

# Financial Reporting

## Sample Questions – September/December 2019

### 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



### 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.

This exam is reflective of the constructed response section of the live exam in terms of how it will be structured and assessed, but has some differences:

- There is no timer in this exam however the live exam will have a time limit.
- In the live exam your answers to the constructed response questions will be expert-marked. In this exam you should use the relevant solution material, available from the Past Exam section of the ACCA website, to assess your performance.
- In the live exam you will be able to highlight and strikethrough text in the question scenario (this feature is not currently available in this exam).

## 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  or , 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.

## Instruction screens (continued)




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### Instructions (2 of 4)


#### 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.


#### Help

- Click the **Help** button provided to access:
  - A copy of these exam instructions.
  - Help and guidance on constructed response questions (in the constructed response section of the exam only).
  - 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**,  **HelpFormulae Sheet** or  **HelpTax 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.


#### 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 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.

#### Insert Symbol


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

 **Previous** **Next** 

## Instruction screens (continued)

### Instructions (3 of 4)

#### 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.

#### 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 the Next button.
- This takes you to the Item Review screen.

#### Item Review Screen

- This screen gives you an opportunity to see the flag and completion status of all questions before you exit the exam.
- In the live exam this screen will indicate whether the question is complete or incomplete. In this exam, it will show the following:
  - **Unseen** – you have not yet viewed the question.
  - **Blank** – you have viewed the question.

There will be no indication on whether these questions have been answered or whether the answers are correct or incorrect. You should refer to the relevant solution material, available from the Past Exam section of the ACCA website, for guidance to assess your own performance.

## Instruction screens (continued)

### Instructions (4 of 4)

#### Revisiting Questions

- 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.
- You can review your answers against the relevant solution material provided in the Past Exam section of the ACCA website.

#### Exiting 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

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Symbol Calculator Scratch Pad

This scenario relates to three requirements.

Bun Co is a bakery which also owns two shops/cafés. Over the last two years, the company has experienced declining profitability due to increased competition and so the directors wish to investigate if this is a sector-wide problem. Consequently, they have acquired equivalent ratios for the sector, some of which have been reproduced below.

Sector averages for the year ended 30 June 20X7:

Return on capital employed	18.6%
Operating profit margin	8.6%
Net asset turnover	2.01
Inventory holding period	4 days
Debt to equity	80%

The following information has been extracted from the draft financial statements of Bun Co for the year ended 31 December 20X7:

Statement of profit or loss for the year ended 31 December 20X7:

	\$'000
Revenue	100,800
Cost of sales	(70,000)
Gross profit	30,800
Operating expenses	(17,640)
Profit from operations	13,160

Statement of financial position as at 31 December 20X7:

	\$'000
Non-current assets	55,000
Inventory	3,960
Equity:	
Equity shares of \$1 each	17,000
Revaluation surplus	5,400
Retained earnings	10,480
	32,880
Non-current liabilities: 10% bank loan	14,400

Other relevant information to Bun Co:

- (1) In 20X6, Bun Co acquired a popular brand name. At 31 December 20X7, the brand represented 20% of non-current assets. The remaining 80% of non-current assets comprises of the property from which Bun Co operates its bakery and shops. This property is owned by Bun Co and has no directly associated finance. The property was revalued in 20X4.
- (2) In the year ended 31 December 20X7, Bun Co began offering discounted meal deals to customers. Bun Co hoped this strategy would help to reduce perishable inventory and reduce inventory holding periods.
- (3) In January 20X8, it was decided to discount some slow-moving seasonal inventory which had a selling price of \$1.5m. Under normal circumstances, these products have a gross profit margin of 20%. The inventory was sold in February 20X8 for 50% of what it had cost Bun Co to produce. The financial statements for the year ended 31 December 20X7 were authorised for issue on 15 March 20X8.



