

ACCA

SBR

Strategic Business
Reporting

Study Text

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How to use the Materials

Strategic Business Reporting is an exam at the Strategic Professional level of the ACCA qualification. It assumes knowledge acquired at the Fundamentals level including the core technical capabilities to prepare and analyse financial reports for single and combined entities.

These Kaplan Publishing learning materials have been carefully designed to make your learning experience as easy as possible and to give you the best chances of success in your examinations.

The product range contains a number of features to help you in the study process. They include:

- 1 Detailed study guide and syllabus objectives
- 2 Description of the examination
- 3 Study skills and revision guidance
- 4 Study text
- 5 Question practice

The sections on the study guide, the syllabus objectives, the examination and study skills should all be read before you commence your studies. They are designed to familiarise you with the nature and content of the examination and give you tips on how to best to approach your learning.

The **Study Text** comprises the main learning materials and gives guidance as to the importance of topics and where other related resources can be found. Each chapter includes:

- The **learning objectives** contained in each chapter, which have been carefully mapped to the examining body's own syllabus learning objectives or outcomes. You should use these to check you have a clear understanding of all the topics on which you might be assessed in the examination.
- The **chapter diagram** provides a visual reference for the content in the chapter, giving an overview of the topics and how they link together.
- The **content** for each topic area commences with a brief explanation or definition to put the topic into context before covering the topic in detail. You should follow your studying of the content with a review of the illustration/s. These are worked examples which will help you to understand better how to apply the content for the topic.

- **Test your understanding** sections provide an opportunity to assess your understanding of the key topics by applying what you have learned to short questions. Answers can be found at the back of each chapter.
- **Summary diagrams** complete each chapter to show the important links between topics and the overall content of the paper. These diagrams should be used to check that you have covered and understood the core topics before moving on.
- **Question practice** is provided through this text.

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Our Quality Coordinator will work with our technical team to verify the error and take action to ensure it is corrected in future editions.

Icon Explanations



Definition – Key definitions that you will need to learn from the core content.



Key point – Identifies topics that are key to success and are often examined.



Supplementary reading – These sections will help to provide a deeper understanding of core areas. The supplementary reading is **NOT** optional reading. It is vital to provide you with the breadth of knowledge you will need to address the wide range of topics within your syllabus that could feature in an exam question. **Reference to this text is vital when self studying.**



Test your understanding – Exercises for you to complete to ensure that you have understood the topics just learned.



Illustration – Worked examples help you understand the core content better.



Tutorial note – Included to explain some of the technical points in more detail.



Footsteps – Helpful tutor tips.



Links to other syllabus areas – This symbol refers to areas of interaction with other parts of your syllabus, either in terms of other ACCA papers that you have studied, or may go on to study, or even further professional qualifications that you may decide to pursue on completion of ACCA.

Frameworks

Chapter learning objectives

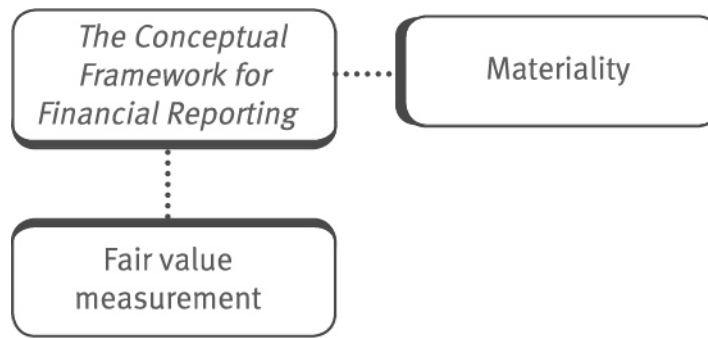
Upon completion of this chapter you will be able to:

- discuss the importance of a conceptual framework in underpinning the production of accounting standards
- discuss the objectives, principles and limitations of financial reporting including presentation and disclosure of information
- discuss the qualitative characteristics of useful financial information including disclosure
- evaluate the principles of recognition, derecognition and measurement, including measurement uncertainty and materiality
- critically discuss and apply the definitions of the elements of financial statements and the reporting of items in the statement of profit or loss and other comprehensive income
- evaluate and apply the principles of 'fair value' measurement and 'active market'
- evaluate and apply the 'fair value hierarchy' including valuation techniques
- justify and apply the principles of highest and best use, most advantageous and principal market.



