

# 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.

# Instruction screens (continued)

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

## Instructions (2 of 4)

### Navigation

- The question number you are viewing is displayed in the top display bar. You can hide or restore this display by selecting .
- You can navigate between screens by selecting **Next**  or **Previous**  or by clicking on a question number from the Navigator or Item Review screens.
- You can revisit questions and change your answers at any time during the exam.

### Flag for Review

- If you wish to revisit/review a question later in the exam, click  **Flag for Review**.
- Click the button again to remove the flag.

### Help

- Click the **Help** button provided to access:
  - A copy of these exam instructions.
  - Help and guidance on workspaces.
  - Formulae sheets/tax tables if your exam requires these. Note that the name of the Help button will indicate if formulae sheets/tax tables are available i.e.  **Help**,  **Help/Formulae Sheet** or  **Help/Tax Tables**

### Calculator


- You have the option to use the on-screen standard or scientific calculators by selecting  **Calculator**.
- Note that in the live exam you are also permitted to use your own calculator providing it does not have the facility to store or display text.

## Instruction screens (continued)

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

### Instructions (3 of 4)


#### Workings/Scratch Pad

- You may use an on-screen Scratch Pad to make notes/workings by selecting  **Scratch Pad**
- You can cut and copy text from the Scratch Pad and paste into your response options either by using the Ctrl-C (Copy), Ctrl-X (Cut) and Ctrl-V (Paste) shortcuts, or the on-screen buttons.
- The Scratch Pad retains all notes/workings entered for all workspaces and these are available for the duration of the exam. They will not be submitted for marking after your live exam.
- You will also be provided with paper for notes/workings for your live exam, should you prefer to use it. This will not be submitted for marking. It will be collected at the end of the exam and must not be removed from the exam room.
- **Important:**
  - The notes/workings entered onto the Scratch Pad or your workings paper during the live exam will not be marked.
  - If you want the marker to see any notes/workings for question requirements in the live exam you must show them within the relevant response options.

#### Symbol

- You can add a selection of currency symbols to your answers by selecting  **Symbol** on the top toolbar.

#### Navigator Screen

- Navigator can be accessed at any time during the exam by selecting  **Navigator**.
- This screen allows you to jump to any question number in the exam.
- It also allows you to see the status of each question and whether it has been viewed, attempted or flagged for review.

## Instruction screens (continued)

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

### Instructions (4 of 4)

#### Reviewing the Exam

- You can review this exam once you have attempted any, or all, of the questions.
- To do this:
  - Navigate to the **last question** in the exam.
  - Click **Next** → .
- This takes you to the Item Review screen.

#### Item Review Screen

- This screen gives you a final opportunity to see the flag and attempted status of each question and to review your answers before you exit the exam.
- You can select individual questions you wish to revisit, or quickly access groups of questions from the Item Review screen.
- During the item review period Navigator is not available however you can navigate to questions by selecting **Next** → , ← **Previous** or **Review Screen** .
- When reviewing questions you can change your answers and click **Review Screen** to view any updated status on the Item Review screen.

#### Ending the Exam

- Once you have completed your item review and wish to finally end the exam click **End Exam** from the Item Review Screen.
- Once you end the exam, you cannot revisit any questions. Your answers will then be available for marking and review.

## Exam summary screen

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

### Exam Summary

**Time allowed:** This specimen exam is not timed.

This exam is divided into two sections:

#### Section A

- Two questions worth 50 marks in total.

#### Section B

- Two questions, each worth 25 marks.
- 50 marks in total.

All questions are compulsory.

Select **Next** to start your exam.

# Exam questions

## Section A – summary screen

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

Flag for Review

### Section A

This section of the exam contains **two questions**.  
This exam section is worth **50 marks** in total.

#### Important:

In your live exam, you should:

- Indicate which requirement each of your responses relate to so that this is clear for markers.
- Show all notes/workings that you want the marker to see within your responses. Remember, any notes/workings made on the Scratch Pad or on your workings paper will not be marked.

Select **Next** to continue.