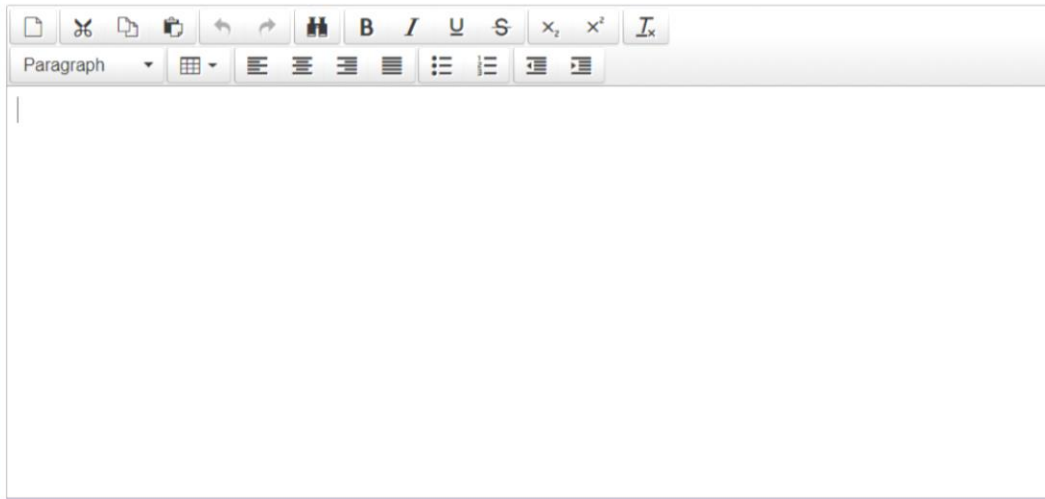
## Scenario 1: requirements

(a) Adjust for the information in note (3) and calculate the 20X7 sector average equivalent ratios for **Bun Co**.  
(7 marks)

(b) Assess the financial performance and position of **Bun Co** for the year ended 31 December 20X7 in comparison with the sector average ratios.  
(10 marks)

(c) Explain three possible limitations of the comparison between **Bun Co** and the sector average ratios provided.  
(3 marks)

(20 marks)



The image shows a rich text editor interface. At the top, there is a toolbar with icons for: undo, redo, bulleted list, bold (B), italic (I), underline (U), strikethrough (ABC), subscript (x<sub>2</sub>), superscript (x<sup>2</sup>), and text color (I<sub>x</sub>). Below the toolbar, there is a dropdown menu currently set to 'Paragraph'. To the right of the dropdown are icons for: grid, left-align, center-align, right-align, justify, bulleted list, numbered list, and link/unlink. The main area below the toolbar is a large, empty white box for text entry.

## Scenario 2

### Financial Reporting (FR) Sample Questions - September/December 2019

Æ Symbol Calculator Scratch Pad

This scenario relates to two requirements.

On 1 April 20X4, Runner Co acquired 80% of Jogger Co's equity shares when the retained earnings of Jogger Co were \$19.5m. The consideration consisted of cash of \$42.5m paid on 1 April 20X4 and a further cash payment of \$21m, deferred until 1 April 20X5. No accounting entries have been made in respect of the deferred cash payment. Runner Co has a cost of capital of 8%. The appropriate discount rate is 0.926.

The draft, summarised statements of financial position of the two companies at 31 March 20X5 are shown below:

	Runner Co \$'000	Jogger Co \$'000
<b>ASSETS</b>		
Non-current assets		
Property plant and equipment	455,800	44,700
Investments	55,000	–
	<b>510,800</b>	<b>44,700</b>
Current assets		
Inventory	22,000	16,000
Trade receivables	35,300	9,000
Bank	2,800	1,500
	<b>60,100</b>	<b>26,500</b>
<b>Total assets</b>	<b>570,900</b>	<b>71,200</b>
<b>Equity and liabilities</b>		
Equity		
Equity shares of \$1 each	202,500	25,000
Retained earnings	286,600	28,600
	<b>489,100</b>	<b>53,600</b>
Current liabilities		
Trade Payables	81,800	17,600
<b>Total equity and liabilities</b>	<b>570,900</b>	<b>71,200</b>

- (i) Runner Co's policy is to value the non-controlling interest at fair value at the date of acquisition. The fair value of the non-controlling interest in Jogger Co on 1 April 20X4 was estimated at \$13m.

