ACCA FR Financial Reporting

Mock exam: 15 questions in 27 minutes, with an answer key and explanations

How to use this mock

- Set a timer for **27 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 FR.
- Prefer to sit it on screen? The **Exam Sim** on **goqualified.co.uk/fr/** 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/fr/.

Your answers

1 _____	**4** _____	**7** _____	**10** _____	**13** _____
2 _____	**5** _____	**8** _____	**11** _____	**14** _____
3 _____	**6** _____	**9** _____	**12** _____	**15** _____

Questions

Question 1

Which of the following is an advantage of using IFRS Accounting Standards rather than a purely national regulatory framework?

A IFRS standards are simpler than national standards, reducing the compliance burden for preparers
B IFRS standards eliminate the need for professional judgement in financial reporting
C IFRS standards are legally binding in all jurisdictions that adopt them
D IFRS standards enhance comparability of financial statements across different countries, benefiting international investors and reducing the cost of capital

Question 2

Why is it necessary to eliminate intragroup transactions when preparing consolidated financial statements?

A Because including intragroup transactions would inflate the group's reported revenue, assets, and profits by counting internal transfers as if they were external transactions
B Because intragroup transactions are illegal under most jurisdictions' company law
C Because IFRS 18 requires all related party transactions to be excluded from financial statements
D Because intragroup transactions always result in unrealised losses that must be written off

Question 3

Marlow Co purchases a machine for $480,000. Delivery and installation costs are $18,000. A government grant of $40,000 is received toward the purchase, which Marlow accounts for using the deferred income model (the grant is held as a separate liability). Dismantling costs of $25,000 will be incurred at the end of the asset's 10-year life (present value $15,000). What is the initial carrying amount of the machine under IAS 16?

A $458,000
B $473,000
C $523,000
D $513,000

Question 4

On 1 January 20X1, Beresford Co issues a $1,000,000 bond at a discount, receiving $940,000 in cash. The bond pays 5% interest on nominal value annually and has an effective interest rate of 7%. What is the finance cost and carrying amount at 31 December 20X1?

A Finance cost $65,800; carrying amount $955,800
B Finance cost $50,000; carrying amount $990,000
C Finance cost $65,800; carrying amount $1,005,800
D Finance cost $47,000; carrying amount $937,000

Question 5

Which of the following creates a DEDUCTIBLE temporary difference, giving rise to a deferred tax ASSET?

A Accelerated capital allowances — tax depreciation exceeds accounting depreciation
B Revenue recognised in accounting profit before it is taxed
C A revaluation of land upwards where no equivalent tax adjustment is made
D A provision for warranty costs that is recognised for accounting purposes but only deductible for tax when the costs are actually paid

Question 6

Harsley Co has a machine with a carrying amount of $420,000. On 1 October 20X4 (quarter-end), management decides to sell the machine and it meets all IFRS 5 criteria for classification as held for sale. Its fair value is $400,000 and estimated costs to sell are $15,000. The year end is 31 December 20X4. What amount should be recognised in the statement of financial position?

A $420,000 — carrying amount is maintained until disposal
B $400,000 — remeasured to fair value
C $385,000 — remeasured to fair value less costs to sell
D $405,000 — carrying amount less three months of additional depreciation

Question 7

Blackwood Co issues 1,000,000 ordinary shares at $3.50 each. The nominal value of each share is $1.00. Transaction costs of $50,000 are incurred. How are these recorded?

A Dr Cash $3,500,000; Cr Share capital $3,500,000
B Dr Cash $3,450,000; Cr Share capital $1,000,000; Cr Share premium $2,400,000; Dr Share issue costs $50,000 (P&L)
C Dr Cash $3,450,000; Cr Share capital $950,000; Cr Share premium $2,500,000
D Dr Cash $3,450,000; Cr Share capital $1,000,000; Cr Share premium $2,450,000

Question 8

A consulting firm pays $80,000 of sales commission that it would not have incurred if it had not won a 3-year consulting contract. It expects to recover the cost through the contract. Under IFRS 15, how should the commission be treated?

