ACCA Think Ahead

Financial Reporting

March/June 2021 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. Further instructions on how to use the platform will be provided before you attempt the exam.

Introduction screen

FR March/June 2021 (20/21 syllabus)

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.

Exam summary screen

FR March/June 2021 (20/21 syllabus)

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.

Sample exam questions

Scenario 1

FR March/June 2021 (20/21 syllabus)

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This scenario relates to two requirements.

Pastry Co is considering the acquisition of a subsidiary in the catering industry. Two companies have been identified as potential acquisitions and extracts from the financial statements of Cook Co and Dough Co have been reproduced below:

Statements of profit or loss for the year ended 30 September 20X7:

	Cook Co $'000	**Dough Co $'000**
Revenue	21,500	16,300
Cost of sales	(14,545)	(8,350)
Gross profit	**6,955**	**7,950**
Operating expenses	(1,940)	(4,725)
Finance costs	(650)	(200)
Profit before tax	**4,365**	**3,025**
Income tax	(1,320)	(780)
Profit for the year	**3,045**	**2,245**

Extracts from the statements of financial position as at 30 September 20X7:

	Cook Co $'000	**Dough Co $'000**
Non-current assets		
Property	22,250	68,500
Equity		
Equity shares of $1 each	1,000	1,000
Revaluation surplus	-	30,000
Retained earnings	18,310	2,600
Non-current liabilities		
Loan notes	7,300	5,200

Note: See page 11 for example view of full CBE constructed response workspace

Scenario 1 (continued)

Notes:

(1) Both companies are owner-managed. Dough Co operates from expensive city centre premises, selling to local businesses and the public. Cook Co is a large wholesaler, selling to chains of coffee shops. Cook Co operates from a number of low-cost production facilities.

(2) On 1 October 20X6, Dough Co revalued its properties for the first time, resulting in a gain of $30m. The properties had a remaining useful life of 30 years at 1 October 20X6. Dough Co does not make a transfer from the revaluation surplus in respect of excess depreciation. Cook Co uses the cost model to account for its properties. Dough Co and Cook Co charge all depreciation expenses to operating expenses.

(3) Cook Co charges the amortisation of its research and development to cost of sales, whereas Dough Co charges the same costs to operating expenses. These costs amounted to $1.2m for Cook Co and $2.5m for Dough Co.

(4) The notes to the financial statements show that Cook Co paid its directors total salaries of $110,000 whereas Dough Co paid its directors total salaries of $560,000.

(5) The following ratios have been correctly calculated in respect of Cook Co and Dough Co for the year ended 30 September 20X7:

	Cook Co	**Dough Co**
Gross profit margin	32.3%	48.8%
Operating margin	23.3%	19.8%
Return on capital employed	18.8%	8.3%

Note: See page 11 for example view of full CBE constructed response workspace

Scenario 1: requirements

(a) Adjust the relevant extracts from Dough Co's financial statements to apply the same accounting policies as Cook Co and re-calculate Dough Co's ratios provided in note (5).

(6 marks)

(b) Based on these adjusted accounting ratios, compare the performance of the two companies. Your answer should comment on the difficulties of making a purchase decision based solely on the extracts of the financial statements and the information provided in notes (1) to (5).

(14 marks)

(20 marks)

Note: See page 11 for example view of full CBE constructed response workspace

Scenario 1: requirements (continued)

This table should be used to answer part (a):

	Dough Co	Adjustment (if required)	Adjusted Dough Co
Statement of Profit or Loss for the year ended 30 September 20X7	**$'000**		**$'000**
Revenue	16,300		
Cost of sales	(8,350)		
Gross profit	**7,950**		
Operating expenses	(4,725)		
Finance costs	(200)		
Profit before tax	**3,025**		
Income Tax	(780)		
Profit for the year	**2,245**		
Statement of Financial Position at 30 September 20X7			
Non-current assets			
Property	68,500		
Equity			
Equity shares of $1 each	1,000		
Revaluation Surplus	30,000		
Retained Earnings	2,600		
Non-current liabilities			
Loan notes	5,200		

Ratios:

(b)

Note: See page 11 for example view of full CBE constructed response workspace

Scenario 2

FR March/June 2021 (20/21 syllabus)

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This scenario relates to two requirements.

On 1 January 20X2, Gold Co acquired 90% of the 16 million $1 equity share capital of Silver Co. Gold Co issued three new shares in exchange for every five shares it acquired in Silver Co. Additionally Gold Co will pay further consideration on 31 December 20X2 of $2.42 per share acquired. Gold Co's cost of capital is 10% per annum and the discount factor at 10% for one year is 0.9091. At the date of acquisition, shares in Gold Co and Silver Co had fair values of $8.00 and $3.50 respectively.