 Navigator Next →

# Section A – question 1

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

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**Exhibits**

- 1. Initial acquisition of Grin Co
- 2. Subsequent acquisition of Grin Co
- 3. Fair value of net assets of Grin Co

**Requirements**

- Requirements (30 marks)

**Response Options**

- Word Processor
- Spreadsheet

Chuckle Co has an equity interest in a number of entities including Grin Co. Chuckle Co has recently acquired additional equity in Grin Co and the directors of Chuckle Co are unsure as to how this may impact upon their consolidated financial statements. The year end is 31 March each year.

The following exhibits, available on the left-hand side of the screen, provide information relevant to the question:

1. Initial acquisition of Grin Co - initial purchase of 30% of Grin Co on 1 April 20X2.
2. Subsequent acquisition of Grin Co - subsequent 18% purchase of Grin Co and the purchase of share options on 1 April 20X6.
3. Fair value of net assets of Grin Co - at 1 April 20X6.

This information should be used to answer the requirements within your chosen response option(s).

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## Requirements

Requirements (30 marks) [🔒] [X]

**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)

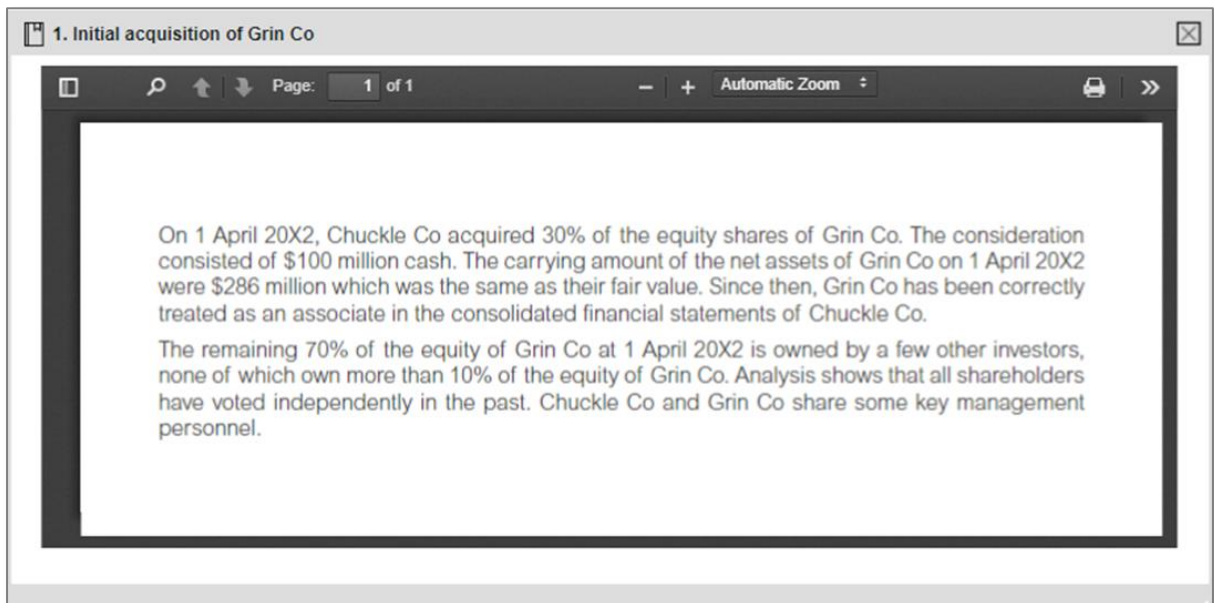
(iii) whether the classification of Chuckle Co's investment in Grin Co should change on 1 April 20X6. (5 marks)

