Applied Skills

Financial Reporting

Mock Exam 1 – Questions

Time allowed: 3 hours

This examination is divided into three sections:

Section A

- 15 objective test (OT) questions, each worth 2 marks
- 30 marks in total

Section B

- Three OT cases, containing a scenario which relates to five OT questions, each worth 2 marks
- 30 marks in total

Section C

- Two constructed response questions, each containing a scenario which relates to one or more requirement(s)
- Each constructed response question is worth 20 marks in total
- 40 marks in total

FR MOCK 1

Section A

This section of the exam contains **15 objective test (OT) questions.**
Each question is worth **2 marks** and is compulsory.
This exam section is worth **30 marks** in total.

1 At 31 October 20X6, the non-current assets of Nium Co had a carrying amount of $754,860 and a tax base of $543,875. At 31 October 20X5, the company's provision for deferred tax was $39,853. The tax rate is 20%.

What amount should be reported in Nium Co's statement of profit or loss for the year to 31 October 20X6 for deferred tax?

Select...
$2,344 credit
$2,344 charge
$42,197 credit
$42,197 charge

2 **Which of the following statements regarding historical cost accounting are correct?**

(1) Holding gains on assets are never recognised

(2) Inflation can be ignored when comparing financial performance between different time periods

(3) Market values are reported for non-current assets

○ 1 only
○ 2 only
○ 1 and 2
○ 2 and 3

3 A company has $500,000 issued share capital of $0.50 equity shares. The following events occurred in the financial year ended 31 December 20X6:

(1) On 31 March, paid a final dividend of $0.10 a share that had been proposed on 31 December 20X5.

(2) On 31 July, paid an interim dividend of $0.05 a share.

(3) On 31 December, proposed a final dividend of $0.12 a share.

What amount for dividends should be included in the statement of changes in equity for the year ended 31 December 20X6?

$ [   ] 000

4 **According to IAS® 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, which of the following would require a prior period adjustment in a company's financial statements for the year ended 31 October 20X6?**

○ Inventory as at 31 October 20X4 had been materially overvalued due to double counting of some inventory in a warehouse

○ The straight-line method of depreciation applied to vehicles up to 31 October 20X5 was changed to reducing balance method from 1 November 20X5

○ The non-controlling interest in a subsidiary acquired on 1 June 20X5 has been measured at fair value. Non-controlling interests in all other subsidiaries are measured at their share of identifiable net assets

○ A business segment sells kitchen units to customers. From 1 April 20X6, the segment also offers a kitchen fitting service to customers

Applied Skills

Financial Reporting

Mock Exam 1
Answers & Marking Scheme

FR MOCK1

Section A

1 2,344 charge

WORKING

	$
Carrying amount	754,860
Tax base	543,875
Taxable temporary difference	210,985
Provision required at 20%	42,197
Brought forward	39,853
Increase (i.e. charge)	**2,344**

2 ○ 1 only

Tutorial note: *Holding gains on assets are never recognised, therefore (1) is correct. Inflation should be considered when comparing different time periods and market values are not reported for non-current assets, therefore statements (2) and (3) are incorrect.*

3 $ $\boxed{150}$ 000

Tutorial note: *Dividends are accounted for only when declared for payment, not when they are merely proposed (as this does not give rise to a liability). The statement of changes in equity will therefore include dividends declared and paid in the year.*

WORKING

There are 500,000/$0.50 = 1 million shares in issue.

	$000
20X5 Final dividend (1m × 0.1)	100
20X6 Interim dividend (1m × 0.05)	50
	150

4 ○ Inventory as at 31 October 20X4 had been materially overvalued due to double counting of some inventory in a warehouse

Tutorial note: *The error in the count is a prior period error, which must be corrected retrospectively (i.e. as a prior period adjustment). The change in depreciation is a change in accounting estimate, which is recognised prospectively. IFRS 3* Business Combinations *allows an entity to choose either method for each subsidiary, so there is no change in policy or error in the measurement of NCI. The new source of revenue from 1 April will require a new accounting policy, not a change in an existing policy.*