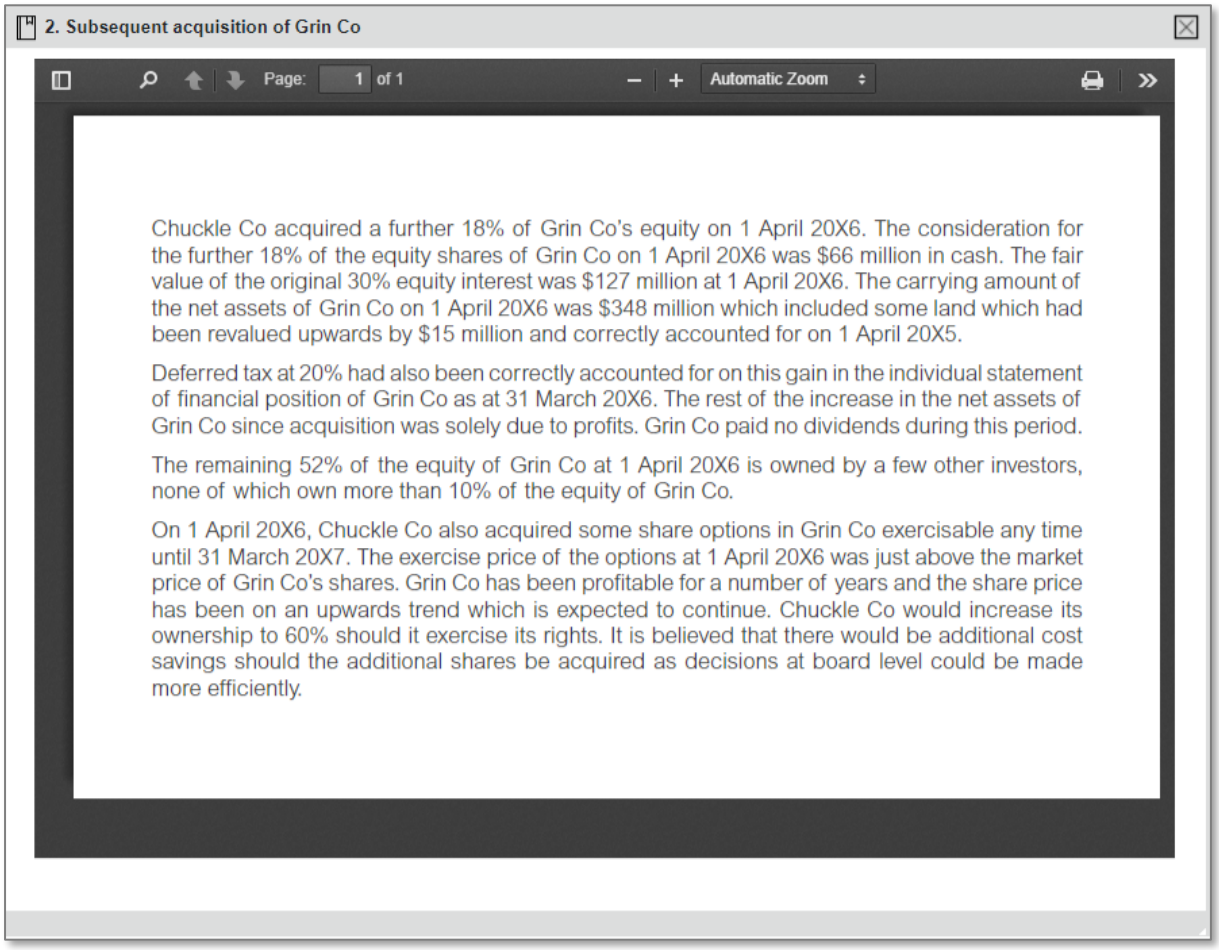
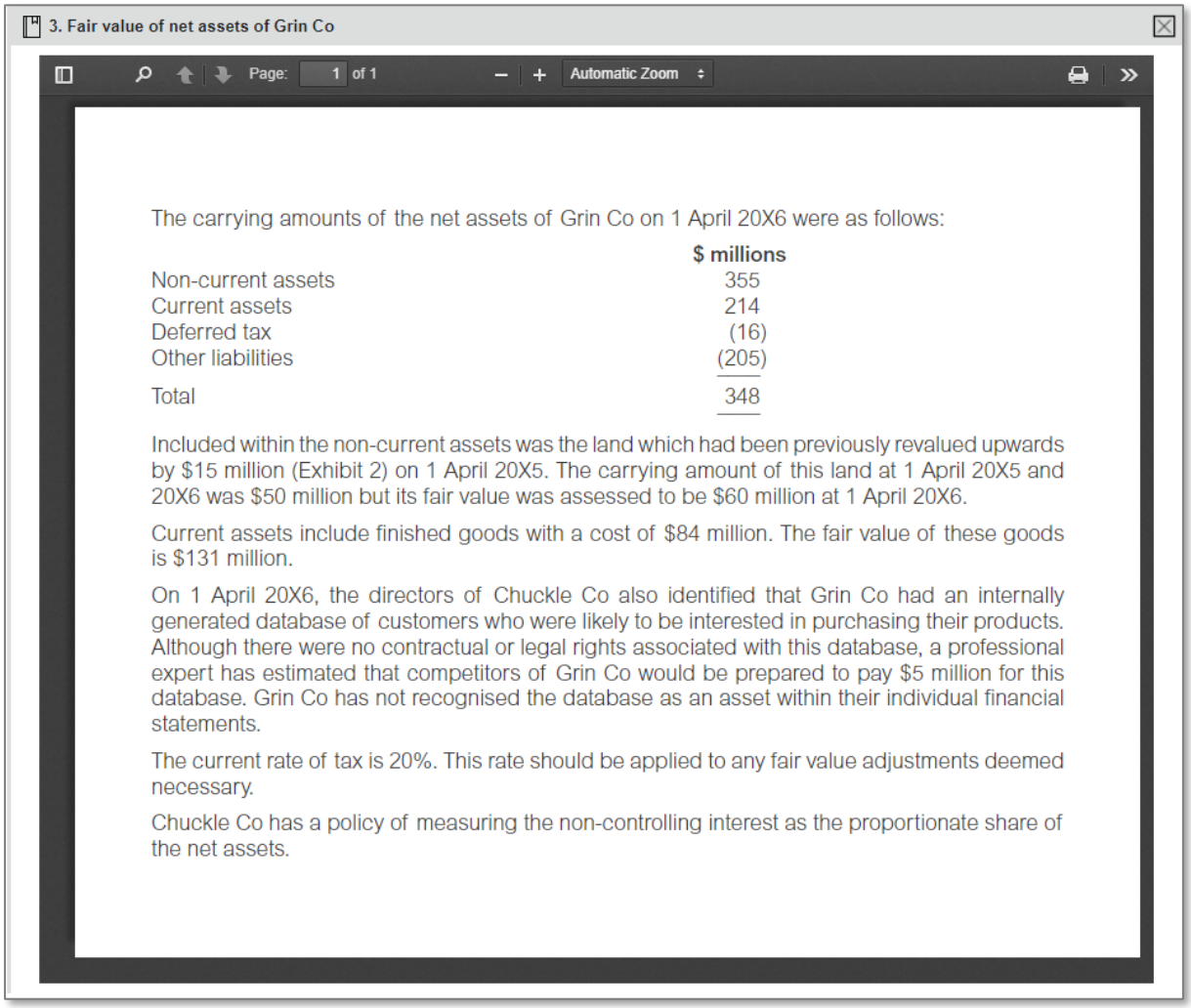

