

Financial Reporting

Sample Questions – March / July 2020

Get to know your exam

These graphical representations are intended to give an indication of past 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.

Introduction screen

ACCA Think Ahead

Introduction

These sample questions show the likely style and range of **constructed response questions** that could be asked in the live exam.

You should use these questions to become familiar with the question types and the features and functionality contained within the live exam.

The practice exam is reflective of the constructed response section of the live exam but has some differences:

- The live exam will be timed, however there is no time limit in this exam.
- Once you have started this exam you are able to leave at any time by closing the browser window. When you return, anything you have entered into the response options will be saved and you can continue sitting the exam.
- In the live exam your answers to the constructed response questions will be expert-marked. At the end of this exam you should use the solution material provided to assess your performance in the constructed response questions.
- You will be able to access solution material at the end of this exam when using the Self-Marking resources which include a Marking Guide and/or Sample Answer for each question. If you wish to access these without completing the questions, click on [End Exam](#) on the Item Review Screen and navigate to the Marking tab on the Dashboard to Self-Mark.

Instruction screens

Instructions (1 of 4)

The instructions displayed below are representative of those displayed in the live exam. Where there are differences between this 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.

Answering and Navigating

- Please read each question carefully.
- 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.
- A warning message will display to remind you that you cannot navigate away from a question if you have not viewed all of the question content. Ensure that you use all scrollbars and/or open any on-screen exhibits before navigating from each question.
- Some questions have the scenario and answer area divided by either a horizontal or vertical splitter bar. You can move this splitter bar to see more or less of the scenario or answer area.
- Please ensure you provide an answer for all elements of each question.
- 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 if you no longer wish to revisit/review the question later in the exam.

Instruction screens (continued)

Instructions (2 of 4)

Help

- Click the **Help** button provided to access:
- A copy of these exam instructions.
- Help and guidance on constructed response questions.
- 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.

Highlight and Strikethrough

- You can highlight key phrases or figures in the question scenario by selecting  **Highlight**
- You can strikethrough text in the question scenario by selecting  **Strikethrough**
- Highlighted and strikethrough text will be displayed on all questions relating to the scenario.

Workings/Scratch Pad

- You may use an on-screen Scratch Pad to make notes/workings by selecting  **Scratch Pad**
- The Scratch Pad retains all notes/workings entered for all questions 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 questions in the constructed response section of the live exam you must show them within the answer areas.

Instruction screens (continued)

Instructions (3 of 4)

Copy and Paste

- You can copy and paste from the Scratch Pad or question scenario into your answers in the constructed response section of the exam by using the Ctrl-C (Copy) and Ctrl-V (Paste) shortcuts. **Note:** When pasting into a spreadsheet in the live exam you must double-click the cell or paste directly into the formula bar. In this exam you can also paste into the spreadsheet by selecting the cell.

Symbol

- You can add a selection of currency symbols to your answers in the constructed response section of the exam by selecting  Symbol on the top toolbar.

Navigator Screen

- The Navigator screen 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 questions and whether they have been viewed, are complete or incomplete, or have been flagged for review.

Close All

- You can close each window (eg. Calculator or Scratch Pad) individually or you can close multiple windows by selecting  Close All on the top toolbar.

Reviewing the Exam

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

Instruction screens (continued)

Instructions (4 of 4)

Item Review Screen

- This screen gives you an opportunity to see the flag and completion status of all questions 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 answer 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**
- Once you end the exam, you cannot revisit any questions.

Select **Next** to move to the Exam Summary screen.

Exam summary screen

Exam Summary

Time allowed: This sample exam is not timed.

- You will be presented with **two constructed response questions**, each containing a scenario which relates to one or more requirement(s). The requirements may be split over multiple question screens.
- Each constructed response question is worth **20 marks** in total.
- **40 marks** in total.
- All questions are compulsory.