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

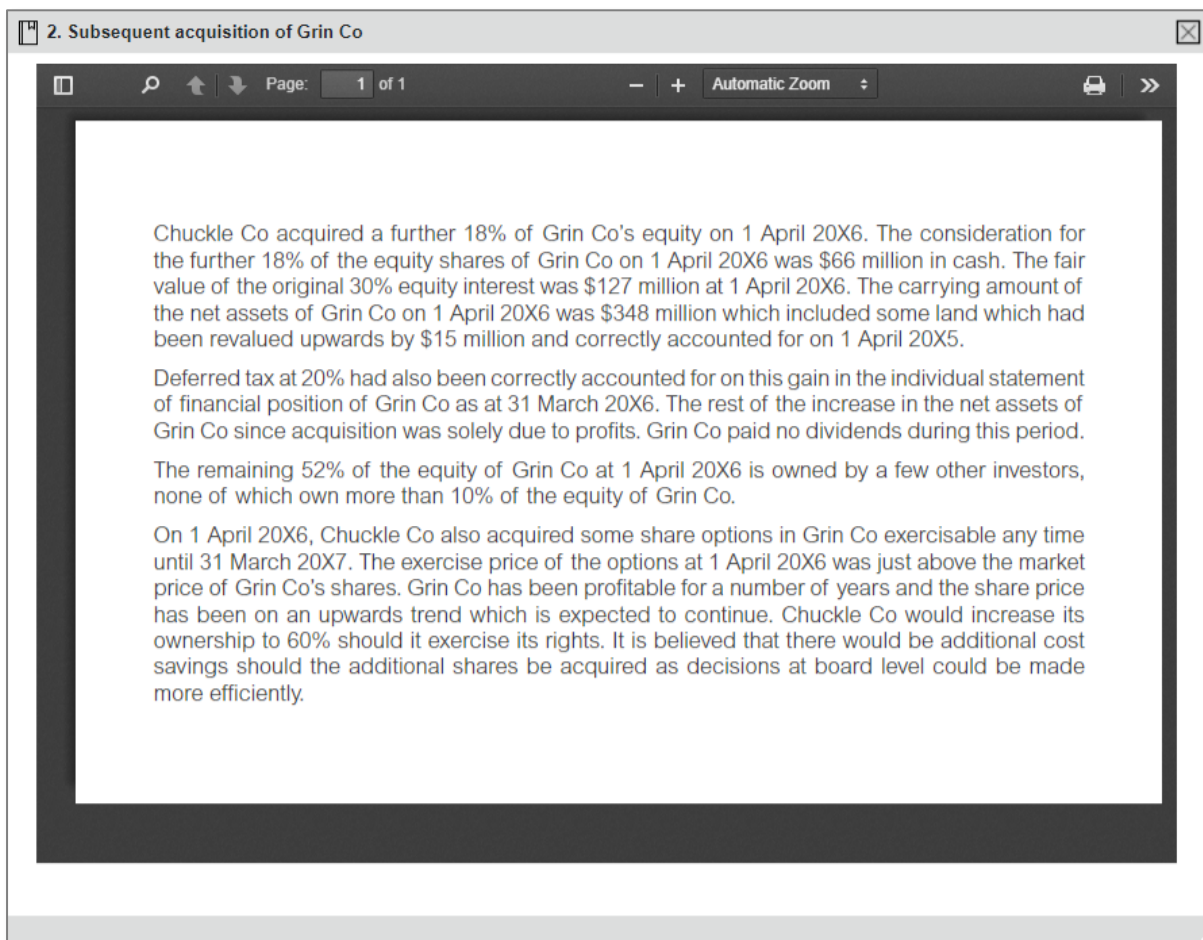
(i) how the fair value of the non-current and current assets at acquisition (including any deferred tax adjustments) should be calculated; and (8 marks)

(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



## Exhibit 2



2. Subsequent acquisition of Grin Co

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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

3. Fair value of net assets of Grin Co

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

	<b>\$ millions</b>
Non-current assets	355
Current assets	214
Deferred tax	(16)
Other liabilities	<u>(205)</u>
Total	<u>348</u>

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

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

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Exhibits

- 1. Ethical issues and foreign exchange
- 2. Sale of licence
- 3. Drug development

Requirements

- Requirements (20 marks)

Response Options

- Word Processor

The Agency Group manufactures products for the medical industry. They have been suffering increased competition and therefore have sold a licence to distribute an existing product and have also developed a new product which they hope will improve their market reputation. They have recently employed an ACCA student accountant. The year end is 31 December 20X7.

The following exhibits, available on the left-hand side of the screen, provide information relevant to the question:

1. Ethical issues and foreign exchange - describes the employment of Mr Raavi and the accounting for foreign exchange gains arising on the the re-translation of a foreign subsidiary.
2. Sale of licence - describes the granting of a licence to sell a product in South America.
3. Drug development - describes the development of a drug (a biosimilar drug) that is similar to a previously licenced drug.