2. Subsequent acquisition of Grin Co
Page: 1 of 1
Automatic Zoom
Chuckle Co acquired a further 18% of Grin Co's equity on 1 April 20X6. The consideration for the further 18% of the equity shares of Grin Co on 1 April 20X6 was $66 million in cash. The fair value of the original 30% equity interest was $127 million at 1 April 20X6. The carrying amount of the net assets of Grin Co on 1 April 20X6 was $348 million which included some land which had been revalued upwards by $15 million and correctly accounted for on 1 April 20X5.
Deferred tax at 20% had also been correctly accounted for on this gain in the individual statement of financial position of Grin Co as at 31 March 20X6. The rest of the increase in the net assets of Grin Co since acquisition was solely due to profits. Grin Co paid no dividends during this period.
The remaining 52% of the equity of Grin Co at 1 April 20X6 is owned by a few other investors, none of which own more than 10% of the equity of Grin Co.
On 1 April 20X6, Chuckle Co also acquired some share options in Grin Co exercisable any time until 31 March 20X7. The exercise price of the options at 1 April 20X6 was just above the market price of Grin Co's shares. Grin Co has been profitable for a number of years and the share price has been on an upwards trend which is expected to continue. Chuckle Co would increase its ownership to 60% should it exercise its rights. It is believed that there would be additional cost savings should the additional shares be acquired as decisions at board level could be made more efficiently.

Exhibit 3



The carrying amounts of the net assets of Grin Co on 1 April 20X6 were as follows:

	$ millions
Non-current assets	355
Current assets	214
Deferred tax	(16)
Other liabilities	(205)
Total	348

Included within the non-current assets was the land which had been previously revalued upwards by $15 million (Exhibit 2) on 1 April 20X5. The carrying amount of this land at 1 April 20X5 and 20X6 was $50 million but its fair value was assessed to be $60 million at 1 April 20X6.

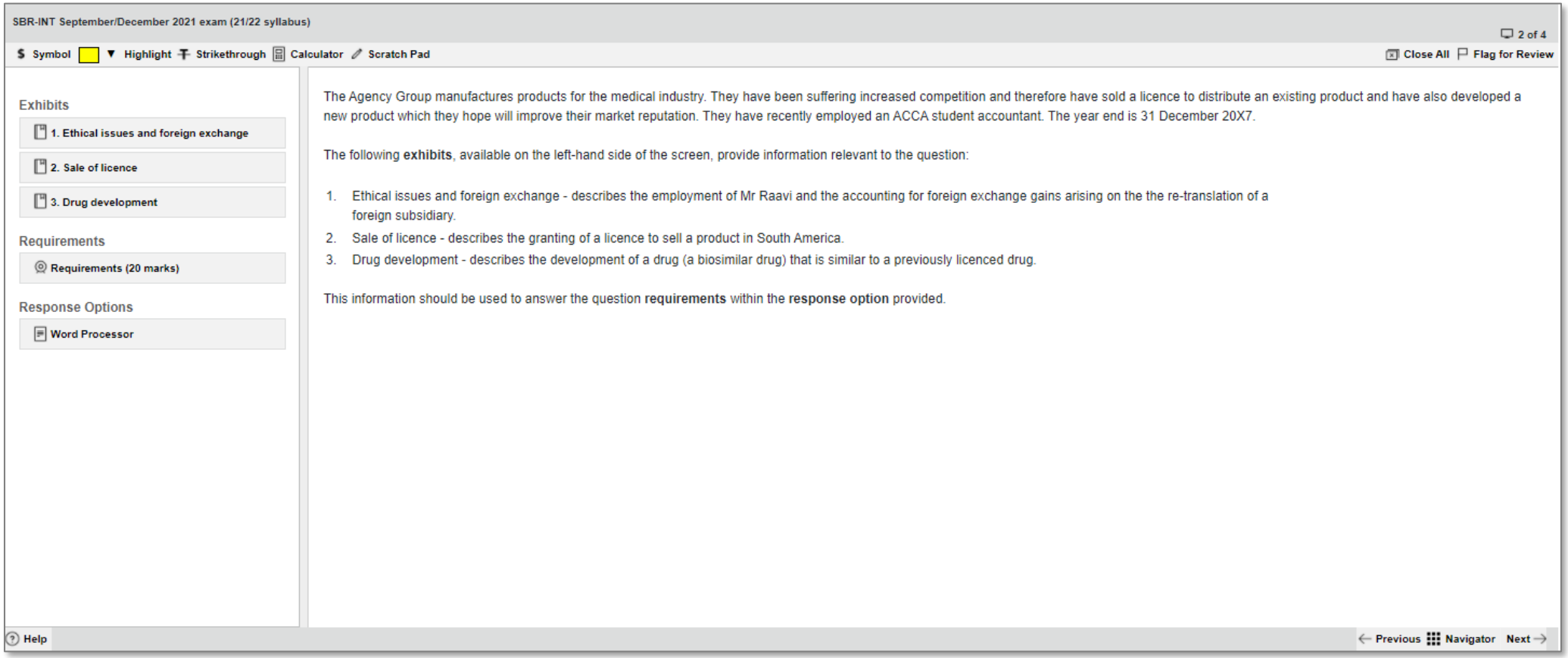
Current assets include finished goods with a cost of $84 million. The fair value of these goods is $131 million.

On 1 April 20X6, the directors of Chuckle Co also identified that Grin Co had an internally generated database of customers who were likely to be interested in purchasing their products. Although there were no contractual or legal rights associated with this database, a professional expert has estimated that competitors of Grin Co would be prepared to pay $5 million for this database. Grin Co has not recognised the database as an asset within their individual financial statements.

The current rate of tax is 20%. This rate should be applied to any fair value adjustments deemed necessary.

Chuckle Co has a policy of measuring the non-controlling interest as the proportionate share of the net assets.

Section A – question 2



Requirements

Requirements (20 marks)

(a)(i) Discuss the appropriateness of Mr Raavi's accounting treatment of the foreign exchange gains on the re-translation of the foreign subsidiary which is held for sale.

(3 marks)

(a)(ii) Discuss any ethical issues raised by Ms Malgun's actions regarding her management of Mr Raavi.

(6 marks)

(b) Discuss how the granting (sale) of the licence to Kokila Co should be accounted for by Agency Co on 1 January 20X7.

(5 marks)

(c) Discuss the accounting treatment of the costs incurred to date in developing the biosimilar drug.

(4 marks)

Professional marks will be awarded in part (a)(ii) for the quality of the discussion.

