

# **ACCA**

# **Applied Skills**

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## **Financial Reporting (FR)**

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## **EXAM KIT**

**KAPLAN**  
PUBLISHING

### British Library Cataloguing-in-Publication Data

A catalogue record for this book is available from the British Library.

Published by:  
Kaplan Publishing UK  
Unit 2 The Business Centre  
Molly Millar's Lane  
Wokingham  
Berkshire  
RG41 2QZ

ISBN: 978-1-78740-413-7

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### Acknowledgements

These materials are reviewed by the ACCA examining team. The objective of the review is to ensure that the material properly covers the syllabus and study guide outcomes, used by the examining team in setting the exams, in the appropriate breadth and depth. The review does not ensure that every eventuality, combination or application of examinable topics is addressed by the ACCA Approved Content. Nor does the review comprise a detailed technical check of the content as the Approved Content Provider has its own quality assurance processes in place in this respect.

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This document references IFRS® Standards and IAS® Standards, which are authored by the International Accounting Standards Board (the Board), and published in the 2018 IFRS Standards Red Book.

# INDEX TO QUESTIONS AND ANSWERS

## INTRODUCTION

A number of the previous ACCA exam questions within this kit have been adapted to reflect updated standards, and the revised exam format. If changed in any way from the original version, whether due to updates in the IFRS® Standards or due to changes in exam format, this is indicated in the end column of the index below with the mark (A).

The specimen exam and September 2016 full examination is included at the end of the kit.

## KEY TO THE INDEX

### ENHANCEMENTS

We have added the following enhancements to the answers in this exam kit:



#### Key answer tips

All answers include key answer tips to help your understanding of each question.



#### Tutorial note

All answers include more tutorial notes to explain some of the technical points in more detail.



#### Top tutor tips

For selected questions, we 'walk through the answer' giving guidance on how to approach the questions with helpful 'tips from a top tutor', together with technical tutor notes.

These answers are indicated with the 'footsteps' icon in the index.

## ONLINE ENHANCEMENTS



### Question debrief

For selected questions, we recommend that they are to be completed in full exam conditions (i.e. completed to time in a closed book environment).

In addition to the examiner's technical answer, enhanced with key answer tips and tutorial notes in this exam kit, online you can find an answer debrief by a top tutor that:

- works through the question in full
- points out how to approach the question
- shows how to ensure that the easy marks are obtained as quickly as possible, and
- emphasises how to tackle exam questions and exam technique.

These questions are indicated with the 'clock' icon in the index.

Online question enhancements and answer debriefs will be available on MyKaplan at [www.MyKaplan.co.uk](http://www.MyKaplan.co.uk)

	Page number	
Question	Answer	Past exam

## SECTION A – OBJECTIVE TEST QUESTIONS





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362	Clarion		120	317	Jun 15 (A)
363	Moston		122	320	Sep/Dec 15 (A)
364	Triage		123	322	Sep 16
365	Haverford		125	327	Mar/Jun 18
366	Duggan		126	330	Sep/Dec 18

# ANALYSIS OF PAST EXAMINATIONS

The table summarises the key topics that have been tested in recent Financial Reporting exams. A much wider range of topics will now be examined following the introduction of objective-test questions. The information from June 2015 onwards only relates to constructed response questions released by ACCA, as multiple-choice questions have not usually been published. For the September 2016 examination, following a change in the examination format, ACCA published the full examination. This will not be repeated for future sittings.

	Dec 2014	Jun 2015	Sep/Dec 2015	Mar/Jun 2016	Sep 2016	Dec 2016	Mar/Jun 2017	Sep/Dec 2017	Mar/Jun 2018	Sep/Dec 2018
<b>Group financial statements</b>										
Consolidated statement of profit or loss and other comprehensive income		✓				✓				
Consolidated statement of financial position			✓	✓		✓	✓	✓		✓
Consolidated SPL and SFP	✓									
Associates						✓				
Disposal									✓	
<b>Single entity financial statements</b>										
From trial balance	✓	✓	✓	✓	✓				✓	✓
Redraft					✓					
Statement of changes in equity		✓	✓						✓	✓
Statement of cash flows	✓									
<b>Performance appraisal</b>										
Ratios	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Groups							✓	✓	✓	✓
<b>Framework/IFRS</b>										
IASB Framework	✓	✓			✓	✓				
Accounting principles/substance	✓									
Not for profit/specialised entities	✓					✓				
IAS 2	✓								✓	
IAS 7	✓				✓					
IAS 8	✓				✓					✓
IAS 10		✓				✓				