This information should be used to answer the question requirements within the response option provided.

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## Requirements

Requirements (20 marks)	
<b>(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.</b>	(3 marks)
<b>(a)(ii) Discuss any ethical issues raised by Ms Malgun's actions regarding her management of Mr Raavi.</b>	(6 marks)
<b>(b) Discuss how the granting (sale) of the licence to Kokila Co should be accounted for by Agency Co on 1 January 20X7.</b>	(5 marks)
<b>(c) Discuss the accounting treatment of the costs incurred to date in developing the biosimilar drug.</b>	(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

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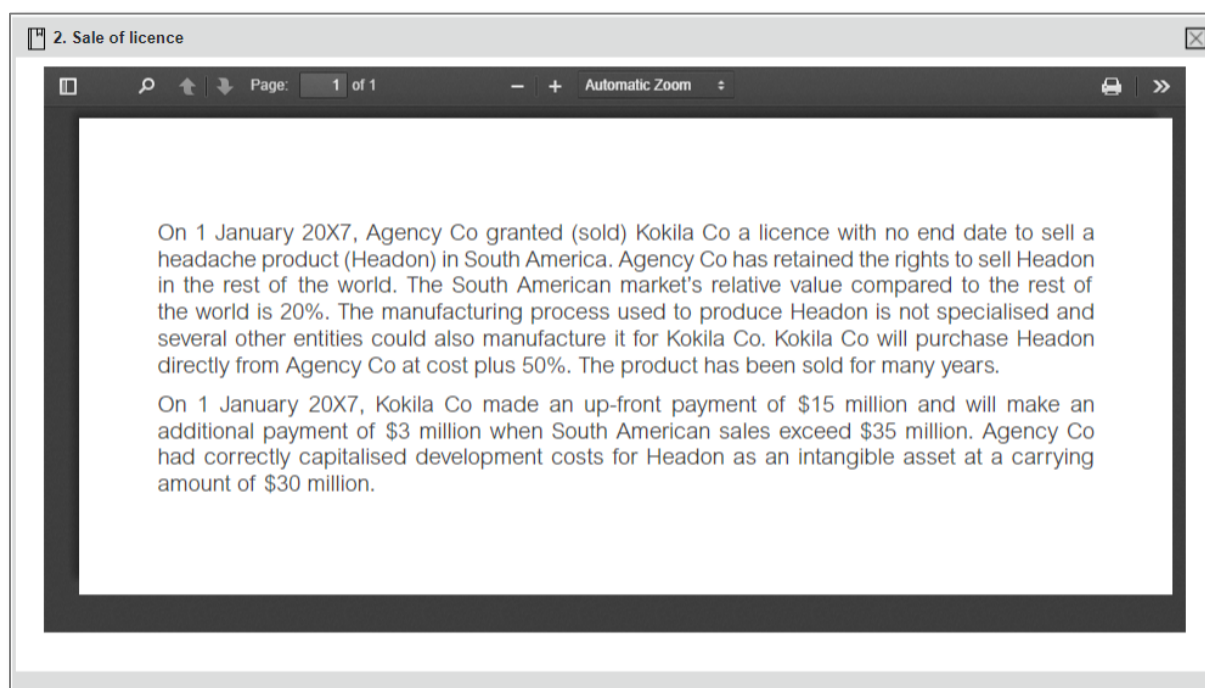
On 1 October 20X7, the finance director, Ms Malgun, a financial accountant, recruited Mr Raavi as an ACCA student accountant on a temporary employment contract which can be terminated by either party without reason. Mr Raavi has found it difficult to find employment and therefore accepted the risk attached 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