(2 marks)

Exhibit 1

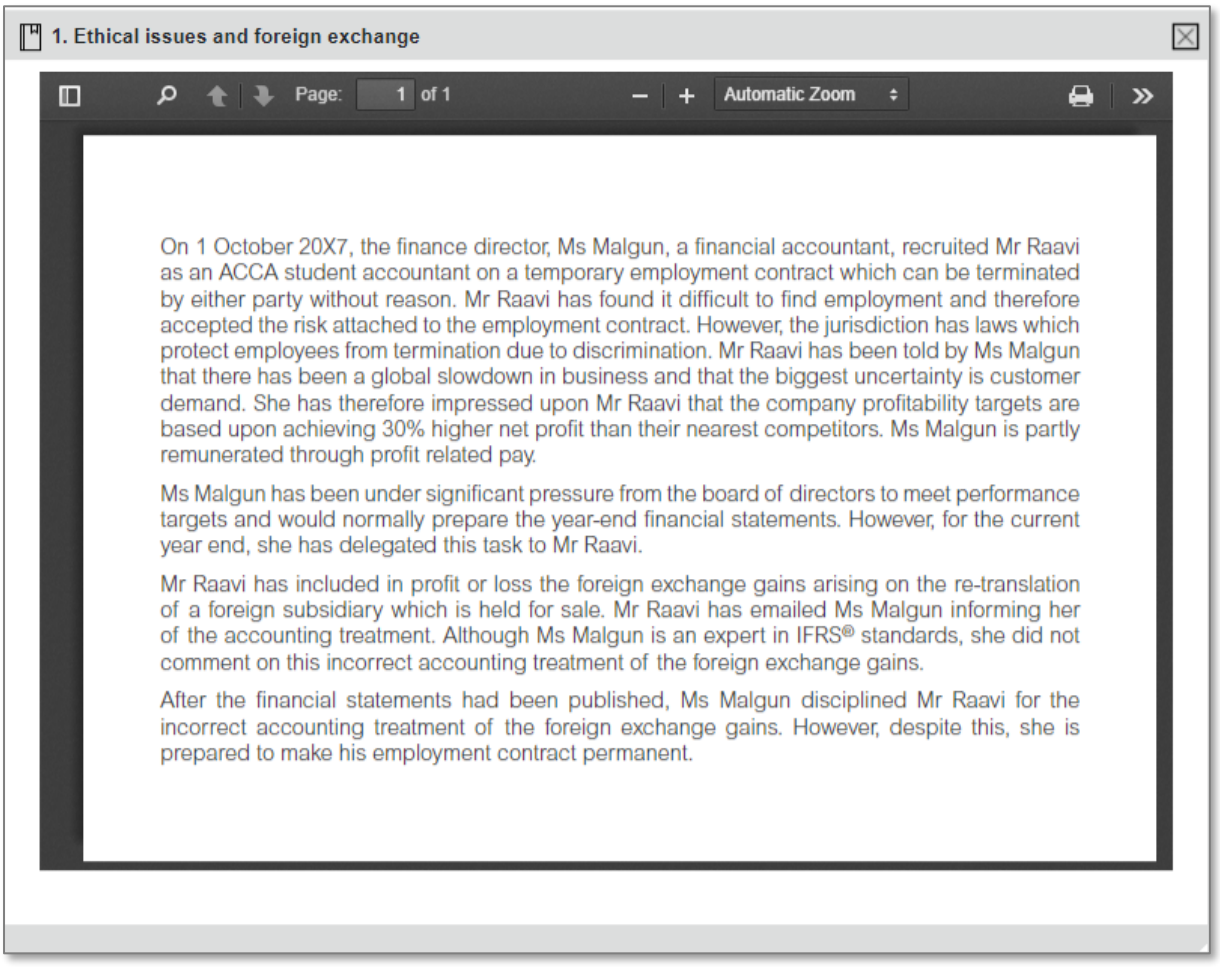

1. Ethical issues and foreign exchange
Page: 1 of 1
Automatic Zoom
On 1 October 20X7, the finance director, Ms Malgun, a financial accountant, recruited Mr Raavi as an ACCA student accountant on a temporary employment contract which can be terminated by either party without reason. Mr Raavi has found it difficult to find employment and therefore accepted the risk attached to the employment contract. However, the jurisdiction has laws which protect employees from termination due to discrimination. Mr Raavi has been told by Ms Malgun that there has been a global slowdown in business and that the biggest uncertainty is customer demand. She has therefore impressed upon Mr Raavi that the company profitability targets are based upon achieving 30% higher net profit than their nearest competitors. Ms Malgun is partly remunerated through profit related pay.
Ms Malgun has been under significant pressure from the board of directors to meet performance targets and would normally prepare the year-end financial statements. However, for the current year end, she has delegated this task to Mr Raavi.
Mr Raavi has included in profit or loss the foreign exchange gains arising on the re-translation of a foreign subsidiary which is held for sale. Mr Raavi has emailed Ms Malgun informing her of the accounting treatment. Although Ms Malgun is an expert in IFRS® standards, she did not comment on this incorrect accounting treatment of the foreign exchange gains.
After the financial statements had been published, Ms Malgun disciplined Mr Raavi for the incorrect accounting treatment of the foreign exchange gains. However, despite this, she is prepared to make his employment contract permanent.