A Expensed immediately — all pre-contract costs are period costs
B Deducted from contract revenue on the date the contract commences
C Treated as goodwill and tested annually for impairment
D Recognised as an asset and amortised over the 3-year contract period

Question 9

A student analyses two companies' operating profit margins: Company A = 18%, Company B = 12%. Which of the following is the most useful analysis?

A 'Company A's margin of 18% is 6 percentage points higher than Company B's 12%. Company A appears to be more cost-efficient; however, Company B operates in the highly competitive budget retail sector where margins are structurally lower, and its margin may be appropriate relative to peers.'
B 'Company A has a higher operating profit margin than Company B, which is better.'
C 'A higher margin is always preferable — Company A is the stronger business.'
D 'Company A has a margin of 18% and Company B has a margin of 12%.'

Question 10

Which of the following is a limitation of using consolidated financial statements for interpretation purposes?

A Consolidated statements always overstate profitability by including NCI profits
B Consolidated statements are less reliable than individual entity statements because of the intercompany eliminations
C Consolidated statements are only prepared every three years, limiting their usefulness for trend analysis
D Consolidated statements aggregate results across multiple business segments and geographies, potentially masking poor performance in one area with strong performance in another

Question 11

Thornwick Co sells equipment for $95,000. The equipment had cost $180,000 and had accumulated depreciation of $110,000. Under the indirect method, how are these transactions reflected in the statement of cash flows?

A Profit on disposal of $25,000 removed from operating activities; $95,000 proceeds shown under investing activities
B $95,000 under operating activities; depreciation of $110,000 added back in operating activities
C $95,000 under financing activities; the book loss/gain adjusted in operating activities
D $70,000 (book value) shown under investing activities; $25,000 gain shown in profit or loss

Question 12

Langford Co borrows $3,000,000 specifically to construct a new factory. Construction begins 1 January 20X4 and the factory is ready for use on 30 September 20X4. The interest rate is 6% per annum. How much borrowing cost should be capitalised as part of the cost of the factory?

A $180,000
B $45,000
C $135,000
D $0 — borrowing costs must be expensed under IAS 23

Question 13

Bramble Group owns 75% of Foxglove Co. Foxglove's profit for the year (post all consolidation adjustments) is $480,000. What is the profit attributable to the NCI?

A $120,000
B $360,000
C $160,000
D $480,000

Question 14

Parent Co disposes of its entire 80% holding in Sub Co during the year, resulting in Sub Co becoming a discontinued operation. Which of the following correctly describes the presentation in the consolidated financial statements?

A Sub Co's results for the full year are included in all line items of the consolidated P&L
B Sub Co's post-disposal results are excluded; only pre-disposal results are included, with a single-line disclosure of profit/loss from discontinued operations
C Sub Co's results are excluded entirely from all financial statements for the year
D Sub Co's results are shown for the full year but on a separate discontinued operations section

Question 15

In a consolidated statement of profit or loss, profit for the period of $800,000 must be split between owners of the parent (75%) and NCI (25%). The subsidiary contributed profit of $120,000 for the post-acquisition period. Which of the following correctly shows the attribution?

A Owners of parent $800,000; NCI $0
B Owners of parent $710,000; NCI $90,000
C Owners of parent $770,000; NCI $30,000
D Owners of parent $740,000; NCI $60,000

Answer key

1 D	**4** A	**7** D	**10** D	**13** A
2 A	**5** D	**8** D	**11** A	**14** B
3 D	**6** C	**9** A	**12** C	**15** C

Score: count your correct answers out of 15. Then work through the explanations below.

Answers and explanations

Question 1: D IFRS standards enhance comparability of financial statements across different countries, benefiting international investors and reducing the cost of capital

The primary advantage of IFRS is international comparability — investors, analysts, and lenders can compare companies across jurisdictions using a common financial language, which reduces information asymmetry and the cost of capital. IFRS standards are generally more complex than many national standards (A is wrong), and they rely heavily on principles that require professional judgement (B is wrong). IFRS are not automatically legally binding — each jurisdiction decides whether and how to adopt them (C is wrong).