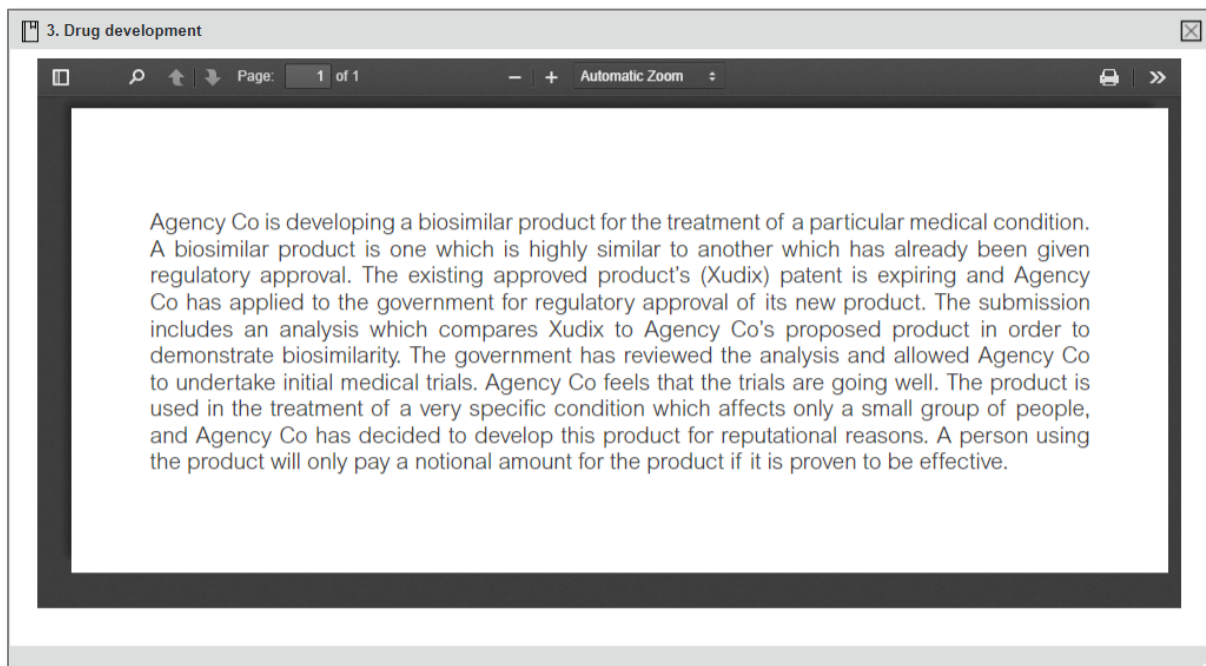
Page: 1 of 1 Automatic Zoom

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



## Section B – summary screen

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

Flag for Review

### Section B

This section of the exam contains **two questions**.

Each question is worth **25 marks** and is compulsory.

This exam section is worth **50 marks** in total.

#### Important:

In your live exam, you should:

- Indicate which requirement each of your responses relate to so that this is clear for markers.
- Show all notes/workings that you want the marker to see within your responses. Remember, any notes/workings made on the Scratch Pad or on your workings paper will not be marked.

Select **Next** to continue.

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# Section B – question 1

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

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Exhibits

- 1. Company cars
- 2. Emphasis Co

Requirements

Requirements (25 marks)

Response Options

- Word Processor
- Spreadsheet

Stem Co is a manufacturing company and is considering providing cars for its senior management. It has also entered into an agreement with two other companies to develop a new technology through a separate legal entity, Emphasis Co. The financial year end of Stem Co is 31 December 20X7.

The following exhibits, available on the left-hand side of the screen, provide information relevant to the question:

1. Company cars - provides details of alternative options available for the provision of cars for senior management.
2. Emphasis Co - describes the formation of a new legal entity, Emphasis Co.

This information should be used to answer the question requirements within your chosen response option(s).

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## 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

1. Company cars

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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

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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

SBR-INT September/December 2021 exam (21/22 syllabus) 4 of 4

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Exhibits

- 1. Development costs
- 2. ICO arrangements
- 3. Tokens granted to directors

Requirements

- Requirements (25 marks)

Response Options

- Word Processor

Symbal Co develops cryptocurrency funds and is a leading authority on crypto investing. Symbal Co specialises in Initial Coin Offerings (‘ICO’) that raises funds from investors in the form of cash or a crypto asset such as Bitcoin.

The year end of Symbal Co is 31 March 20X7.


The following exhibits, available on the left-hand side of the screen, provide information relevant to the question:

1. Development costs - describes the various costs incurred in the development and promotion of the ICO.
2. ICO arrangements - provides information about a pre-sale agreement with an investor and the terms of the ICO.
3. Tokens granted to directors - describes the granting of tokens to its directors.