Exhibit 2

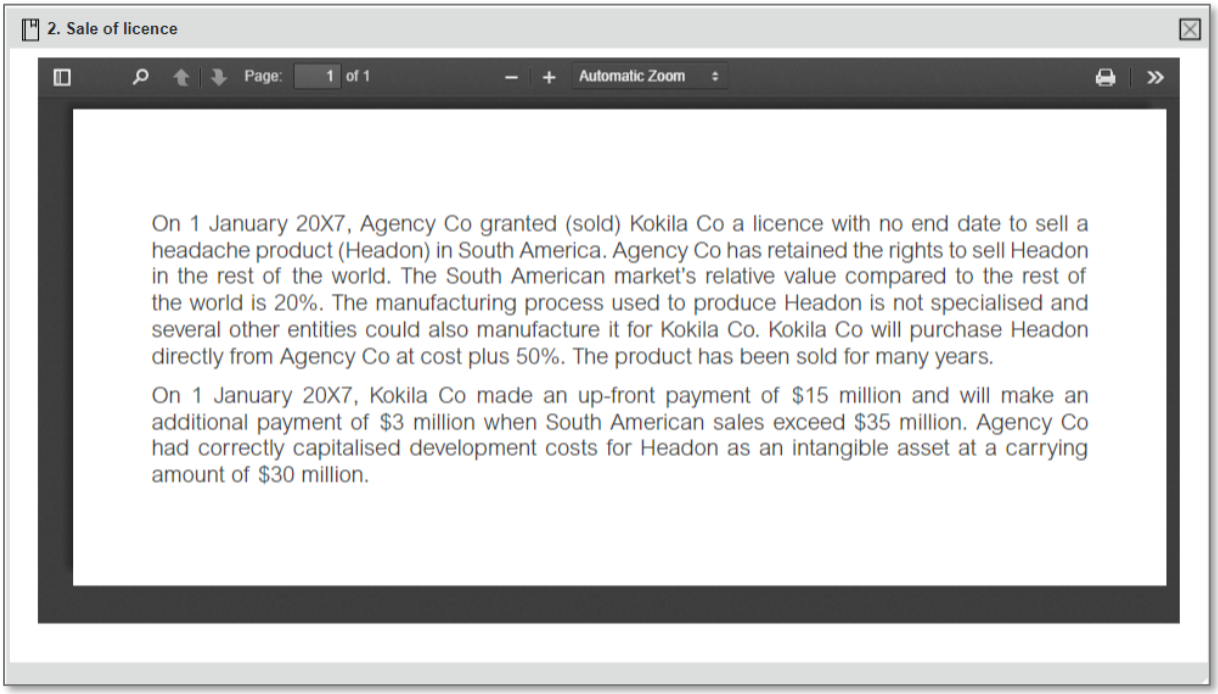
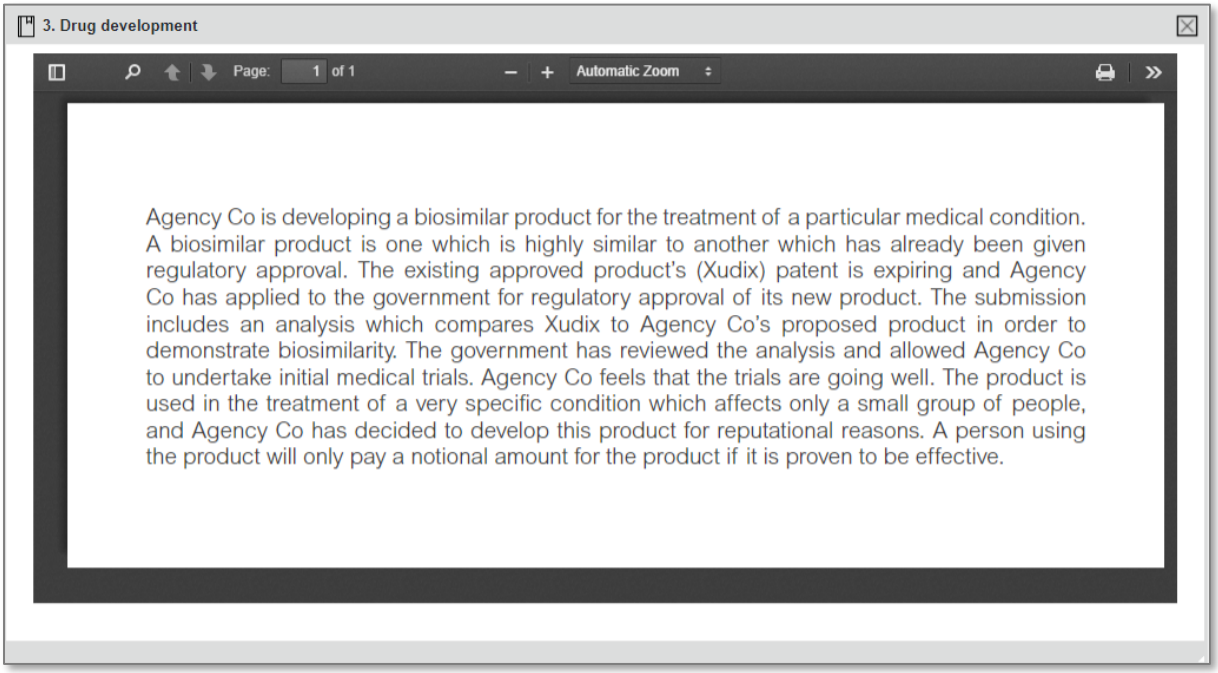
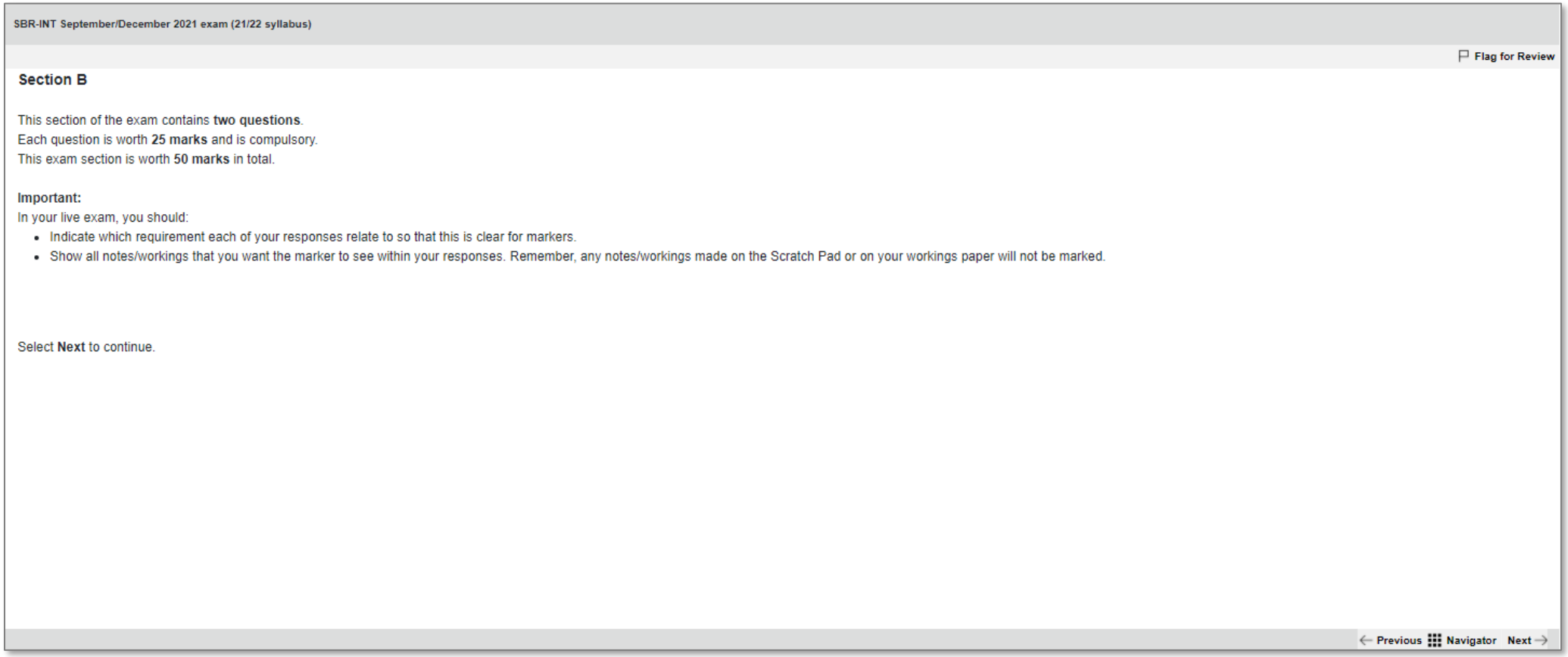

2. Sale of licence
Page: 1 of 1
Automatic Zoom
On 1 January 20X7, Agency Co granted (sold) Kokila Co a licence with no end date to sell a headache product (Headon) in South America. Agency Co has retained the rights to sell Headon in the rest of the world. The South American market's relative value compared to the rest of the world is 20%. The manufacturing process used to produce Headon is not specialised and several other entities could also manufacture it for Kokila Co. Kokila Co will purchase Headon directly from Agency Co at cost plus 50%. The product has been sold for many years.
On 1 January 20X7, Kokila Co made an up-front payment of $15 million and will make an additional payment of $3 million when South American sales exceed $35 million. Agency Co had correctly capitalised development costs for Headon as an intangible asset at a carrying amount of $30 million.

