ACCA FA Financial Accounting

Mock exam: 35 questions in 63 minutes, with an answer key and explanations

How to use this mock

- Set a timer for **63 minutes** and answer every question without notes. Write your answers in the grid on the next page.
- Mark your answers using the answer key, then read the explanation for every question you got wrong or guessed.
- The questions cover every section of the syllabus, in proportion to the GoQualified question bank for FA.
- Prefer to sit it on screen? The **Exam Sim** on **goqualified.co.uk/fa/** times you, marks the paper and shows your weakest section.
- All questions are original GoQualified practice questions, not past exam questions.

Free from GoQualified. Questions start on page 3; the answer key and explanations follow them. Download the latest version from goqualified.co.uk/fa/.

Your answers

1 _____	8 _____	15 _____	22 _____	29 _____
2 _____	9 _____	16 _____	23 _____	30 _____
3 _____	10 _____	17 _____	24 _____	31 _____
4 _____	11 _____	18 _____	25 _____	32 _____
5 _____	12 _____	19 _____	26 _____	33 _____
6 _____	13 _____	20 _____	27 _____	34 _____
7 _____	14 _____	21 _____	28 _____	35 _____

Questions

Question 1

The IASB Conceptual Framework identifies two fundamental qualitative characteristics of useful financial information. Which of the following correctly identifies them?

A Comparability and understandability
B Timeliness and verifiability
C Relevance and faithful representation
D Materiality and prudence

Question 2

A company has a receivable of £50,000 from a customer who is experiencing financial difficulty. Management estimates a 70% probability of default. Under the prudence aspect of faithful representation, how should this be reflected?

A Wait until the customer formally defaults before making any adjustment
B Write off the full £50,000 immediately as the customer may default
C Recognise an allowance for the expected credit loss, reducing the receivable to reflect the probable loss
D Continue to carry the receivable at £50,000 as no loss has been confirmed

Question 3

Which of the following best describes the concept of materiality in financial reporting?

A Information must always be disclosed regardless of its size or significance
B Materiality is a precise threshold of 5% of profit below which items need not be disclosed
C Materiality applies only to the income statement, not the statement of financial position
D Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence the decisions of users

Question 4

A company purchases equipment for £15,000 on credit. Which journal entry correctly records this transaction?

A Debit Payables £15,000; Credit Equipment £15,000
B Debit Equipment £15,000; Credit Cash £15,000
C Debit Equipment £15,000; Credit Payables £15,000
D Debit Expenses £15,000; Credit Payables £15,000

Question 5

At the start of the month, the trade receivables balance was £28,000 debit. During the month, credit sales of £45,000 were made and cash receipts from customers totalled £38,000. What is the closing trade receivables balance?

A £35,000 credit
B £7,000 debit
C £73,000 debit
D £35,000 debit

Question 6

At the year end, trade receivables are £80,000. A specific debt of £3,000 is to be written off and an allowance of 2% is required on the remaining balance. What is the net receivables figure in the statement of financial position?

A £78,400
B £75,400
C £77,000
D £75,460

Question 7

A pharmaceutical company spends £500,000 on research and £300,000 on development of a new drug. The development meets all the IAS 38 criteria for capitalisation. How should these costs be treated?

A Both research and development: capitalise as intangible assets
B Both research and development: expense to income statement
C Research: capitalise; Development: expense to income statement
D Research: expense to income statement; Development: capitalise as an intangible asset

Question 8

Last year a company wrote off a debt of £2,400 owed by a customer who had stopped trading. This year the customer unexpectedly paid the £2,400 in full. Which journal entry records the receipt?

A Debit Bank £2,400; Credit Trade receivables £2,400
B Debit Bank £2,400; Credit Irrecoverable debts expense £2,400
C Debit Trade receivables £2,400; Credit Bank £2,400
D Debit Bank £2,400; Credit Allowance for receivables £2,400

Question 9

What is the purpose of a non-current asset register?

A To record all capital expenditure decisions approved by the board during the year
B To provide the external auditor with a list of assets to physically inspect
C To replace the need for depreciation calculations in the accounting system
D To record details of all non-current assets owned by the entity, including cost, depreciation, and carrying amount, supporting the financial statements and internal controls

Question 10

A company both sells goods to and buys goods from Y Ltd. At the year end Y Ltd owes the company £6,500 and the company owes Y Ltd £4,200. Both parties agree to set off the balances so that only the net amount is settled. Which journal entry records the contra?