Important: In your live exam you must:

1. Enter your answer for each question in the response area provided for that question. Any answers entered into a response area provided for a different question will not be marked.
2. Show all notes/workings that you want the marker to see within the response area provided for the question. Remember, any notes/workings made on the Scratch Pad or on your workings paper will not be marked.

Select **Next** to start your exam.

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Sample exam questions

Scenario 1

Financial Reporting (FR) Sample Questions - March/June 2020

Symbol Highlight Strikethrough Calculator Scratch Pad

This scenario relates to two requirements.

Fit Co and Sporty Co both operate in the sportswear sector.

Extracts from the draft financial statements for the companies for the year ended 31 December 20X0 are as follows:

Draft statement of profit or loss for the year ended 31 December 20X0:

	Fit Co \$000	Sporty Co \$000
Revenue	250,000	220,000
Cost of Sales	(190,000)	(150,000)
Gross profit	60,000	70,000
Profit on disposal (note (iii))	5,000	
Operating expenses	(40,000)	(38,000)
Profit from operations	25,000	32,000
Finance costs	(7,500)	(1,000)
Profit before tax	17,500	31,000

Draft statement of financial position as at 31 December 20X0:

	Fit Co \$000	Sporty Co \$000
Cash	5,000	10,000
Total equity	90,000	60,000
Non-current liabilities	45,000	15,000
Trade payables	35,000	12,000

The following information is also relevant:

- (i) Fit Co is a manufacturer and retailer of premium branded sportswear, which it sells online and in its own international chain of branded stores.
- (ii) Sporty Co sells mid-market sportswear in department stores and online. It sources its good directly from the manufacturer and does not make international sales. Sporty Co plans to expand into the international market during the next financial year.
- (iii) On 31 December 20X0, Fit Co disposed of its investment in the Active division for consideration of \$10m. The cash proceeds have been recorded as a receivable at the date the financial statements were prepared and the gain on disposal is included in the statement of profit or loss above. The Active division had the following ratios for the year ended 31 December 20X0:
Gross profit margin is 40%
Operating profit margin is 5%
- (iv) Fit Co also charged \$100,000 per month to the Active division for central services, which was deducted from operating expenses in the financial statements.

Scenario 1: requirements

(a) Using the financial statement extracts provided, calculate the following ratios for both Fit Co and Sporty Co:

- (i) Gross Profit margin;
- (ii) Operating profit margin;
- (iii) Trade payables days;
- (iv) Return on Capital Employed; and
- (v) Gearing (debt/equity).

(6 marks)

(b) Comment on the performance and position of both companies for the year ended 31 December 20X0.

(14 marks)

(20 marks)

The image shows a rich text editor interface. The toolbar at the top contains icons for undo, redo, search, bold, italic, underline, strikethrough, subscript, and superscript. Below the toolbar is a second row of icons for paragraph style, table, bulleted list, numbered list, and indent. The main area is a large, empty text box for writing the response.

Scenario 2

Financial Reporting (FR) Sample Questions - March/June 2020

Symbol Highlight Strikethrough Calculator Scratch Pad

This scenario relates to two requirements.

Plank Co has owned 35% of Arch Co since 1 June 20X7 and it acquired 85% of Strip Co on 1 April 20X8. The statements of profit or loss and other comprehensive income for the year ended 31 December 20X8 are:

	Plank Co	Strip Co	Arch Co
	\$'000	\$'000	\$'000
Revenue	705,000	218,000	256,000
Cost of sales	(320,000)	(81,000)	(83,500)
Gross profit	385,000	137,000	172,500
Distribution costs	(58,000)	(16,000)	(18,500)
Administrative expenses	(92,000)	(28,000)	(29,000)
Investment income	46,000	2,000	-
Finance costs	(12,000)	(14,000)	(11,000)
Profit before tax	269,000	81,000	114,000
Income tax expense	(51,500)	(15,000)	(21,430)
Profit for the year	217,500	66,000	92,570
Other comprehensive income			
Gain on revaluation of land	2,800	3,000	-
Total comprehensive income for the year	220,300	69,000	92,570