PER

One of the PER performance objectives (PO7) is to prepare external financial reports. You take part in preparing and reviewing financial statements – and all accompanying information – and you do it in accordance with legal and regulatory requirements. Working through this chapter should help you understand how to demonstrate that objective.



1 Introduction

This chapter considers two documents issued by the International Accounting Standards Board (the Board) that underpin a range of IFRS and IAS Standards:

- The *Conceptual Framework for Financial Reporting* – used by the Board when developing or revising an IFRS or IAS Standard, and by preparers of financial statements when no relevant IFRS or IAS Standard exists, and
- IFRS 13 *Fair Value Measurement* – used by preparers of financial statements when an IFRS or IAS Standard requires or allows the use of a fair value measurement (with some exceptions).



Progression

You will have seen the content of this chapter in your prior studies. However, the ACCA SBR exam will test it at a much higher level.

2 *Conceptual Framework for Financial Reporting*

Introduction

The importance of a conceptual framework

A conceptual framework is a set of theoretical principles and concepts that underlie the preparation and presentation of financial statements.

If no conceptual framework existed, then accounting standards would be produced on a haphazard basis as particular issues and circumstances arose. These accounting standards might be inconsistent with one another, or perhaps even contradictory.

A strong conceptual framework means that there are principles in place from which all future accounting standards draw. It also acts as a reference point for the preparers of financial statements if no accounting standard governs a particular transaction (although this will be extremely rare).

This section of the text considers the contents of the *Conceptual Framework for Financial Reporting (Conceptual Framework)* in more detail.

Background

The *Framework for the Presentation and Preparation of Financial Statements* was issued in 1989.

In 2004 the Board and the US Financial Accounting Standards Board (FASB) started a joint project to revise their respective frameworks. As a result of this project the Board issued the *Conceptual Framework for Financial Reporting* in 2010. Most of the text from the 1989 *Framework* was simply rolled over but two chapters were revised. These covered:

- the objective of financial reporting
- the qualitative characteristics of useful financial information.

The Board and the FASB subsequently suspended work on this joint project.

Several criticisms emerged of the 2010 *Conceptual Framework*, such as:

- it did not cover certain areas, such as derecognition, and presentation and disclosure
- guidance in some areas was unclear e.g. concerning measurement uncertainty
- some aspects were out of date, such as recognition criteria for assets and liabilities.

As a result of this criticism, the *Conceptual Framework* was identified as a priority project so, in 2012, the Board restarted this project without the FASB. A discussion paper outlining the Board's thinking was published in 2013 and an exposure draft of the proposed amendments was published in 2015. Feedback from these documents informed the revised *Conceptual Framework*, which was published in 2018.

The purpose of the *Conceptual Framework*

The purpose of the *Conceptual Framework* is to assist:

- (a) **the Board** when developing new IFRS Standards, helping to ensure that these are based on consistent concepts
- (b) **preparers of financial statements** when no IFRS Standard applies to a particular transaction, or when an IFRS Standard offers a choice of accounting policy
- (c) **all parties** when understanding and interpreting IFRS Standards.

The *Conceptual Framework* is not an accounting standard. It does not override the requirements in a particular IFRS Standard.

The objective of financial reporting

The *Conceptual Framework* states that 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.