A Debit Payables £4,200; Credit Receivables £4,200
B Debit Receivables £4,200; Credit Payables £4,200
C Debit Payables £6,500; Credit Receivables £6,500
D Debit Payables £2,300; Credit Receivables £2,300

Question 11

A company has 400 units of product X in inventory. Cost per unit is £22. The selling price has fallen to £18 per unit. Selling costs are £2 per unit. What is the total inventory value and what write-down is required?

A Inventory value £6,400; Write-down £2,400
B Inventory value £8,800; No write-down needed
C Inventory value £7,200; Write-down £1,600
D Inventory value £6,400; Write-down £1,600

Question 12

A company has 2,000,000 ordinary shares of £0.50 each in issue. It makes a 1 for 5 rights issue at £1.20 per share, which is fully taken up and paid in cash. By how much do share capital and share premium increase?

A Share capital £400,000; share premium £80,000
B Share capital £200,000; share premium £280,000
C Share capital £480,000; share premium nil
D Share capital £200,000; share premium £480,000

Question 13

A company purchases a building for £500,000. The surveyor's fee is £5,000, legal costs are £8,000, and stamp duty land tax (SDLT) is £15,000. Internal management time spent overseeing the purchase is estimated at £12,000. What is the cost to be capitalised?

A £540,000
B £513,000
C £520,000
D £528,000

Question 14

Under IFRS 18 (which replaced IAS 1 for financial statement presentation), which of the following correctly describes a new requirement for the statement of profit or loss?

A Entities may present income and expenses in any order they choose, provided totals are disclosed
B The statement of profit or loss has been replaced by a single statement of comprehensive income only
C Entities must present all income and expenses net of tax in a single line item
D Entities must present income and expenses in defined categories: operating, investing, and financing, with a mandatory subtotal for operating profit

Question 15

On the statement of financial position, how are assets typically presented?

A Non-current assets first, followed by current assets, in order of increasing liquidity
B Current assets first, followed by non-current assets, in order of decreasing liquidity
C All assets listed alphabetically regardless of liquidity
D Assets and liabilities are not separated — they are listed together

Question 16

A machine cost £90,000 on 1 January. The company charges depreciation at 25% reducing balance. The financial year ends 31 December. What is the depreciation charge for the year and the closing carrying amount?

A Depreciation £22,500; Carrying amount £67,500
B Depreciation £22,500; Carrying amount £90,000
C Depreciation £25,000; Carrying amount £65,000
D Depreciation £18,000; Carrying amount £72,000

Question 17

Opening cash balance: £1,200. Cash received from customers: £84,000. Cash paid to suppliers: £61,000. Cash expenses paid: £14,500. Drawings: £6,000. What is the closing cash balance?

A £3,700
B £9,700
C £15,700
D £2,500

Question 18

Opening retained earnings: £145,000. Profit for the year: £62,000. Dividends paid: £18,000. Dividends declared before the year end but not yet paid: £10,000. What are closing retained earnings?

A £189,000
B £179,000
C £197,000
D £207,000

Question 19

A company has share capital of £200,000 and a share premium account of £150,000. It makes a 1 for 4 bonus issue (capitalising the share premium). There are 400,000 shares in issue at £0.50 nominal value. What are the balances after the bonus issue?

A Share capital £250,000; Share premium £100,000
B Share capital £350,000; Share premium £0
C Share capital £200,000; Share premium £100,000
D Share capital £250,000; Share premium £150,000

Question 20

A company's closing retained earnings are £187,000. During the year, profit was £54,000 and dividends paid were £22,000. What were the opening retained earnings?

A £209,000
B £163,000
C £241,000
D £155,000

Question 21

At the year end, a company estimates that staff bonuses of £45,000 will be paid in February (after year end) for services rendered during the current year. How should this be treated?

A Recognise £45,000 as a liability and asset (prepayment) — cash will flow next year
B Recognise the expense only when the bonuses are paid in February
C Disclose in the notes but do not recognise until the bonuses are formally approved
D Accrue £45,000 as a liability and expense in the current year — the obligation relates to services already received

Question 22

A company's payables ledger shows a credit balance of £8,640 for supplier Z, but Z's statement at the same date shows £11,420 owed. Investigation finds: (1) an invoice for £2,150 dated 30 December is on the statement but had not been received by the company; (2) a payment of £1,400 sent on 30 December is not yet on the statement; (3) an invoice for £1,980 was recorded in the ledger as £1,890; (4) a credit note for £430 from Z was posted to the credit side of Z's account. What is the corrected balance on the company's payables ledger account for Z?