# EXAM TECHNIQUE

## Computer-based exams (CBE)

- Do not attempt a CBE until you have **completed all study material** relating to it.
- On the ACCA website there is a specimen Financial Reporting CBE. It is **ESSENTIAL** that you attempt this before your real CBE. You will become familiar with how to move around the screens and the way that questions are formatted, increasing your confidence and speed in the actual exam.
- Be sure you understand how to use the **software** before you start the exam. Ensure that you use the resources on the ACCA website to practise, **especially the CR workspace**. If in doubt, ask the assessment centre staff to explain it to you.

## Time management

- The examination is 3 hours long.
- This equates to 1.8 minutes per mark, so you need to allow 36 minutes per Constructed Response (CR) question and an average of 3.6 minutes per objective-test (OT) question.
- Decide whether you want to attempt the OTs first, or after completion of the CR questions. Whichever you choose to do first, ensure that you leave enough time to tackle the remainder.
- Whatever happens, always keep your eye on the clock and **do not over-run on any part of any question!**

## Objective-test questions

- **Do not skip any of the material** in the syllabus during revision.
- No credit for workings will be given in these questions. The answer will either be correct (2 marks) or incorrect (0 marks).
- Read each question **very carefully**, as the alternative answer choices will be given based on common mistakes that could be made in attempting the question.
- **Double-check your answer** before committing yourself to it.
- Answer **every** question – if you do not know an answer, you don't lose anything by guessing, but think carefully before you **guess**.
- Remember that there is **only one correct answer to a multiple-choice question**. After you have eliminated the ones that you know to be wrong, if you are still unsure, guess. Only guess after you have **double-checked** that you have only eliminated answers that are **definitely** wrong.
- If you get **completely stuck** with a question, choose your best answer, flag the question for review and **return to it later** if you have time.



- The objective –test question types are as follows:
  - **Multiple choice** – choose one answer from a number of given options
  - **Multiple response** – choose more than one an answer from a number of given options
  - **Fill in the blank** – type an answer into a box
  - **Drag and drop** – drag an answer and drop it into place
  - **Drop down list** – choose one answer from a drop down list
  - **Hot spot** – choose one point on an image
  - **Hot area** – choose an area in an image

## Constructed Response questions

- There will be a computational financial statements preparation question and a written analysis question.
- **Computational questions** require the use of a standard format, e.g. statement of profit or loss and other comprehensive income. Be sure that you know all the formats thoroughly before the exam and use the layouts that you see in the answers given in this book and in model answers.
- It is essential to show all your workings in your answer.
- For the **written question** consider how to structure the response and lay it out so as to articulate the answer clearly.
- Stick to the question and **ensure that you explain the reasons** why the numbers have changed.
- Your response should have:
  - a clear structure
  - a brief introduction, a main section and a conclusion.

It is better to write a little about a lot of different points than a great deal about one or two points.
- You should do everything you can to make things easy for the marker. Cross-reference answers to workings in computational questions and use headings and sub-headings in written answers.

# EXAM SPECIFIC INFORMATION

## THE EXAM

---

### FORMAT OF THE EXAM

The exam will be in **THREE sections**, and will be a mix of narrative and computational answers. Section A will be 15 objective test questions, each worth 2 marks. Section B will consist of 3 objective case questions, each worth 10 marks and containing 5 questions. Section C will consist of two 20-mark questions

		Number of marks
Section A:	Fifteen 2-mark objective test (OT) questions	30
Section B:	Three 10-mark objective case questions	30
Section C:	Two 20-mark constructed response questions, covering the interpretation and preparation of financial statements for a single entity or a group	40
		<hr/>
		100

Note that the FR exam will have both a discursive and computational element. The questions will therefore include a mix of calculation-based and explanations-based questions.

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### PASS MARK

The pass mark for all ACCA Qualification examinations is 50%.

## DETAILED SYLLABUS, STUDY GUIDE AND CBE SPECIMEN EXAM

The detailed syllabus and study guide written by the ACCA, along with the specimen exam, can be found at:

[accaglobal.com/financial-reporting](http://accaglobal.com/financial-reporting)

## Section 1

# OBJECTIVE TEST QUESTIONS – SECTION A

### CONCEPTUAL FRAMEWORK/INTERNATIONAL FINANCIAL REPORTING STANDARDS

- 1 IAS 16 *Property, Plant and Equipment* requires an asset to be measured at cost on its original recognition in the financial statements. EW used its own staff, assisted by contractors when required, to construct a new warehouse for its own use.