The fair values of Jogger Co's other assets, liabilities and contingent liabilities at 1 April 20X4 were equal to their carrying amounts with the exception of a specialised piece of plant which had a fair value of \$10m in excess of its carrying amount. This plant had a ten year remaining useful life on 1 April 20X4.

- (ii) In December 20X4 Jogger Co sold goods to Runner Co for \$6.4m, earning a gross margin of 15% on the sale. Runner Co still held \$4.8m of these goods in its inventories at 31 March 20X5.

Jogger Co still had the full invoice value of \$6.4m in its trade receivables at 31 March 20X5, however, Runner Co's payables only showed \$3.4m as it made a payment of \$3m on 31 March 20X5.

## Requirements for Scenario 2

(a) Prepare the consolidated statement of financial position for Runner Co as at 31 March 20X5.

(16 marks)

(b) Runner Co acquired 30% of Walker Co's equity shares on 1 April 20X5 for \$13m, Walker Co had been performing poorly over the last few years and Runner Co hoped its influence over Walker Co would help to turn the company around. In the year ended 31 March 20X6 Walker Co made a loss of \$30m. Runner Co has no contractual obligation to make good the losses relating to Walker Co.

Explain how Walker Co should be accounted for in the consolidated Statement of financial position of Runner Co for the year ended 31 March 20X6. Your answer should also include a calculation of the carrying amount of the investment in the associate at that date.

(4 marks)

(20 marks)

Edit Format

A1

	A	B	C	D	E	F	G	H	I	J	K	L	M
1													
2													
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6													
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8													

## Example view of full CBE constructed response workspace

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Symbol Calculator Scratch Pad Flag for Review

This scenario relates to two requirements.

On 1 April 20X4, Runner Co acquired 80% of Jogger Co's equity shares when the retained earnings of Jogger Co were \$19.5m. The consideration consisted of cash of \$42.5m paid on 1 April 20X4 and a further cash payment of \$21m, deferred until 1 April 20X5. No accounting entries have been made in respect of the deferred cash payment. Runner Co has a cost of capital of 8%. The appropriate discount rate is 0.926.

The draft, summarised statements of financial position of the two companies at 31 March 20X5 are shown below:

	Runner Co \$'000	Jogger Co \$'000
<b>ASSETS</b>		
Non-current assets		
Property plant and equipment	455,800	44,700
Investments	55,000	-
	<b>510,800</b>	<b>44,700</b>
Current assets		
Inventory	22,000	16,000
Trade receivables	35,300	9,000
Bank	2,800	1,500
	<b>60,100</b>	<b>26,500</b>
<b>Total assets</b>	<b>570,900</b>	<b>71,200</b>
Equity and liabilities		
Equity		
Equity shares of \$1 each	202,500	25,000
Retained earnings	286,600	28,600
	<b>489,100</b>	<b>53,600</b>

(a) Prepare the consolidated statement of financial position for Runner Co as at 31 March 20X5. (16 marks)

(b) Runner Co acquired 30% of Walker Co's equity shares on 1 April 20X5 for \$13m, Walker Co had been performing poorly over the last few years and Runner Co hoped its influence over Walker Co would help to turn the company around. In the year ended 31 March 20X6 Walker Co made a loss of \$30m. Runner Co has no contractual obligation to make good the losses relating to Walker Co.

Explain how Walker Co should be accounted for in the consolidated Statement of financial position of Runner Co for the year ended 31 March 20X6. Your answer should also include a calculation of the carrying amount of the investment in the associate at that date. (4 marks)

(20 marks)

Edit Format

100%

11 B I U A

A1

	A	B	C	D	E	F	G	H	I	J	K	L	M
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Help Previous Navigator Next