A £8,300
B £7,870
C £9,590
D £10,020

Question 23

A suspense account has a credit balance of £3,600. Investigation reveals a single error: a purchase invoice of £3,600 was correctly debited to purchases, but the corresponding credit was posted to the suspense account instead of the supplier's (payables) account. Which entry clears the suspense account?

A Debit Suspense £3,600; Credit Purchases £3,600
B Debit Suspense £3,600; Credit Supplier (payables) account £3,600
C Debit Supplier (payables) account £3,600; Credit Suspense £3,600
D Debit Suspense £1,800; Credit Supplier account £1,800

Question 24

The trial balance includes opening inventory of £15,000. Closing inventory is valued at £22,000. How are these figures processed when preparing the financial statements?

A Opening inventory: shown as an asset in the SFP; Closing inventory: expensed immediately
B Both: included in cost of sales only — inventory does not appear on the SFP
C Opening inventory: included in cost of sales; Closing inventory: deducted from cost of sales and shown as a current asset in the SFP
D Closing inventory: added to purchases; Opening inventory: shown as equity

Question 25

A company's draft profit for the year is £86,400. The following errors are then found: (1) a machine costing £12,000, bought on the first day of the year, was debited to repairs expense; the company depreciates machinery at 20% a year on a straight-line basis; (2) some items were missed from the closing inventory count, so closing inventory was understated by £2,500. What is the corrected profit for the year?

A £100,900
B £95,900
C £93,500
D £98,500

Question 26

Under IFRS, which of the following is correctly classified as a current liability?

A A 5-year bank loan with 4 years remaining
B Deferred tax liabilities
C Revaluation surplus
D A bank overdraft repayable on demand

Question 27

Operating profit £95,000; Depreciation £18,000; Increase in inventory £7,000; Decrease in payables £4,000; Increase in receivables £9,000; Tax paid £22,000; Purchase of PPE £35,000; Proceeds from share issue £50,000; Dividends paid £15,000. What is the net increase/decrease in cash?

A £86,000 increase
B £53,000 increase
C £93,000 increase
D £71,000 increase

Question 28

Under IAS 7, where in the statement of cash flows should dividends paid to the company's own shareholders be classified?

A Financing activities — as they represent a cost of equity finance
B Operating activities — as they are paid from operating profits
C Either operating or financing activities — IAS 7 allows a choice
D Investing activities — as they represent a return on investment

Question 29

Which of the following is required to be disclosed in the notes to the financial statements for property, plant and equipment?

A The expected selling price of each class of asset if it were sold at the reporting date
B A reconciliation of the carrying amount at the start and end of the period for each class
C The name of the supplier and date of purchase of each major item
D The insurance value of each class of asset at the reporting date

Question 30

Parent acquires 80% of Subsidiary for £320,000. At acquisition: Subsidiary's net assets = £300,000; NCI measured at fair value = £75,000. What is the goodwill on acquisition?

A £80,000
B £95,000
C £20,000
D £245,000

Question 31

Parent sells goods to Subsidiary at a mark-up of 25% on cost. At the year end, Subsidiary holds £30,000 of these goods in inventory (at transfer price). What is the unrealised profit adjustment in the consolidated financial statements?

A £7,500 reduction in inventory and retained earnings
B £30,000 elimination of the intragroup sale
C £0 — intragroup transactions are only eliminated from the income statement, not inventory
D £6,000 reduction in inventory and retained earnings

Question 32

When preparing a consolidated statement of financial position, why are the subsidiary's pre-acquisition retained earnings excluded from consolidated retained earnings?

A They were earned before the parent owned the subsidiary — they are part of the consideration (net assets) paid for and cannot be claimed as group earnings
B Pre-acquisition profits are illegal under company law and must be excluded
C The subsidiary's retained earnings are always restated to zero at acquisition by the parent
D They are included in NCI rather than in the parent's share of earnings

Question 33

A company has current assets of £160,000 and current liabilities of £100,000. It then uses £20,000 of its cash to pay trade payables. What is the effect on its current ratio?

A It falls to 1.4:1
B It stays at 1.6:1, because assets and liabilities both fall by £20,000
C It rises to 1.75:1
D It rises to 2.0:1

Question 34

A company's current ratio has fallen from 2.5:1 to 1.1:1 over two years. Receivables days have increased from 35 to 62 days. Which of the following is the most likely explanation for the combined trend?