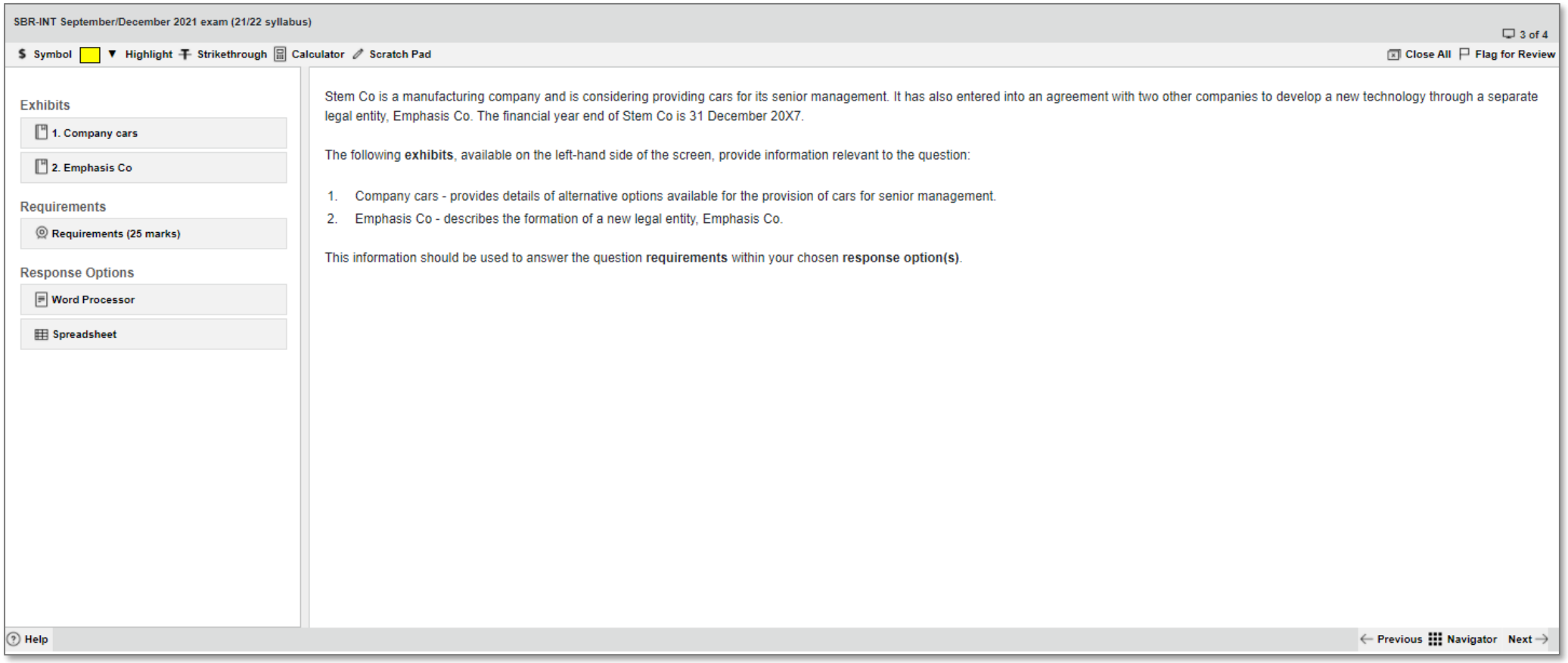
Exhibit 3


3. Drug development
Page: 1 of 1
Automatic Zoom
Agency Co is developing a biosimilar product for the treatment of a particular medical condition. A biosimilar product is one which is highly similar to another which has already been given regulatory approval. The existing approved product's (Xudix) patent is expiring and Agency Co has applied to the government for regulatory approval of its new product. The submission includes an analysis which compares Xudix to Agency Co's proposed product in order to demonstrate biosimilarity. The government has reviewed the analysis and allowed Agency Co to undertake initial medical trials. Agency Co feels that the trials are going well. The product is used in the treatment of a very specific condition which affects only a small group of people, and Agency Co has decided to develop this product for reputational reasons. A person using the product will only pay a notional amount for the product if it is proven to be effective.

Section B – summary screen



Section B – question 1



Requirements

Requirements (25 marks)

(a) Explain, with suitable calculations, the impact of the three alternative company car options on:

- **earnings before interest, tax, depreciation and amortisation (EBITDA);**
- **profit before tax; and**
- **the statement of financial position for the year ended 31 December 20X7.**

Note: Candidates should refer to IFRS 16 *Leases* where appropriate.

(13 marks)

(b)(i) Discuss briefly principles of the equity method of accounting and whether it is a more relevant measurement basis than cost or fair value for an investment in an associate company.

Note: There is no need to refer to any exhibit when answering part (b)(i).

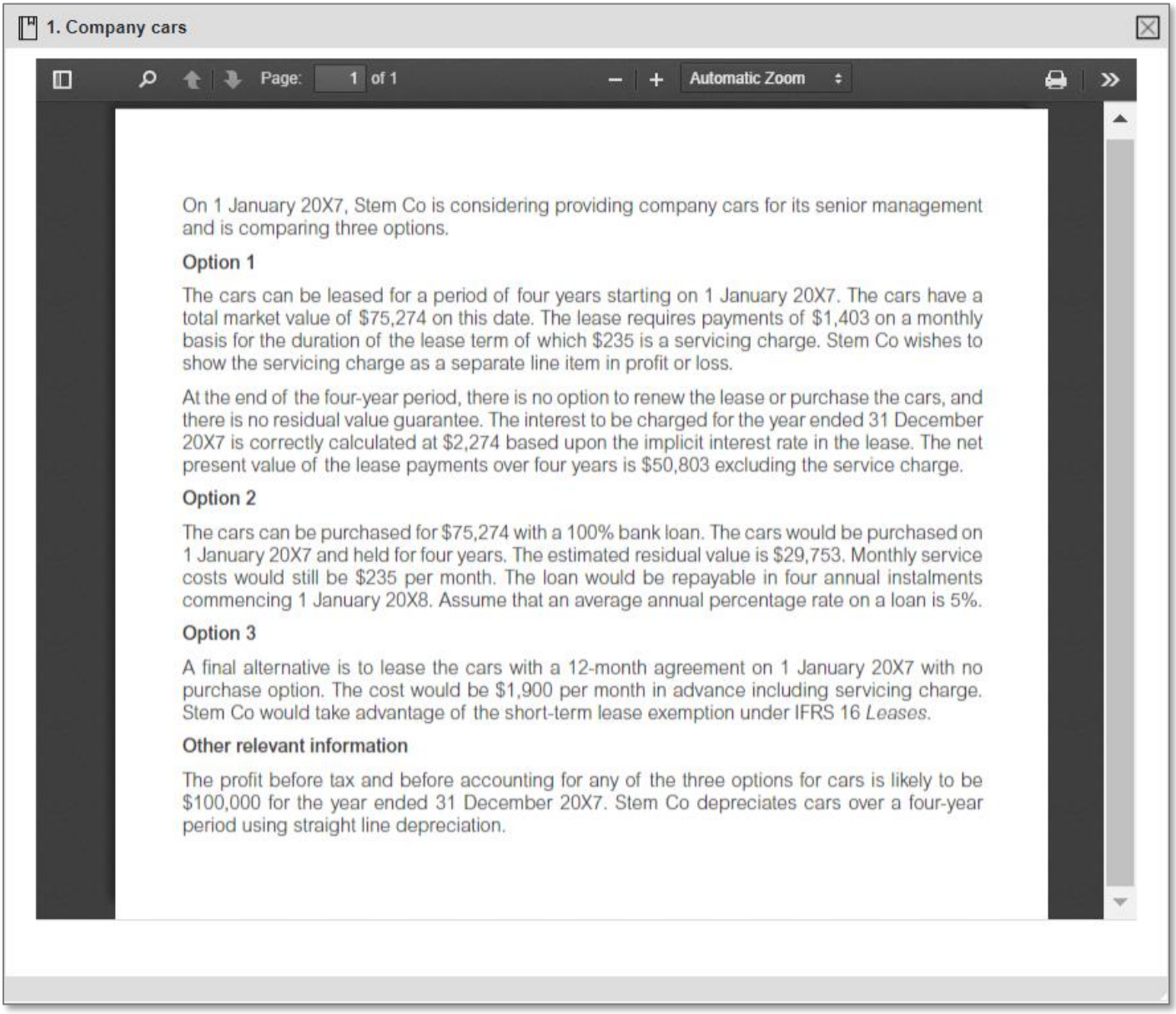
(4 marks)

(b)(ii) Discuss why Stem Co's investment in Emphasis Co should be classified as a joint venture and how Stem Co should account for its interest at 1 January 20X7 in accordance with IAS 28 *Investments in Associates and Joint Ventures.*

Note: Candidates should show any relevant entries required in the accounting records of Stem Co.

