

# SBR MJ24: By-float Co

## Part A Loan Exchange and Measurement (IFRS 9)

### 1. Loan Exchange - Loan Derecognition and Equity Recognition (3 marks)

Byfloat extinguished its contractual right to receive cash flows from **half of the loan receivable**, so that portion must be **derecognised** on 31 Oct 20X7 under *IFRS 9*.

The new 10% equity investment received represents a **new financial asset**, recognised at **fair value** on that date.

The **difference between the carrying amount derecognised and the fair value of the equity** received should be recorded as a **loss in the statement of profit or loss**.

### 2. Loan Receivable – Impairment and Measurement (3 marks)

The remaining 50% loan continues to be measured at **amortised cost**, with **interest income accrued** using the effective interest rate and recognised in profit or loss.

Under **IFRS 9 Financial Instruments**, a **loss allowance** must be recognised for **expected credit losses (ECL)**:

- Initially, when credit risk was low, Byfloat recognised **12-month ECL**.
- At **31 December 20X7**, the borrower **defaulted on interest**, providing **objective evidence of impairment**. The loan is therefore **credit-impaired**, requiring **lifetime ECL** measurement.

Any change in the loss allowance movement (increase or reversal) is recorded in **profit or loss**.

### 3. Investment in Equity Shares (2 marks)

#### Smart Answer

The 15% equity investment in Valeta falls under IFRS 9's equity measurement rules. Since Byfloat made **no FVOCI election**, it must be measured at **fair value through profit or loss (FVTPL)**.

At 31 Dec 20X7, the investment is **remeasured to fair value**, and any gain or loss is recognised in **profit or loss** for the year.

## Part B

### Brainstorming:

Key Issue	Simple Explanation
Job security	She's on a temporary contract and wants renewal.
Pressure	Her boss wants her to make the numbers look good for the bank.
Ethical conflict	She knows the analysis is misleading and financial risks are being hidden.
Professional challenge	She feels intimidated and ignored by non-financial board members.

### Ethical Problems (6 marks)

- **Integrity (1 mark):** Preparing an analysis she knows is incorrect would be dishonest and misleading to the bank.
- **Objectivity (1 mark):** Self-interest (desire for permanence) and intimidation (pressure from FD) threaten impartial judgment.
- **Professional competence & due care (1 mark):** She must critically review assumptions and ensure they are evidence-based and realistic.
- **Professional behaviour (1 mark):** Submitting misleading information damages trust in both the company and the profession.
- **Public interest (1 mark):** Banks rely on accurate information; misrepresentation could affect lending and reputational credibility.
- **Governance weakness (1 mark):** Limited board diversity and undervalued opinion heighten ethical risk and reduce internal challenge.

### Technical Context – IFRS 18 Presentation & Disclosure (2 marks)

Under **IFRS 18**, management must ensure that financial statements **faithfully represent** the entity's financial performance, position, and cash flows.

- Classification and subtotals (e.g., operating, investing, financing) must be **accurate and neutral**.
- Material information, such as **liquidity pressures or going-concern uncertainties**, should be **clearly disclosed** to help users understand the entity's financial resilience.  
Byfloat's analysis to the bank must therefore be based on **neutral and**

**supportable assumptions** that align with IFRS 18's faithful-representation objective.

### **Actions Ms Hayes Should Take (2 marks)**

- **Challenge and verify assumptions:** Discuss projections with the FD and cross-check against past data and external information.
- **Revise the analysis:** Correct any over-optimistic assumptions before submission.
- **Escalate the issue:** If pressure persists, report concerns to the **board, non-executive directors**, or **external auditors**.
- **Document and seek guidance:** Keep full written evidence and, if unresolved, contact the **ACCA Ethics Helpline** or legal counsel.
- **Do not submit misleading work:** Integrity must take priority over job security.

## Suggested Answer

### Part B

#### The Problem (2 marks)

Ms Hayes has been asked to prepare an analysis for the bank using management's assumptions, but she believes those assumptions are unrealistic. As she is working on a temporary contract, she may feel pressure to comply in order to secure a permanent position. This creates a **self-interest threat** to objectivity. In addition, the finance director is pressing her to submit the analysis quickly, which gives rise to an **intimidation threat**. If Ms Hayes knowingly submits information she considers misleading, she would be failing to act with honesty and professional integrity.

#### Ethical Problems (6 marks)

The situation presents several ethical concerns.

First, preparing an analysis that she knows is incorrect would breach the fundamental principle of **integrity**, as it involves deliberately presenting false information to a bank that relies on accurate data for its lending decisions.

Second, both her temporary employment status and the pressure from her superior impair **objectivity**, because her professional judgment could be influenced by fear of losing her job or by managerial pressure.

Furthermore, Ms Hayes must uphold **professional competence and due care** by critically assessing management's assumptions and ensuring that any analysis is based on realistic and supportable evidence. Simply accepting over-optimistic forecasts would fail to meet this obligation. In addition, submitting misleading information would also breach **professional behaviour**, as it could damage confidence in both the company and the accounting profession.

Finally, as the bank and other stakeholders depend on the information to make decisions, Ms Hayes has a responsibility to act in the **public interest**. Any attempt to distort reality would undermine stakeholder trust and could have legal and reputational consequences for Byfloat.

### IFRS 18 Presentation and Disclosure (2 marks)

Financial statements must present a **faithful representation** of an entity's performance, position, and cash flows. This means information must be **complete, neutral, and free from bias**. Management is responsible for ensuring that key subtotals such as operating and financing results, liquidity indicators, and any uncertainties (for example, regarding going concern) are accurately classified and transparently disclosed.

Accordingly, Ms Hayes must ensure that the analysis she provides to the bank reflects neutral and supportable assumptions, consistent with accounting standard requirement for transparent and unbiased presentation of financial information.

### Actions by Ms Hayes (2 marks)

Ms Hayes should first discuss the assumptions with the finance director, explaining the risks of using overly optimistic forecasts and recommending that they be revised based on objective evidence from past results and public data. If the finance director refuses to cooperate, she should **document her concerns**, keep copies of all communications, and **escalate the issue** to senior management, the board, or the non-executive directors.

If internal escalation fails, she should seek confidential guidance from the **ACCA Ethics Helpline** or legal advisers. Above all, she must **not submit an analysis she knows to be misleading**, even if this decision threatens her employment prospects. Upholding ethical standards and professional integrity is a higher duty than satisfying managerial expectations.