A Deteriorating liquidity — the company is extending more credit to customers (longer collection period) while current liabilities are growing relative to current assets, suggesting potential cash flow pressure
B Improving efficiency — a lower current ratio indicates the company is using its current assets more productively
C The company has improved its working capital management by collecting receivables faster
D The trends are contradictory and cannot be interpreted together

Question 35

A company's gearing ratio (debt/equity) has increased from 30% to 75% after a major debt-financed acquisition. Which of the following best describes the implication for financial risk?

A Higher financial risk — increased debt increases the obligation to pay interest and repay principal, making the company more vulnerable to earnings downturns
B Lower financial risk — debt is cheaper than equity, so replacing equity with debt reduces the overall cost of financing
C Higher financial risk — the acquisition has reduced the company's revenue-generating capacity
D No change in financial risk — gearing ratios do not affect the risk profile of a business

Answer key

1 C	**8** B	**15** A	**22** B	**29** B
2 C	**9** D	**16** A	**23** B	**30** B
3 D	**10** A	**17** A	**24** C	**31** D
4 C	**11** A	**18** B	**25** D	**32** A
5 D	**12** B	**19** A	**26** D	**33** C
6 D	**13** D	**20** D	**27** D	**34** A
7 D	**14** D	**21** D	**28** A	**35** A

Score: count your correct answers out of 35. Then work through the explanations below.

Answers and explanations

Question 1: C Relevance and faithful representation

The Conceptual Framework identifies relevance (information capable of making a difference to decisions) and faithful representation (information that is complete, neutral, and free from error) as the two fundamental qualitative characteristics. Comparability, understandability, timeliness, and verifiability (A, B) are enhancing qualitative characteristics — they improve usefulness but are secondary. Materiality is an aspect of relevance, not a separate characteristic. Prudence is discussed in the framework but is not a fundamental characteristic.

Section A, Fundamental qualitative characteristics · Ref A2a · fa003

Question 2: C Recognise an allowance for the expected credit loss, reducing the receivable to reflect the probable loss

Prudence means not overstating assets or understating liabilities. A high probability of default requires an allowance against the receivable — reflecting the expected credit loss. Waiting for confirmed default (A) delays recognition of a probable loss, overstating assets. Writing off the full amount (B) overstates the loss when recovery of 30% is expected. Carrying at full value (D) overstates the asset, violating faithful representation.

Section A, Prudence · Ref A3c · fa007

Question 3: D Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence the decisions of users

Materiality is a user-focused concept: information is material if its omission or misstatement could influence economic decisions. There is no fixed percentage threshold (B) — materiality is assessed in context (nature and magnitude). IFRS guidance confirms both quantitative and qualitative factors matter. Information does not always need to be disclosed if it is immaterial (A). Materiality applies to all financial statement components (C).

Section A, Materiality · Ref A2c · fa096

Question 4: C Debit Equipment £15,000; Credit Payables £15,000

The purchase of equipment on credit increases a non-current asset (debit Equipment) and creates a liability (credit Payables). The double entry rule: assets increase with a debit; liabilities increase with a credit. Option A reverses the entries. Option B assumes cash payment, not credit. Option D incorrectly treats equipment as an expense — it is a capital asset.

Section B, Double entry — debits and credits · Ref B1a · fa011

Question 5: D £35,000 debit

Trade receivables T-account: Opening balance £28,000 (Dr) + Credit sales £45,000 (Dr) − Cash receipts £38,000 (Cr) = Closing balance £35,000 (Dr). Receivables are assets — a debit balance is correct. Option A (credit) would indicate the company owes customers money. Option B (£7,000) subtracts receipts from sales and ignores the opening balance. Option C ignores receipts.

Section B, The ledger and T-accounts · Ref B1b · fa012

Question 6: D £75,460

Write off the specific debt first: £80,000 − £3,000 = £77,000 remaining. Then apply the 2% allowance to the remaining balance: 2% × £77,000 = £1,540. Net receivables = £77,000 − £1,540 = £75,460. Option A (£78,400) forgets the write-off and applies 2% to the full £80,000 (£80,000 × 98%). Option B (£75,400) applies the 2% allowance to the original £80,000 (£1,600) rather than to the £77,000 net balance — a common sequencing error. Option C (£77,000) writes off the debt but omits the general allowance entirely. Always write off specific irrecoverable debts before calculating the allowance — the allowance is applied only to what remains.