(8 marks)

Exhibit 1



On 1 January 20X7, Stem Co is considering providing company cars for its senior management and is comparing three options.

Option 1

The cars can be leased for a period of four years starting on 1 January 20X7. The cars have a total market value of $75,274 on this date. The lease requires payments of $1,403 on a monthly basis for the duration of the lease term of which $235 is a servicing charge. Stem Co wishes to show the servicing charge as a separate line item in profit or loss.

At the end of the four-year period, there is no option to renew the lease or purchase the cars, and there is no residual value guarantee. The interest to be charged for the year ended 31 December 20X7 is correctly calculated at $2,274 based upon the implicit interest rate in the lease. The net present value of the lease payments over four years is $50,803 excluding the service charge.

Option 2

The cars can be purchased for $75,274 with a 100% bank loan. The cars would be purchased on 1 January 20X7 and held for four years. The estimated residual value is $29,753. Monthly service costs would still be $235 per month. The loan would be repayable in four annual instalments commencing 1 January 20X8. Assume that an average annual percentage rate on a loan is 5%.

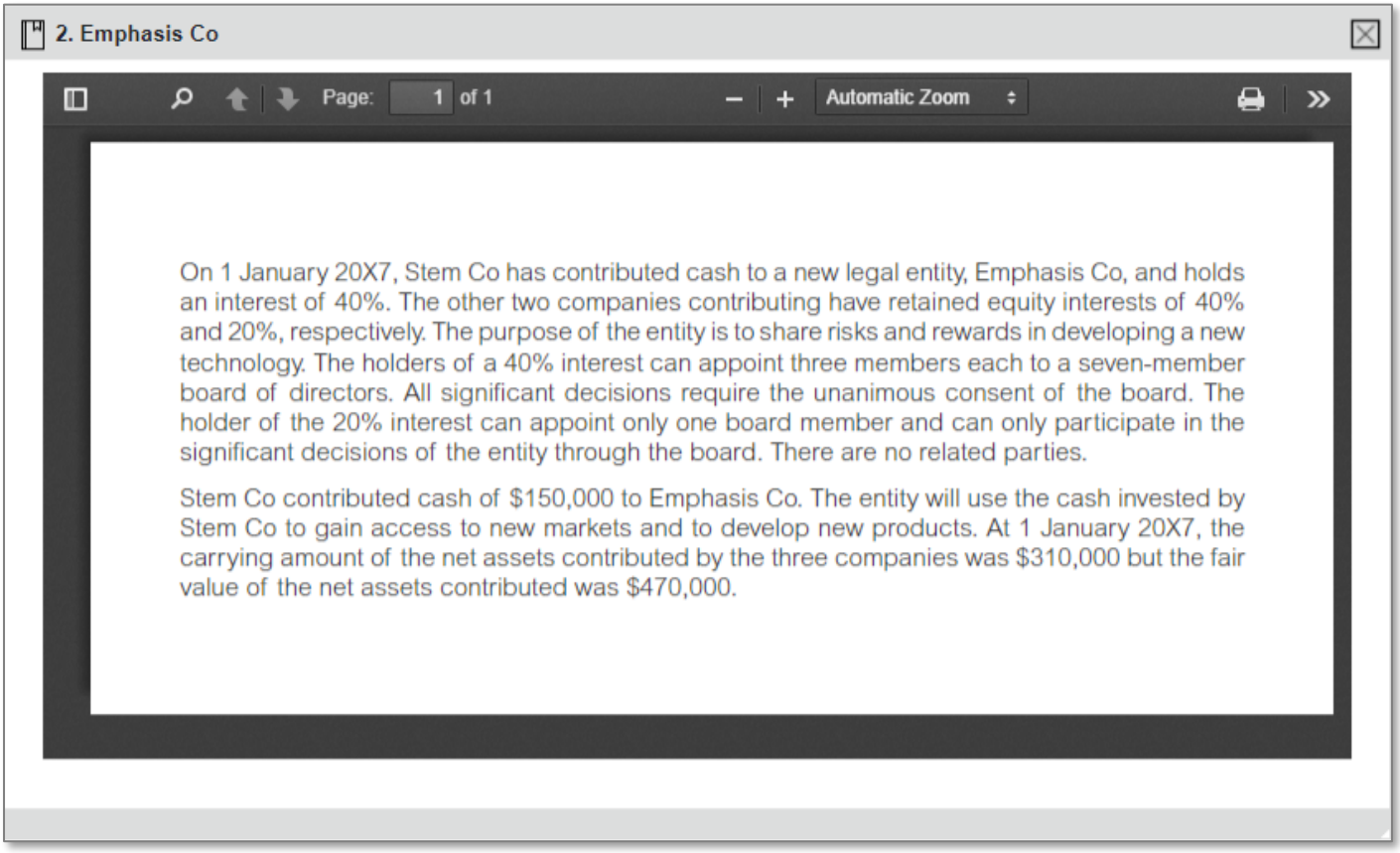
Option 3

A final alternative is to lease the cars with a 12-month agreement on 1 January 20X7 with no purchase option. The cost would be $1,900 per month in advance including servicing charge. Stem Co would take advantage of the short-term lease exemption under IFRS 16 *Leases*.