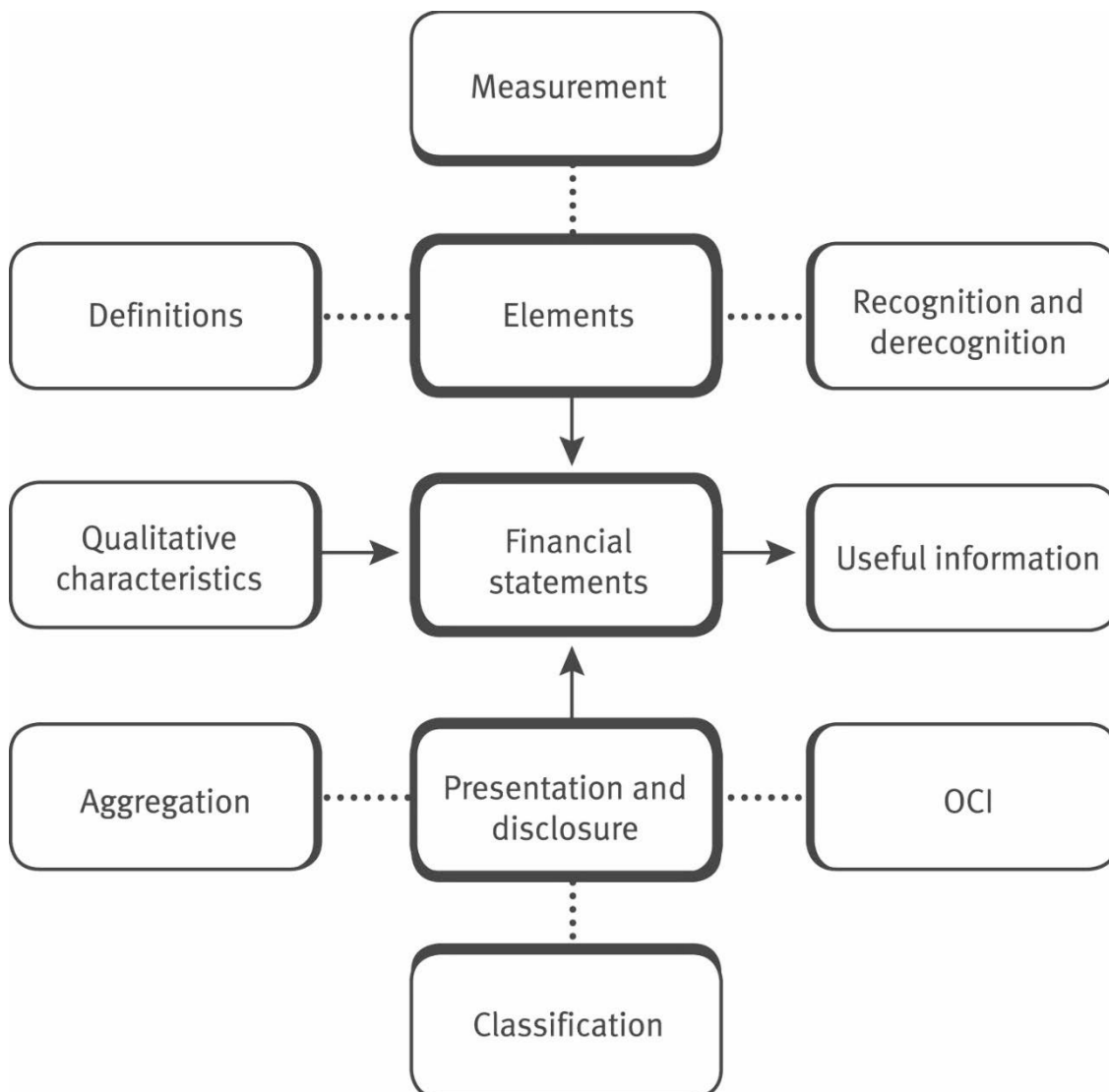
If investors, lenders and creditors are going to make these decisions then they require information that will help them to assess:

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

To assess an entity’s future cash flows, users need information about:

- economic resources of the entity e.g. assets
- economic claims against the entity e.g. liabilities and equity
- changes in economic resources and claims e.g. income and expenses.

Summary of the content of the *Conceptual Framework*





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