Section A, Regulatory framework — need for IFRS · Ref A3a · fr004

Question 2: A Because including intragroup transactions would inflate the group's reported revenue, assets, and profits by counting internal transfers as if they were external transactions

From the group's perspective as a single economic unit, transactions between group members are internal — they do not represent dealings with the outside world. If included, intragroup sales would inflate revenue and cost of sales; intragroup loans would inflate assets and liabilities; and unrealised profit on goods still held in inventory would overstate profit and assets. Elimination restores the reality: only transactions with external parties are shown. Intragroup transactions are not illegal (B). IFRS 18 governs presentation, not elimination of related party transactions (C). Intragroup transactions can generate either profits or losses (D).

Section A, Intragroup eliminations — why necessary · Ref A4f · fr009

Question 3: D $513,000

Initial cost of an item of PPE = purchase price + directly attributable costs + present value of the dismantling/restoration obligation. Cost = $480,000 + $18,000 + $15,000 = $513,000. Because Marlow uses the deferred income model, the $40,000 grant is held as a separate liability and released to profit or loss over the asset's life — it does not reduce the machine's carrying amount, so the machine is recognised at the full $513,000. Option B ($473,000) is the figure under the alternative netting method (deducting the grant from cost), which does not apply here. Option A ($458,000) both deducts the grant and omits the dismantling provision. Option C ($523,000) includes the dismantling cost at its nominal $25,000 instead of its present value of $15,000.

Section B, PPE — initial measurement · Ref B1a · fr016

Question 4: A Finance cost $65,800; carrying amount $955,800

Amortised cost method: Opening carrying amount = $940,000. Finance cost = $940,000 × 7% = $65,800. Cash paid = $1,000,000 × 5% = $50,000. Closing carrying amount = $940,000 + $65,800 − $50,000 = $955,800. Option B uses the coupon ($50,000) as the finance cost and adds it to the opening carrying amount without deducting the cash paid. Option C calculates the correct finance cost but adds it without deducting the cash payment. Option D uses 5% on $940,000 ($47,000) as the finance cost and then deducts the $50,000 paid. The key principle: the finance cost is based on the carrying amount at the effective interest rate; cash paid is based on nominal at the coupon rate.

Section B, Financial instruments — amortised cost · Ref B5d · fr029

Question 5: D A provision for warranty costs that is recognised for accounting purposes but only deductible for tax when the costs are actually paid

A deductible temporary difference arises when an asset's carrying amount is less than its tax base, or when a liability's carrying amount is greater than its tax base. It reduces taxable profit in future periods and gives rise to a deferred tax asset. A warranty provision has a carrying amount of $X (recognised in profit or loss now) and a tax base of $0 (the costs are deductible only when paid). The liability's carrying amount exceeds its tax base, so there is a deductible difference and a deferred tax asset (option D). Accelerated capital allowances (A), revenue recognised before it is taxed (B) and an upward revaluation with no tax adjustment (C) all create taxable temporary differences, which give rise to deferred tax liabilities.

Section B, Deferred tax — temporary differences · Ref B8b · fr040

Question 6: C $385,000 — remeasured to fair value less costs to sell

Under IFRS 5, assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell (FVLCTS). Carrying amount at classification = $420,000. FVLCTS = $400,000 − $15,000 = $385,000. Lower = $385,000. Depreciation ceases at the date of classification (no further depreciation in the three months to year end). Option A maintains carrying amount, ignoring the IFRS 5 rule. Option B uses FV without deducting selling costs. Option D incorrectly continues depreciating after classification.

Section B, Non-current assets held for sale · Ref B9b · fr043

Question 7: D Dr Cash $3,450,000; Cr Share capital $1,000,000; Cr Share premium $2,450,000

Proceeds are 1,000,000 × $3.50 = $3,500,000, of which $1,000,000 is nominal value (share capital) and $2,500,000 is premium. Under IAS 32, the transaction costs of an equity issue are deducted from equity, normally from share premium, not charged to profit or loss. Cash received net of costs is $3,450,000, share capital is $1,000,000 and share premium is $2,500,000 − $50,000 = $2,450,000. Option A ignores the split between nominal value and premium, and the costs. Option B charges the costs to profit or loss, which IAS 32 does not allow for an equity issue (and its entries do not balance). Option C deducts the costs from share capital, which must always equal the nominal value of the shares issued.