**Identify whether the costs listed below should be capitalised or expensed.**

	Capitalise	Expense
Clearance of the site prior to commencement of construction		
Professional surveyor fees for managing the construction work		
EW's own staff wages for time spent working on construction		
A proportion of EW's administration costs, based on staff time spent		

- 2 On 1 July 20X4, Experimenter opened a chemical reprocessing plant. The plant was due to be active for five years until 30 June 20X9, when it would be decommissioned. At 1 July 20X4, the costs of decommissioning the plant were estimated to be \$4 million in 5 years' time. Experimenter considers that a discount rate of 12% is appropriate for the calculation of a present value, and the discount factor at 12% for five years is 0.567.

**What is the total charge to the statement of profit or loss in respect of the decommissioning for the year ended 30 June 20X5?**

- A \$453,600
- B \$725,760
- C \$800,000
- D \$2,268,000

- 3** An entity purchased property for \$6 million on 1 July 20X3. The land element of the purchase was \$1 million. The expected life of the building was 50 years and its residual value nil. On 30 June 20X5 the property was revalued to \$7 million, of which the land element was \$1.24 million and the buildings \$5.76 million. On 30 June 20X7, the property was sold for \$6.8 million.

**What is the gain on disposal of the property that would be reported in the statement of profit or loss for the year to 30 June 20X7?**

- A Gain \$40,000
  - B Loss \$200,000
  - C Gain \$1,000,000
  - D Gain \$1,240,000
- 4** A manufacturing entity receives a grant of \$1m towards the purchase of a machine on 1 January 20X3. The grant will be repayable if the entity sells the asset within 4 years, which it does not intend to do. The asset has a useful life of 5 years.

**What is the deferred income liability balance at 30 June 20X3?**

\$ \_\_\_\_\_,000

- 5** On 1 January 20X1 Sty received \$1m from the local government on the condition that they employ at least 100 staff each year for the next 4 years. Due to an economic downturn and reduced consumer demand on 1 January 20X2, Sty no longer needed to employ any more staff and the conditions of the grant required full repayment.

**What should be recorded in the financial statements on 1 January 20X2?**

- A Reduce deferred income balance by \$750,000
  - B Reduce deferred income by \$750,000 and recognise a loss of \$250,000
  - C Reduce deferred income by \$1,000,000
  - D Reduce deferred income by \$1,000,000 and recognise a gain of \$250,000
- 6** **Which of the following properties owned by Scoop would be classified as an investment property?**
- A A property that had been leased to a tenant but which is no longer required and is now being held for resale
  - B Land purchased for its investment potential. Planning permission has not been obtained for building construction of any kind
  - C A new office building used as Scoop's head office, purchased specifically in order to exploit its capital gains potential
  - D A stately home used for executive training

- 7** During the current year an entity had in place \$1 million of 6% loan finance and \$2 million of 9% loan finance.

It constructed a new factory which cost \$600,000 and this was funded out of the existing loan finance. The factory took 8 months to complete.

**To the nearest thousand, what borrowing costs should be capitalised?**

\$ \_\_\_\_\_ ,000

- 8** Which of the following statements is correct?

**Statement 1** If the revaluation model is used for property, plant and equipment, revaluations must subsequently be made with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value at each reporting date.

**Statement 2** When an item of property, plant and equipment is revalued, there is no requirement that the entire class of assets to which the item belongs must be revalued.

	Statement 1	Statement 2
True		
False		

- 9** Which TWO of the following items should be capitalised within the initial carrying amount of an item of plant?

- A Cost of transporting the plant to the factory
- B Cost of installing a new power supply required to operate the plant
- C A deduction to reflect the estimated realisable value
- D Cost of a three-year maintenance agreement
- E Cost of a three-week training course for staff to operate the plant

- 10** Tibet acquired a new office building on 1 October 20X4. Its initial carrying amount consisted of:

	\$000
Land	2,000
Building structure	10,000
Air conditioning system	4,000
	16,000

The estimated lives of the building structure and air conditioning system are 25 years and 10 years respectively.

When the air conditioning system is due for replacement, it is estimated that the old system will be dismantled and sold for \$500,000.

Depreciation is time-apportioned where appropriate.