

Steal This: Good vs Bad Feedback on a Consolidation MCQ

One worked example of conceptually focused feedback, the kind Ryan et al. (2024) used. Article 03.

Editorial material. This question and feedback were written by The Editorial Desk as an example. They are not taken from Ryan et al. (2024), whose study was in medical education. Check against your own curriculum and the current IFRS 10 text.

The question

P Ltd buys 40% of the voting shares of S Ltd. Under a contractual agreement with other investors, P Ltd can direct the activities that significantly affect S Ltd's returns, and P Ltd is exposed to those variable returns. In P Ltd's group financial statements, S Ltd should be:

- A. Equity-accounted as an associate
- B. Consolidated as a subsidiary
- C. Measured at fair value as an investment
- D. Not recognised until P Ltd owns more than 50%

Bad feedback

"Incorrect. The answer is B."

It tells students *what*, not *why*, so they can't transfer it to the next question.

Good feedback (conceptually focused)

"B. Under IFRS 10, the trigger for consolidation is **control**, not a percentage. An investor controls an investee when it has **power** over the relevant activities, **exposure** to variable returns, and the **ability to use its power** to affect those returns. Owning more than 50% is a common sign of power, but here the contractual agreement gives P Ltd power with only 40%.

If you chose A: 20–50% often signals significant influence (IAS 28), but significant influence is the ability to *participate* in decisions. P Ltd can *direct* them. If you chose D: there is no 50% rule in IFRS 10.

Check yourself: would your answer change if P Ltd owned 60% but another investor held rights to direct the relevant activities?"

A far-transfer follow-up

Same concept, new context: a university sports club holds 30% of a catering company but appoints the majority of its board under the founding agreement. Consolidate or not? Why?

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