

Financial Reporting

September/December 2020 exam (20/21 Syllabus)

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

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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.

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Instruction screens

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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.




← Previous Next →

Instruction screens (continued)


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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.

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Instruction screens (continued)

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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 **Next →**
- This takes you to the Item Review screen.

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Instruction screens (continued)

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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.

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Exam summary screen

FR September/December 2020 exam (20/21 Syllabus)

Time allowed: This exam is not timed.

This exam 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, each 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.

All questions are compulsory.

Select **Next** to start your exam.

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Sample exam questions

Scenario 1

FR September/December 2020 exam (20/21 Syllabus)

Symbol Highlight Strikethrough Calculator Scratch Pad

This scenario relates to two requirements.

Loudon Co has prepared a draft statement of profit or loss for the year ended 30 September 20X8 (before any adjustments required by notes (1) to (4) below). The draft profit has been added to retained earnings and the summarised trial balance of Loudon Co as at 30 September 20X8 is:

	\$'000	\$'000
Equity shares of \$1 each		10,000
Retained earnings as at 30 September 20X8 (draft)		4,122
Office building at cost	20,000	
Factories cost 1 October 20X7 (note (2))	40,000	
Office building accumulated depreciation 1 October 20X7		4,000
Factories accumulated depreciation 1 October 20X7		11,100
Environmental provision 1 October 20X7 (note (3))		1,228
Current liabilities		34,500
Current assets	14,700	
Proceeds of 5% loan note (note (1))		5,000
Deferred Tax		1,500
Interest paid (note (1))	250	
Suspense account (note (2))		3,500
	74,950	74,950

The following notes are relevant:

(1) Loan note

A 5% loan note was issued on 1 October 20X7 at its face value of \$5m. Direct costs of the issue amounted to \$0.125m and were charged to profit or loss. The loan will be redeemed in five years time at a substantial premium which gives an effective interest rate of 8%. The annual repayments of \$250,000 (\$5m at 5%) are paid on 30 September each year.

(2) Non-current assets

Loudon Co acquired an office building for \$20m on 1 October 20X2 with an estimated useful life of 25 years. Depreciation is charged on a pro-rata basis. On 1 April 20X8, the building was deemed to be impaired as its fair value was estimated to be \$12m. At that date the estimated remaining life was revised to 12 years. Ignore the deferred tax consequences of this revaluation. Loudon Co had ten factories. On 1 October 20X7 Loudon Co sold one of its factories with a carrying amount of \$3m (cost \$5m and accumulated depreciation \$2m) for \$3.5m. The proceeds were credited to the suspense account.

No depreciation has yet been charged on any non-current asset for the year ended 30 September 20X8. The factories are depreciated at 15% per annum using the reducing balance method.

(3) Environmental provision

Loudon Co has an obligation to clean-up environmental damage caused at one of its factory sites during 20X7. The clean-up is due to take place at the end of the factory's useful life. The liability has been accounted for appropriately and the balance at 1 October 20X7 represents the correct present value at that date. Loudon Co has a cost of capital of 5%.

(4) Deferred tax

At 30 September 20X8, the tax written down value of property, plant and equipment was \$25m. The income tax rate applicable to Loudon Co is 20%.

Scenario 1: requirements

(a) Prepare a schedule of adjustments required to the retained earnings of Loudon Co as at 30 September 20X8 as a result of the information in notes (1) to (4). (8 marks)

(b) Prepare the statement of financial position of Loudon Co as at 30 September 20X8.

Note: The notes to the statement of financial position are not required. All calculations should be rounded to the nearest \$'000.

(12 marks)

(20 marks)

The screenshot shows a spreadsheet application interface. At the top, there are menu options for 'Edit' and 'Format'. Below the menus is a toolbar with various icons for editing and formatting, including a font size dropdown set to 11, bold, italic, underline, text color, background color, bullet point, numbered list, decrease indent, increase indent, text alignment (left, center, right, justified), number format (decimal, percentage, fraction, square root), and a link icon. The main area is a grid of cells. The first row is labeled 'A' through 'S', and the first column is labeled '1' through '17'. The cell at the intersection of row 1 and column A is selected, with a small cursor visible. The status bar at the bottom indicates 'Sheet1' and shows navigation arrows.

Scenario 2

FR September/December 2020 exam (20/21 Syllabus)

Symbol Highlight Strikethrough Calculator Scratch Pad

This scenario relates to three requirements.

At 1 January 20X8, the Karl group consisted of the parent, Karl Co, and two wholly-owned subsidiaries. There were no intra-group transactions during the year.

The sale of one of the subsidiaries, Sinker Co, was completed on 31 December 20X8 when Karl Co sold its entire holding for \$20m cash. Sinker Co had net assets of \$29m at the date of disposal. The sale does not meet the definition of a discontinued operation and has been correctly accounted for in the consolidated financial statements. The gain/loss on disposal of Sinker Co is included in administrative expenses.