Section B, Irrecoverable debts and allowances · Ref B2g · fa020

Question 7: D Research: expense to income statement; Development: capitalise as an intangible asset

IAS 38 requires research costs to be expensed as incurred — research creates knowledge but cannot reliably be measured as an asset generating future economic benefits. Development costs may be capitalised when strict criteria are met (technical feasibility, intention to complete, ability to use or sell, probable future benefits, adequate resources, and ability to measure reliably). When all criteria are met, development costs must be capitalised. Option A capitalises research — not permitted. Options B and C misapply the rules.

Section C, Intangible assets — recognition · Ref C3a · fa028

Question 8: B Debit Bank £2,400; Credit Irrecoverable debts expense £2,400

The debt was removed from receivables when it was written off last year, so there is no receivable left to credit. The cash received is recorded by debiting Bank and crediting the irrecoverable debts expense account (or an irrecoverable debts recovered income account), which increases profit for the current year. Option A credits receivables, but the debt was already removed from receivables when it was written off, so this would leave a credit balance there. Option C reverses the direction and records a payment rather than a receipt. Option D credits the allowance for receivables, but the allowance relates to debts still held that may not be collected, not to a specific debt already written off.

Section C, Irrecoverable debt subsequently recovered · Ref D8f · fa035

Question 9: D To record details of all non-current assets owned by the entity, including cost, depreciation, and carrying amount, supporting the financial statements and internal controls

A non-current asset register provides detailed records of each asset — description, serial number, location, cost, acquisition date, depreciation method, accumulated depreciation, and carrying amount. It supports financial statement accuracy, assists with insurance, helps with asset safeguarding, and reconciles to the ledger balances. It records existing assets (A is too narrow). The auditor may use it (B) but that is not its purpose. It complements depreciation calculations, not replaces them (C).

Section C, Asset register · Ref C2f · fa092

Question 10: A Debit Payables £4,200; Credit Receivables £4,200

A contra can only be made for the smaller of the two balances, £4,200. The amount owed to Y Ltd (a payable, normally a credit balance) is reduced by a debit, and the amount owed by Y Ltd (a receivable, normally a debit balance) is reduced by a credit. After the contra, Y Ltd owes the company £6,500 - £4,200 = £2,300 and the payable is cleared. Option B reverses the entries and would increase both balances. Option C uses the larger balance, which would leave a debit balance of £2,300 on the payables account. Option D uses the net amount, which is the balance still to be settled in cash, not the amount set off.

Section C, Contra between receivables and payables · Ref D8j · fa097

Question 11: A Inventory value £6,400; Write-down £2,400

Inventory is measured at the lower of cost and net realisable value (NRV). NRV per unit = selling price £18 − selling costs £2 = £16, which is below the cost of £22, so inventory is valued at NRV. Inventory value = 400 × £16 = £6,400. The write-down from cost is (£22 − £16) × 400 units = £6 × 400 = £2,400. Option B (£8,800 = 400 × £22) values inventory at cost and ignores NRV entirely. Option C (£7,200 = 400 × £18) uses the selling price itself as NRV, forgetting to deduct the £2 selling costs. Option D gets the inventory value right but understates the write-down as 400 × (£22 − £18) = £1,600, again omitting selling costs from the calculation. NRV is always net of costs necessary to complete and sell the inventory.

Section C, Net realisable value — application · Ref C6b · fa113

Question 12: B Share capital £200,000; share premium £280,000

New shares = 2,000,000 / 5 = 400,000. Cash received = 400,000 x £1.20 = £480,000. Share capital is credited with the nominal value: 400,000 x £0.50 = £200,000. Share premium is credited with the excess over nominal value: 400,000 x £0.70 = £280,000. Option A treats the nominal value as £1.00. Option C credits all the proceeds to share capital, ignoring the premium. Option D credits the full proceeds to share premium as well as recording share capital, so the entries would not balance with the cash received.

Section C, Recording a rights issue · Ref D10h · fa130

Question 13: D £528,000

Under IAS 16, the cost of a property includes: purchase price + directly attributable costs to bring the asset to its intended condition and location. Surveyor's fee (£5,000) ✓, legal costs (£8,000) ✓, SDLT (£15,000) ✓ are all directly attributable. Internal management time (£12,000) is not a directly attributable cost under IAS 16 — it would be expensed. Total = £500,000 + £5,000 + £8,000 + £15,000 = £528,000. Option A includes management time. Option B excludes SDLT. Option C excludes legal costs.