Statement of profit or loss for the year ended 30 September 20X2:

	Gold Co $'000	**Silver Co $'000**
Revenue	103,360	60,800
Cost of sales	(81,920)	(41,600)
Gross profit	**21,440**	**19,200**
Distribution costs	(2,560)	(2,980)
Administrative expenses	(6,080)	(3,740)
Investment income	800	-
Finance costs	(672)	-
Profit before tax	**12,928**	**12,480**
Income tax expense	(4,480)	(2,560)
Profit for the year	**8,448**	**9,920**

The following information is relevant:

(1) At 1 October 20X1, the retained earnings of Silver Co were $56m.

(2) At the date of acquisition, the fair value of Silver Co's assets were equal to their carrying amounts with the exception of two items:

- An item of plant had a fair value of $2.6m above its carrying amount. The remaining life of the plant at the date of acquisition was three years. Depreciation is charged to cost of sales.

Note: See page 11 for example view of full CBE constructed response workspace

Scenario 2 (continued)

- Silver Co had a contingent liability which Gold Co estimated to have a fair value of $850,000. This has not changed as at 30 September 20X2.

Silver Co has not incorporated these fair value changes into its financial statements.

(3) Gold Co's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose, Silver Co's share price at that date can be deemed to be representative of the fair value of the shares held by the non-controlling interest.

(4) Sales from Gold Co to Silver Co in the post-acquisition period had consistently been $600,000 per month. Gold Co made a mark-up on cost of 25% on these sales. Silver Co had $1.2m of these goods in inventory as at 30 September 20X2.

(5) Gold Co's investment income is a dividend received from its investment in a 40% owned associate which it has held for several years. The associate made a profit of $3m for the year ended 30 September 20X2.

(6) On 1 October 20X1 Gold Co issued 100,000 $100 6% convertible loan notes at par value, with interest payable annually in arrears over a five-year term. The equivalent rate for non-convertible loan notes was 8%. Gold Co has recorded the loan notes as a liability at par value and charged the annual 6% interest to finance costs.

Discount factors in year 5:	**Annuity factors for 5 years:**
6% 0.747	6% 4.212
8% 0.681	8% 3.993

(7) At 30 September 20X2 no impairment to goodwill is required.

(8) Profits accrue evenly throughout the year unless otherwise stated.

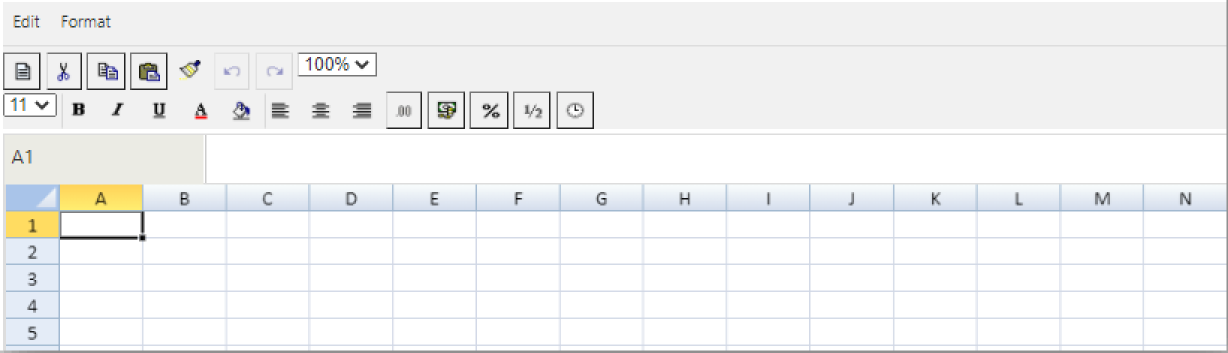
Note: See page 11 for example view of full CBE constructed response workspace

Requirements for Scenario 2

(a) Calculate the goodwill arising on the acquisition of Silver Co.