Karl Co had originally purchased Sinker Co on 1 January 20X2 for \$35m. The fair value and carrying amount of net assets of Sinker Co at the date of acquisition were \$28m. Goodwill was considered to be impaired by 70% at 31 December 20X8.

Extracts from the consolidated financial statements for the years ended 31 December 20X8 and 20X7 are shown below:

Extracts from the statements of profit or loss for the year ended 31 December:

	Consolidated 20X8 \$m	Consolidated 20X7 \$m
Revenue	289	272
Cost of sales	(165)	(140)
Gross profit	124	132
Administrative expenses	(45)	(23)
Distribution costs	(15)	(13)
Operating profit / (loss)	64	96

Extracts from the statements of financial position as at 31 December:

	Consolidated 20X8 \$m	Consolidated 20X7 \$m
Current assets	112	125
Equity	621	578
Non-current liabilities	100	150
Current liabilities	36	161

The following information is also relevant:

- (1) The majority of non-current liabilities is comprised of bank loans.
- (2) Sales of Sinker Co represented 14% of the total group sales for 20X8, however, in March 20X8, Sinker Co lost a significant customer contract resulting in a number of redundancies. These redundancy costs amounted to \$15m and are included in administrative expenses. Overall, Sinker Co made an operating loss of \$17m.
- (3) The Karl group manufactures food packaging. The inventory included in the above consolidated statements of financial position is:

Group inventory at:	Inventory \$m
31 December 20X8	65
31 December 20X7	78

- (4) At 31 December 20X8, Sinker Co had inventory of \$42m.

Requirements for Scenario 2

(a) Calculate the gain/loss arising on the disposal of Sinker Co in the consolidated financial statements of the Karl group.

(4 marks)

(b) Based on the financial statements provided, calculate the following ratios and comment on the financial performance and position of the Karl group for the years ended 31 December 20X8 and 20X7:

- (i) Gross profit margin;
- (ii) Operating profit margin;
- (iii) Return on capital employed;
- (iv) Current ratio; and
- (v) Gearing ratio (debt/(debt+equity)).

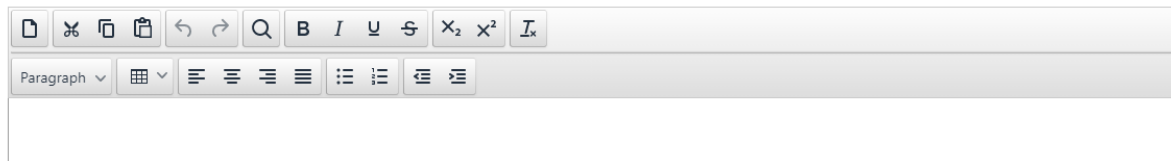
Note: a maximum of 5 marks is available for the calculation of ratios

(13 marks)

(c) Comment on how the sale of Sinker Co will affect the comparability of the consolidated financial statements for the years ended 31 December 20X7 and 20X8.

(3 marks)

(20 marks)



The image shows a rich text editor toolbar with the following icons from left to right: a document icon, a percentage icon, a copy icon, a paste icon, a left arrow, a right arrow, a search icon, a bold icon (B), an italic icon (I), an underline icon (U), a strikethrough icon (ABC), a subscript icon (x₂), a superscript icon (x²), and a link icon (I_x). Below the main toolbar is a secondary toolbar with a paragraph dropdown menu, a table icon, a bulleted list icon, a numbered list icon, a decrease indent icon, an increase indent icon, a bulleted list icon, a numbered list icon, and a decrease indent icon.

Example view of full CBE constructed response workspace

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Symbol Highlight Strikethrough Calculator Scratch Pad
Close All Flag for Review

This scenario relates to two requirements.

Loudon Co has prepared a draft statement of profit or loss for the year ended 30 September 20X8 (before any adjustments required by notes (1) to (4) below). The draft profit has been added to retained earnings and the summarised trial balance of Loudon Co as at 30 September 20X8 is:

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	74,950	74,950

The following notes are relevant:

(1) **Loan note**
A 5% loan note was issued on 1 October 20X7 at its face value of \$5m. Direct costs of the issue

(a) Prepare a schedule of adjustments required to the retained earnings of Loudon Co as at 30 September 20X8 as a result of the information in notes (1) to (4). (8 marks)

(b) Prepare the statement of financial position of Loudon Co as at 30 September 20X8. (20 marks)

Note: The notes to the statement of financial position are not required. All calculations should be rounded to the nearest \$'000. (12 marks)

Edit Format

11 100%

B I U % 1/2

A1

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

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14

Sheet1

Help Review Screen Navigator Next