This information should be used to answer the question requirements within the response option provided.

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## 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.**

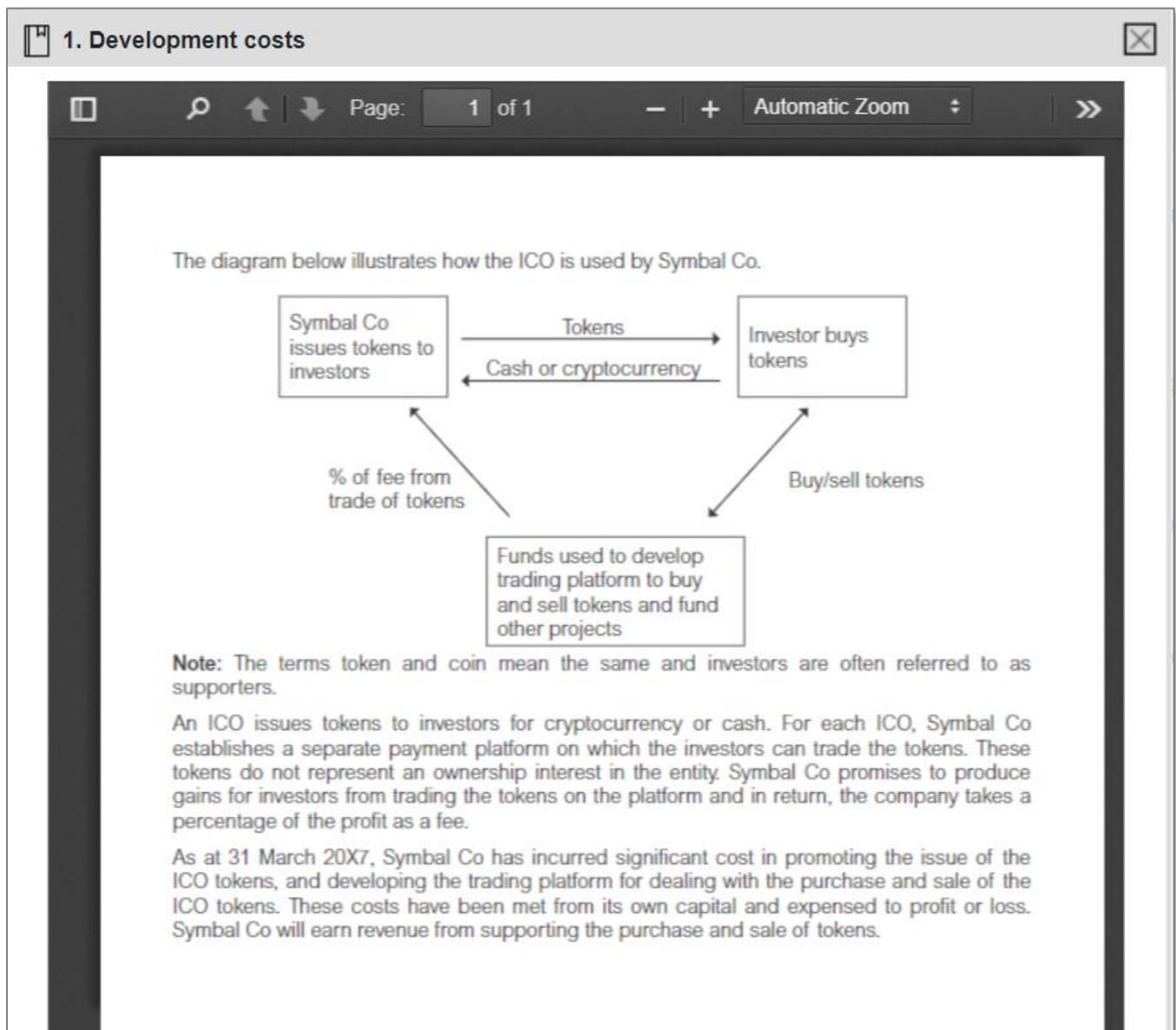
(6 marks)

**(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



## Exhibit 2

2. ICO arrangements

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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