Section C, Accounting for a purchase of a property · Ref C11a · fa136

Question 14: D Entities must present income and expenses in defined categories: operating, investing, and financing, with a mandatory subtotal for operating profit

IFRS 18 (effective for periods beginning on or after 1 January 2027, early adoption permitted) introduces defined categories for the income statement, mainly operating, investing and financing (plus income taxes and discontinued operations), with required subtotals for operating profit and for profit before financing and income taxes. This replaces the more flexible IAS 1 presentation and improves comparability. It does not allow free ordering (A). The statement of profit or loss remains a required statement (B). Income and expenses are not presented net of tax (C).

Section D, Income statement — structure under IFRS 18 · Ref D1a · fa036

Question 15: A Non-current assets first, followed by current assets, in order of increasing liquidity

The usual presentation, and the one used in ACCA exams, lists non-current assets first (the least liquid, such as property, plant and equipment and intangibles), followed by current assets (inventory, receivables, then cash). This is in order of increasing liquidity (option A). IFRS does not prescribe the order, and presenting current assets first (B) is common in US practice, but it is not the format used in ACCA exams. Assets are not listed alphabetically (C), and assets are always presented separately from liabilities (D).

Section D, Statement of financial position — format · Ref D1b · fa037

Question 16: A Depreciation £22,500; Carrying amount £67,500

Year 1: 25% × £90,000 = £22,500. Carrying amount = £90,000 − £22,500 = £67,500. The asset was purchased on 1 January and the year ends 31 December — a full year's depreciation applies. Option B forgets to deduct depreciation from carrying amount. Option C applies 25% to an incorrect base. Option D uses 20% rate.

Section D, Adjustments — depreciation · Ref D4a · fa041

Question 17: A £3,700

Closing cash = Opening + Receipts − Payments − Expenses − Drawings = £1,200 + £84,000 − £61,000 − £14,500 − £6,000 = £3,700. Calculation: £1,200 + £84,000 = £85,200. £85,200 − £61,000 = £24,200. £24,200 − £14,500 = £9,700. £9,700 − £6,000 = £3,700. Option B (£9,700) forgets to deduct drawings. Option C (£15,700) adds drawings instead of deducting them. Option D (£2,500) ignores the opening balance.

Section D, Incomplete records — cash and bank · Ref D6b · fa045

Question 18: B £179,000

Closing retained earnings = Opening + Profit − Dividends paid − Dividends declared = £145,000 + £62,000 − £18,000 − £10,000 = £179,000. Both paid and declared dividends reduce retained earnings once declared (as the obligation exists at declaration). Option A (£189,000) ignores the declared dividend. Option C (£197,000) deducts only the declared dividend. Option D (£207,000) ignores both dividend figures.

Section D, Retained earnings movement · Ref D3c · fa102

Question 19: A Share capital £250,000; Share premium £100,000

Bonus issue: 1 for 4 × 400,000 shares = 100,000 new shares. Nominal value of new shares = 100,000 × £0.50 = £50,000. Journal: Dr Share premium £50,000, Cr Share capital £50,000. After: Share capital = £200,000 + £50,000 = £250,000. Share premium = £150,000 − £50,000 = £100,000. The bonus issue transfers from share premium to share capital — no cash received. Option B uses all the share premium. Option C doesn't change share capital. Option D doesn't reduce the premium.

Section D, Accounting for bonus issues · Ref D12a · fa121

Question 20: D £155,000

Closing = Opening + Profit − Dividends → Opening = Closing − Profit + Dividends = £187,000 − £54,000 + £22,000 = £155,000. Option A (£209,000) adds back the dividends but ignores the profit. Option C (£241,000) adds the profit instead of deducting it. Option B (£163,000) contains an arithmetic error.

Section D, Opening retained earnings and dividends · Ref D14a · fa132

Question 21: D Accrue £45,000 as a liability and expense in the current year — the obligation relates to services already received

Under the accruals concept and IAS 19, employee benefits earned in the period must be recognised as a liability and expense in the period they are earned. The employees have already provided the services in the current year — the bonus is an obligation at year end. It must be accrued: Dr Staff costs £45,000, Cr Accruals £45,000. Option A treats the liability as if matched by an asset (incorrect — no future benefit to the business). Option B applies cash accounting. Option C delays recognition inappropriately.