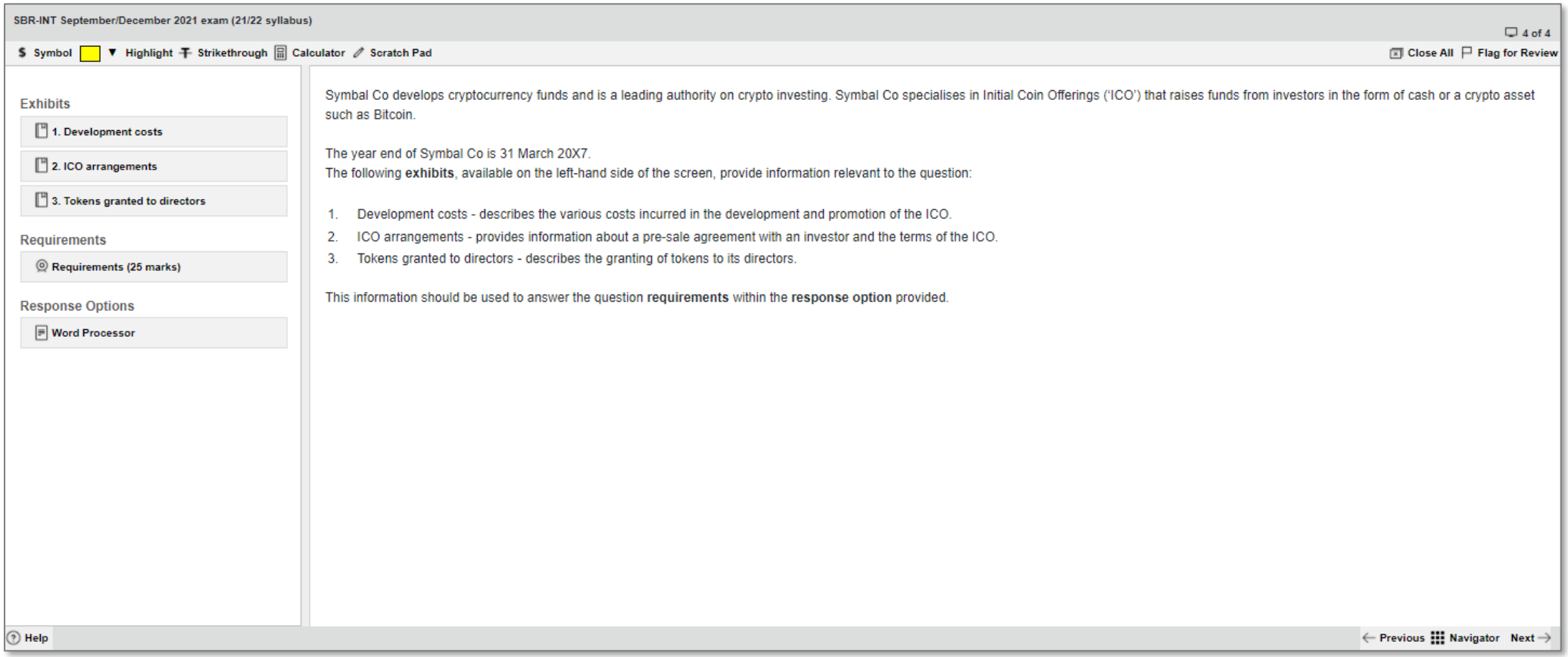
Other relevant information

The profit before tax and before accounting for any of the three options for cars is likely to be $100,000 for the year ended 31 December 20X7. Stem Co depreciates cars over a four-year period using straight line depreciation.

Exhibit 2


2. Emphasis Co
Page: 1 of 1
Automatic Zoom
On 1 January 20X7, Stem Co has contributed cash to a new legal entity, Emphasis Co, and holds an interest of 40%. The other two companies contributing have retained equity interests of 40% and 20%, respectively. The purpose of the entity is to share risks and rewards in developing a new technology. The holders of a 40% interest can appoint three members each to a seven-member board of directors. All significant decisions require the unanimous consent of the board. The holder of the 20% interest can appoint only one board member and can only participate in the significant decisions of the entity through the board. There are no related parties.
Stem Co contributed cash of $150,000 to Emphasis Co. The entity will use the cash invested by Stem Co to gain access to new markets and to develop new products. At 1 January 20X7, the carrying amount of the net assets contributed by the three companies was $310,000 but the fair value of the net assets contributed was $470,000.

Section B – question 2



Requirements

Requirements (25 marks)

(a) Explain the principles of good disclosure which should be used to inform investors regarding the company's holding of crypto assets.

Note: there is no need to refer to any exhibit when answering part (a).

(6 marks)

Professional marks will be awarded in part (a) for clarity and quality of discussion.

(2 marks)

(b) Advise whether the various development and promotional costs related to the ICO can be accounted for as an intangible asset at 31 March 20X7.

(5 marks)

(c) Discuss how the receipt of $1 million cash in the pre-sale agreement should be accounted for in the financial statements for the year ended 31 March 20X7 and how the $10 million raised in the ICO should be accounted for in the financial statements for the year ended 31 March 20X8.

(6 marks)

(d) Discuss why the granting of the tokens to the five directors should be accounted for in accordance with IAS 19 *Employee Benefits* rather than IFRS 2 *Share-based Payment* in the financial statements for the year ended 31 March 20X7.

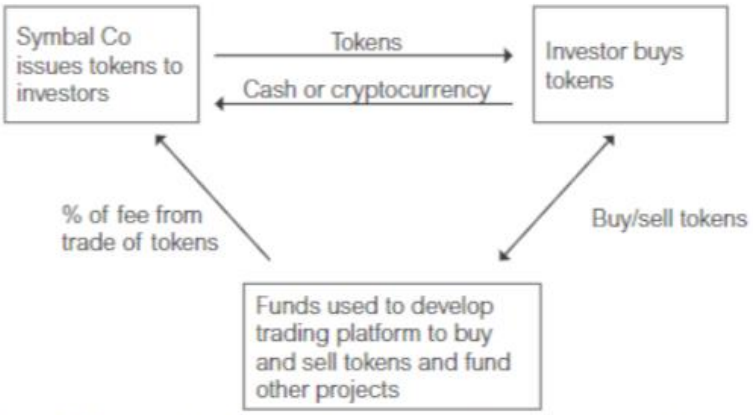
(6 marks)

Exhibit 1

1. Development costs

Page: 1 of 1 Automatic Zoom

The diagram below illustrates how the ICO is used by Symbal Co.



Note: The terms token and coin mean the same and investors are often referred to as supporters.

An ICO issues tokens to investors for cryptocurrency or cash. For each ICO, Symbal Co establishes a separate payment platform on which the investors can trade the tokens. These tokens do not represent an ownership interest in the entity. Symbal Co promises to produce gains for investors from trading the tokens on the platform and in return, the company takes a percentage of the profit as a fee.

As at 31 March 20X7, Symbal Co has incurred significant cost in promoting the issue of the ICO tokens, and developing the trading platform for dealing with the purchase and sale of the ICO tokens. These costs have been met from its own capital and expensed to profit or loss. Symbal Co will earn revenue from supporting the purchase and sale of tokens.