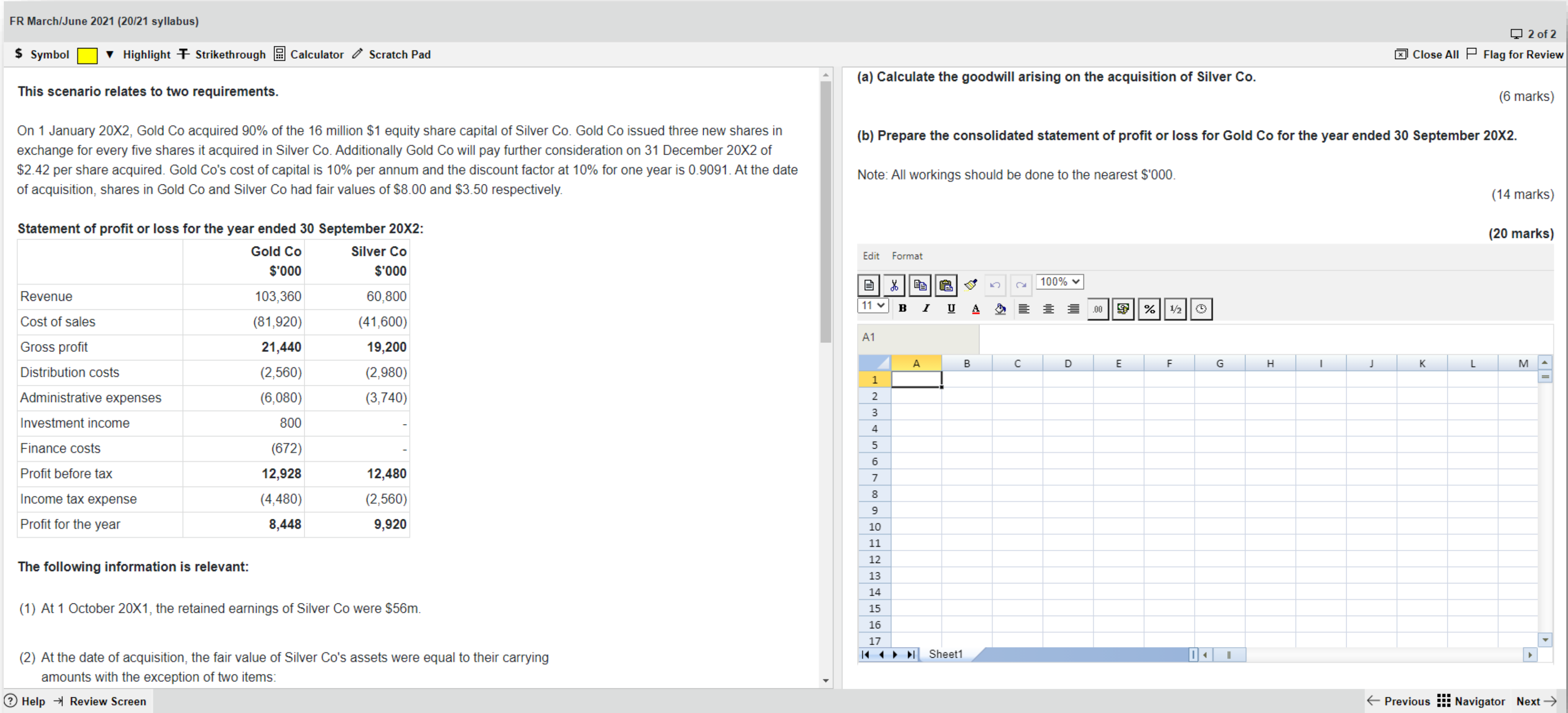
(b) Prepare the consolidated statement of profit or loss for Gold Co for the year ended 30 September 20X2.

Note: All workings should be done to the nearest $'000.



Note: See page 11 for example view of full CBE constructed response workspace

Example view of full CBE constructed response workspace



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2 of 2

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This scenario relates to two requirements.

On 1 January 20X2, Gold Co acquired 90% of the 16 million $1 equity share capital of Silver Co. Gold Co issued three new shares in exchange for every five shares it acquired in Silver Co. Additionally Gold Co will pay further consideration on 31 December 20X2 of $2.42 per share acquired. Gold Co's cost of capital is 10% per annum and the discount factor at 10% for one year is 0.9091. At the date of acquisition, shares in Gold Co and Silver Co had fair values of $8.00 and $3.50 respectively.

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The following information is relevant:

(1) At 1 October 20X1, the retained earnings of Silver Co were $56m.

(2) At the date of acquisition, the fair value of Silver Co's assets were equal to their carrying amounts with the exception of two items:

(a) Calculate the goodwill arising on the acquisition of Silver Co.

(6 marks)

(b) Prepare the consolidated statement of profit or loss for Gold Co for the year ended 30 September 20X2.

Note: All workings should be done to the nearest $'000.

(14 marks)

(20 marks)

Edit Format

A1

Sheet1

Help Review Screen Previous Navigator Next