Section D, Accounting for a bonus · Ref D18a · fa144

Question 22: B £7,870

Only errors in the company's own records are corrected in its ledger; items (1) and (2) are timing differences that appear in the reconciliation. Item (3): the invoice was understated by £90, so add £90. Item (4): a credit note reduces the amount owed and should have been a debit; posting it as a credit overstated the balance by 2 x £430 = £860. Corrected balance = £8,640 + £90 - £860 = £7,870. Check: statement £11,420 - invoice not yet received £2,150 - payment in transit £1,400 = £7,870. Option A removes the credit note only once, ignoring that it was also wrongly added. Option C adds the £860 instead of deducting it. Option D also adds the invoice not yet received, which is a timing difference rather than an error in the ledger.

Section E, Payables ledger reconciliation: correcting errors · Ref E2d · fa053

Question 23: B Debit Suspense £3,600; Credit Supplier (payables) account £3,600

The invoice should have been recorded as Dr Purchases £3,600, Cr Supplier (payables) £3,600. Instead the credit went to the suspense account: Dr Purchases £3,600, Cr Suspense £3,600 — which is why suspense carries a £3,600 credit balance. To clear it, post the credit to the account it should have gone to and remove the suspense balance: Debit Suspense £3,600; Credit Supplier (payables) account £3,600. Option A credits the wrong account (purchases was already correctly debited). Option C reverses the entry, doubling the error rather than clearing it. Option D uses only half the amount, leaving £1,800 stranded in suspense. A credit suspense balance is cleared by debiting suspense and crediting the account originally missed.

Section E, Suspense account — clearing · Ref E2b · fa054

Question 24: C Opening inventory: included in cost of sales; Closing inventory: deducted from cost of sales and shown as a current asset in the SFP

Cost of sales = Opening inventory + Purchases − Closing inventory. Opening inventory (£15,000) is included in cost of sales (it was an asset that has been used/sold). Closing inventory (£22,000) is an asset not yet sold — deducted from cost of sales in the income statement AND shown as a current asset in the SFP. This is one of the most frequently examined adjustments in FA preparation questions.

Section F, Adjustments — closing inventory · Ref F1b · fa059

Question 25: D £98,500

(1) Removing the machine from repairs increases profit by £12,000, but a full year's depreciation of £12,000 x 20% = £2,400 must now be charged. (2) Understated closing inventory overstates cost of sales, so correcting it increases profit by £2,500. Corrected profit = £86,400 + £12,000 - £2,400 + £2,500 = £98,500. Option A omits the depreciation on the machine. Option B omits the depreciation and also deducts the inventory correction. Option C charges depreciation but treats the inventory understatement as reducing profit.

Section F, Effect of errors on profit · Ref F2d · fa064

Question 26: D A bank overdraft repayable on demand

Current liabilities are obligations expected to be settled within 12 months of the reporting date. A bank overdraft repayable on demand could be called at any time — it is a current liability. A 5-year loan with 4 years remaining (A) is a non-current liability. Deferred tax (B) is non-current — it reverses over future periods beyond 12 months typically. Revaluation surplus (C) is equity, not a liability.

Section G, Statement of financial position — components · Ref G2a · fa068

Question 27: D £71,000 increase

Cash generated from operations = £95,000 + £18,000 depreciation − £7,000 inventory increase − £4,000 payables decrease − £9,000 receivables increase = £93,000. Less tax paid £22,000 = £71,000 net cash from operating activities. Investing: purchase of PPE −£35,000. Financing: share issue +£50,000 − dividends paid £15,000 = +£35,000. Net increase in cash = £71,000 − £35,000 + £35,000 = £71,000. Option A (£86,000) omits the dividends paid. Option C (£93,000) is cash generated from operations, before tax, investing and financing flows. Option B (£53,000) contains other errors.

Section G, Statement of cash flows — full preparation · Ref G5a · fa088

Question 28: A Financing activities — as they represent a cost of equity finance

IAS 7, as amended by IFRS 18, requires dividends paid to be classified as financing activities, because they are a cost of obtaining equity finance (option A). The previous choice between operating and financing activities has been removed for entities without a specified main business activity, so B and C describe the position before IFRS 18. D confuses dividends paid with dividends received, which are classified as investing activities.