The following information is relevant:

- A fair value exercise conducted on 1 April 20X8 concluded that the carrying amounts of Strip Co's net assets were equal to their fair values with the exception of an item of machinery which had a fair value of \$8m in excess of its carrying amount. At 1 April 20X8, the machinery had a remaining life of three years. Depreciation is charged to cost of sales
- Since acquisition, Plank Co has sold goods to Strip Co totalling \$39m. Strip Co had one quarter of these goods in inventory at 31 December 20X8. During the year, Plank Co also sold goods to Arch Co for \$26m, all of which Arch Co held in inventory at 31 December 20X8. All of these goods had a mark-up on cost of 30%
- The investment income of Plank Co for the year ended 31 December 20X8 includes dividends from Strip Co and Arch Co (see note (iv)). It also includes \$5m interest receivable on a loan made to Strip Co on 1 April 20X8
- Strip Co paid a dividend to shareholders of \$18m on 31 December 20X8. Arch Co paid a dividend on 31 December 20X8 of \$35m
- In Plank Co's consolidated statement of financial position at 31 December 20X7, the carrying amount of Plank Co's investment in Arch Co was \$145,000. This was calculated using equity accounting
- All other comprehensive income occurred after 1 April 20X8. Unless otherwise indicated, all other items in the above statements of profit or loss and other comprehensive income are deemed to accrue evenly over the year

Requirements for Scenario 2

(a) Prepare the consolidated statement of profit or loss and other comprehensive income of Plank Co for the year ended 31 December 20X8.

(18 marks)

(b) Calculate the carrying amount of the investment in Arch Co in the consolidated statement of financial position of Plank Co as at 31 December 20X8.

(2 marks)

(20 marks)

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Sheet1

Example view of full CBE constructed response workspace

Financial Reporting (FR) Sample Questions - March/June 2020
2 of 2

Symbol Highlight Strikethrough Calculator Scratch Pad

 Close All Flag for Review

This scenario relates to two requirements.

Plank Co has owned 35% of Arch Co since 1 June 20X7 and it acquired 85% of Strip Co on 1 April 20X8. The statements of profit or loss and other comprehensive income for the year ended 31 December 20X8 are:

	Plank Co	Strip Co	Arch Co
	\$'000	\$'000	\$'000
Revenue	705,000	218,000	256,000
Cost of sales	(320,000)	(81,000)	(83,500)
Gross profit	385,000	137,000	172,500
Distribution costs	(68,000)	(16,000)	(18,500)
Administrative expenses	(92,000)	(28,000)	(29,000)
Investment income	46,000	2,000	-
Finance costs	(12,000)	(14,000)	(11,000)
Profit before tax	269,000	81,000	114,000
Income tax expense	(51,500)	(15,000)	(21,430)
Profit for the year	217,500	66,000	92,570
Other comprehensive income			
Gain on revaluation of land	2,800	3,000	-
Total comprehensive income for the year	220,300	69,000	92,570

The following information is relevant:

(i) A fair value exercise conducted on 1 April 20X8 concluded that the carrying amounts of Strip Co's net assets were equal to their fair values with the exception of an item of machinery which had a fair value of \$8m in excess of its carrying amount. At 1 April 20X8, the machinery had a remaining life of three years. Depreciation is charged to cost of sales.

(ii) Since acquisition, Plank Co has sold goods to Strip Co totalling \$39m. Strip Co had one quarter of these goods in inventory at 31 December 20X8. During the year, Plank Co also sold goods to Arch Co for \$26m, all of which Arch Co held in inventory at 31 December 20X8. All of these goods had a mark-up on cost of 30%.

(a) Prepare the consolidated statement of profit or loss and other comprehensive income of Plank Co for the year ended 31 December 20X8. (18 marks)

(b) Calculate the carrying amount of the investment in Arch Co in the consolidated statement of financial position of Plank Co as at 31 December 20X8. (2 marks)

(20 marks)

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Sheet1
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