Exhibit 2

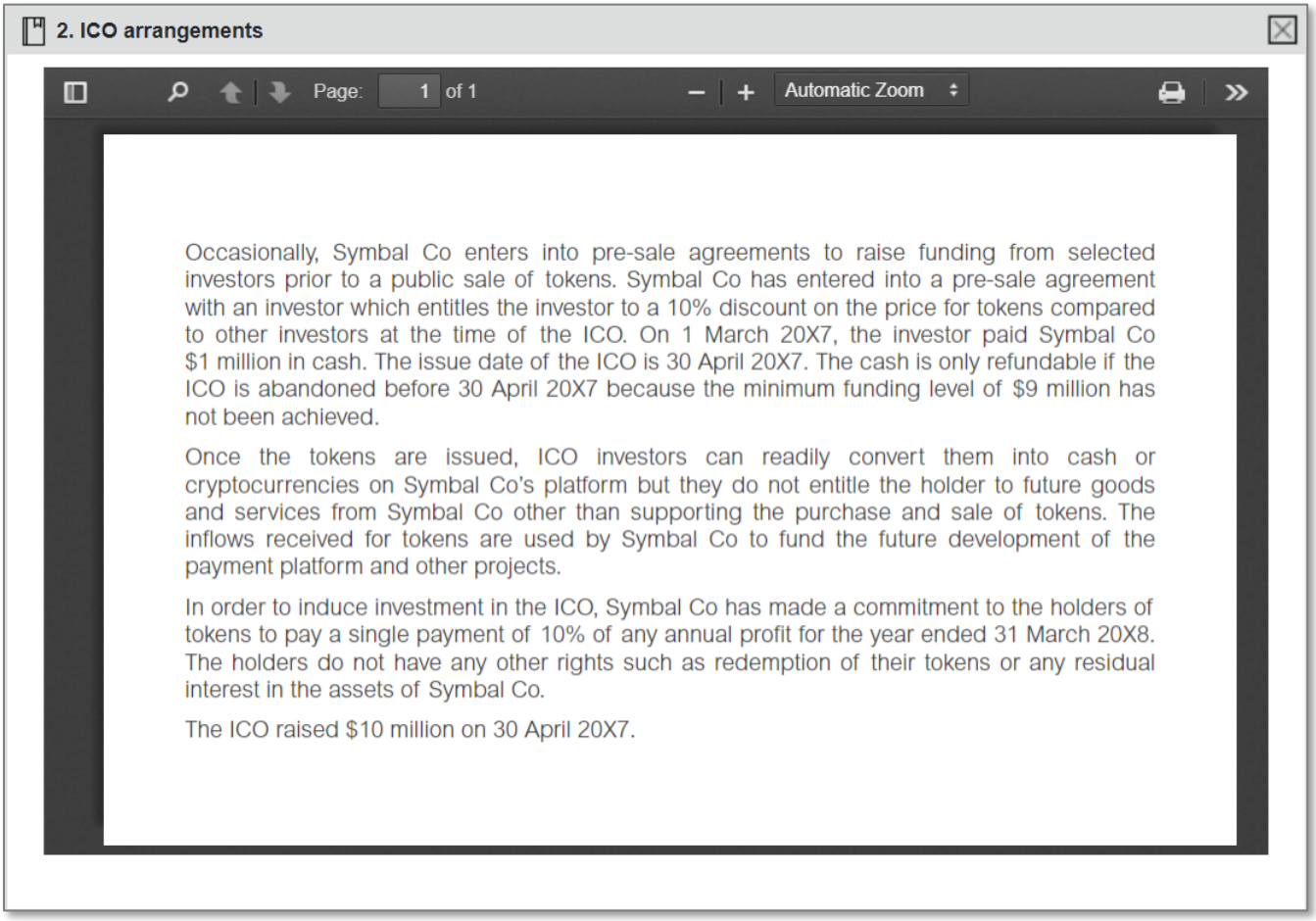
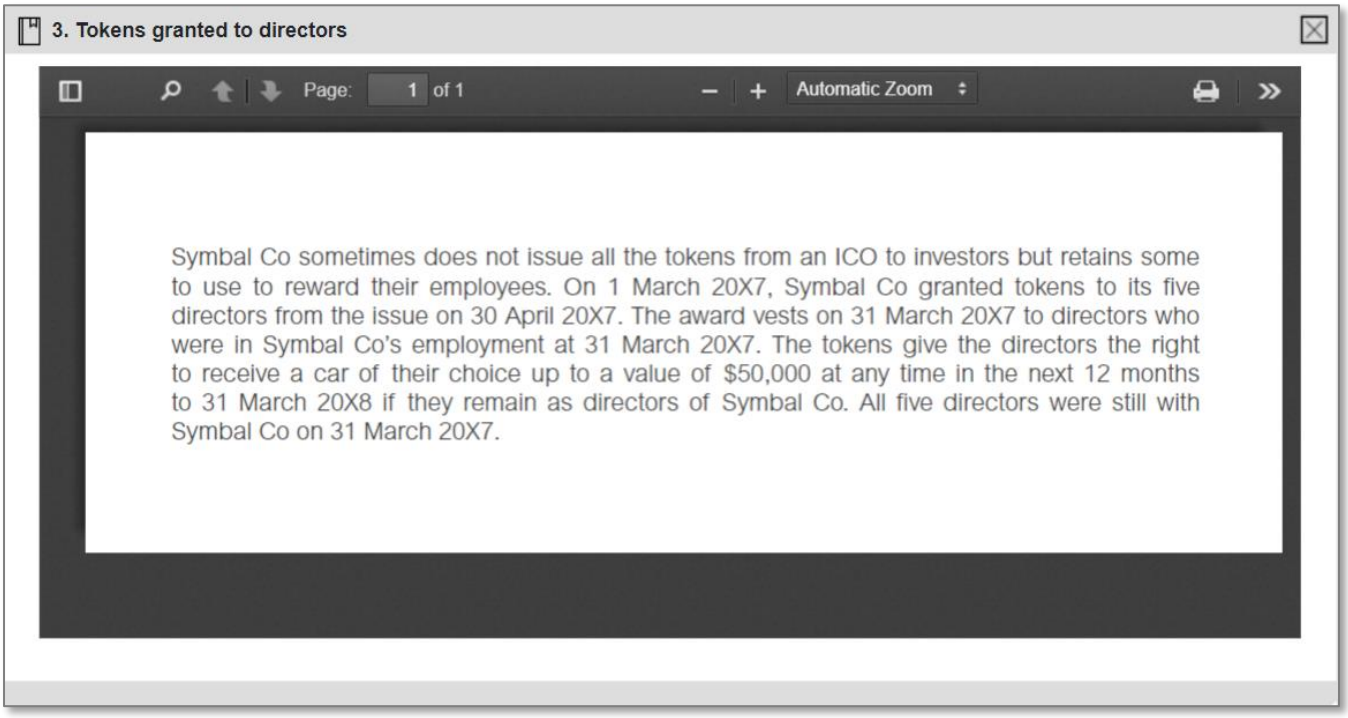

2. ICO arrangements
Page: 1 of 1
Automatic Zoom
Occasionally, Symbal Co enters into pre-sale agreements to raise funding from selected investors prior to a public sale of tokens. Symbal Co has entered into a pre-sale agreement with an investor which entitles the investor to a 10% discount on the price for tokens compared to other investors at the time of the ICO. On 1 March 20X7, the investor paid Symbal Co $1 million in cash. The issue date of the ICO is 30 April 20X7. The cash is only refundable if the ICO is abandoned before 30 April 20X7 because the minimum funding level of $9 million has not been achieved.
Once the tokens are issued, ICO investors can readily convert them into cash or cryptocurrencies on Symbal Co's platform but they do not entitle the holder to future goods and services from Symbal Co other than supporting the purchase and sale of tokens. The inflows received for tokens are used by Symbal Co to fund the future development of the payment platform and other projects.
In order to induce investment in the ICO, Symbal Co has made a commitment to the holders of tokens to pay a single payment of 10% of any annual profit for the year ended 31 March 20X8. The holders do not have any other rights such as redemption of their tokens or any residual interest in the assets of Symbal Co.
The ICO raised $10 million on 30 April 20X7.

Exhibit 3


3. Tokens granted to directors
Page: 1 of 1
Automatic Zoom
Symbal Co sometimes does not issue all the tokens from an ICO to investors but retains some to use to reward their employees. On 1 March 20X7, Symbal Co granted tokens to its five directors from the issue on 30 April 20X7. The award vests on 31 March 20X7 to directors who were in Symbal Co's employment at 31 March 20X7. The tokens give the directors the right to receive a car of their choice up to a value of $50,000 at any time in the next 12 months to 31 March 20X8 if they remain as directors of Symbal Co. All five directors were still with Symbal Co on 31 March 20X7.