Section G, Cash flow — changes in equity section · Ref G3e · fa111

Question 29: B A reconciliation of the carrying amount at the start and end of the period for each class

IAS 16 requires, for each class of property, plant and equipment, a reconciliation of the carrying amount at the start and end of the period showing additions, disposals, revaluations and depreciation, together with the measurement bases, depreciation methods and useful lives or rates used. Expected selling prices (A) and insurance values (D) are not required; where assets are revalued, the note gives the revaluation details instead. Supplier names and purchase dates (C) are detail held in the non-current asset register, not disclosed in the financial statements.

Section G, Disclosure notes: property, plant and equipment · Ref G3b · fa123

Question 30: B £95,000

Goodwill (full goodwill method) = Consideration + NCI fair value − Net assets acquired = £320,000 + £75,000 − £300,000 = £95,000. The full goodwill method includes NCI's share of goodwill. Under the proportionate NCI method: Goodwill = £320,000 − (80% × £300,000) = £320,000 − £240,000 = £80,000. The question specifies NCI at fair value (full goodwill) = £95,000. Option A uses the proportionate method. Option C (£20,000) ignores NCI altogether. Option D (£245,000) deducts the NCI from the consideration (£320,000 − £75,000) and ignores the net assets acquired altogether.

Section H, Consolidated statement of financial position — goodwill · Ref H1b · fa074

Question 31: D £6,000 reduction in inventory and retained earnings

Mark-up of 25% on cost means: Transfer price = Cost × 1.25. Unrealised profit in inventory = Transfer price × (25/125) = £30,000 × (25/125) = £30,000 × 0.20 = £6,000. The £6,000 is eliminated from group inventory and from retained earnings (reducing group profit). The full transfer price (B) is eliminated from revenue and cost of sales in the income statement — but only the unrealised profit (£6,000) is eliminated from inventory. Option A applies 25% to the transfer price rather than 25/125.

Section H, Consolidated SFP — intragroup elimination · Ref H1d · fa076

Question 32: A They were earned before the parent owned the subsidiary — they are part of the consideration (net assets) paid for and cannot be claimed as group earnings

At acquisition, the parent pays for the subsidiary's net assets — including its retained earnings at that date. These pre-acquisition earnings are reflected in the purchase price and goodwill calculation. They cannot then be claimed as group profits (that would amount to double-counting). Only post-acquisition earnings (earned while the subsidiary was part of the group) are included in consolidated retained earnings. Pre-acquisition profits are not illegal (B). They are not restated to zero (C). They form part of the net assets used in the goodwill calculation, not NCI earnings (D).

Section H, Pre-acquisition vs post-acquisition · Ref H1g · fa117

Question 33: C It rises to 1.75:1

Before the payment the current ratio is £160,000 / £100,000 = 1.6:1. Paying £20,000 of payables reduces both current assets and current liabilities by £20,000, giving £140,000 / £80,000 = 1.75:1. When the ratio is above 1:1, an equal reduction in both figures increases the ratio. Option A reduces current assets only. Option B assumes equal reductions leave a ratio unchanged, which is only true if the ratio is exactly 1:1. Option D reduces current liabilities only.

Section I, Effect of a transaction on the current ratio · Ref I3a · fa087

Question 34: A Deteriorating liquidity — the company is extending more credit to customers (longer collection period) while current liabilities are growing relative to current assets, suggesting potential cash flow pressure

A falling current ratio combined with rising receivables days is a warning sign: less liquid (less ability to meet short-term obligations) combined with slower customer collections. This combination suggests cash flow pressure — the company has more current liabilities relative to current assets, and is taking longer to convert receivables to cash. Option B misinterprets a low current ratio as efficiency (it can be, but combined with rising receivables days it is more concerning). Option C describes the opposite — receivables days rising means collections are slower. Option D ignores the analytical value of combined ratio trends.

Section I, Ratio analysis — interpretation · Ref I8a · fa129

Question 35: A Higher financial risk — increased debt increases the obligation to pay interest and repay principal, making the company more vulnerable to earnings downturns

Higher gearing increases financial risk because interest payments are obligatory (unlike dividends) and debt must be repaid. If earnings fall, the company may struggle to meet interest obligations. Option B confuses cost of capital with risk — while debt may be cheaper, higher gearing transfers more risk to equity holders and increases the probability of financial distress. Option C makes an unsupported assumption about the acquisition's revenue impact. Gearing is specifically a measure of financial risk (D is wrong).

Section I, Gearing — implications · Ref I9a · fa137