Section B, Financial instruments — equity issue · Ref B5f · fr107

Question 8: D Recognised as an asset and amortised over the 3-year contract period

Under IFRS 15, incremental costs of obtaining a contract (costs that would not have been incurred if the contract had not been obtained, e.g. sales commissions) should be recognised as an asset if the entity expects to recover them, and amortised on a consistent basis with the transfer of the goods or services to which the asset relates. Over 3 years: $80,000 / 3 = $26,667/year. Exception: if the amortisation period would be ≤1 year, costs may be expensed immediately. Options A and B expense or net the costs incorrectly. Option C treats them as goodwill — incorrect.

Section B, Revenue — contract costs · Ref B10d · fr116

Question 9: A 'Company A's margin of 18% is 6 percentage points higher than Company B's 12%. Company A appears to be more cost-efficient; however, Company B operates in the highly competitive budget retail sector where margins are structurally lower, and its margin may be appropriate relative to peers.'

Simply stating that a ratio is 'better' or 'worse' adds nothing: useful analysis explains why. Strong answers use the scenario context to explain WHY the ratio is what it is, consider whether the comparison is valid (different sectors, different business models), and assess implications for stakeholders. Option B makes a simple observation with no insight. Option A links the ratio to the competitive context and qualifies the conclusion appropriately — this is useful analysis. Option C makes a sweeping unsupported generalisation. Option D simply restates the numbers.

Section C, Ratio analysis — interpretation quality · Ref C2c · fr057

Question 10: D Consolidated statements aggregate results across multiple business segments and geographies, potentially masking poor performance in one area with strong performance in another

A key limitation of consolidated financial statements for interpretation is the aggregation problem — different segments, geographies, or business lines are combined into single figures. A highly profitable division can mask a loss-making one; a cash-generative segment can obscure liquidity problems in another. This is why IFRS 8 Operating Segments requires separate segment reporting to supplement consolidated totals. Option A is factually incorrect — NCI profits are attributed separately. Option B is wrong — eliminations of intragroup items improve, not reduce, reliability. Option C is wrong — consolidated statements are prepared annually, not every three years.

Section C, Consolidated statements — limitations for interpretation · Ref C1d · fr144

Question 11: A Profit on disposal of $25,000 removed from operating activities; $95,000 proceeds shown under investing activities

Carrying amount = $180,000 − $110,000 = $70,000. Proceeds = $95,000. Gain on disposal = $25,000. Indirect method treatment: The gain of $25,000 is included in operating profit — it must be removed (deducted) from profit in the operating section because the full proceeds belong in investing activities. The full $95,000 proceeds are shown as an inflow under investing activities. Option B incorrectly shows proceeds under operating activities. Option C puts proceeds under financing activities. Option D uses carrying amount rather than full proceeds under investing activities.

Section D, Cash flows — disposal proceeds · Ref D1c · fr073

Question 12: C $135,000

Under IAS 23, borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset must be capitalised. Capitalisation period: from when activities begin until the asset is ready for use — 1 January to 30 September = 9 months. Borrowing costs to capitalise = $3,000,000 × 6% × 9/12 = $135,000. Option A uses the full year: $3,000,000 × 6% = $180,000. Option B calculates 3 months only. Option D is wrong — IAS 23 requires capitalisation, not expensing, for qualifying assets.

Section D, Borrowing costs — IAS 23 · Ref D1a · fr075

Question 13: A $120,000

NCI = 25% of Foxglove's post-adjustment profit = 25% × $480,000 = $120,000. Profit attributable to owners of parent = 75% × $480,000 = $360,000. Total consolidated profit = $480,000. A common error is to forget to include the NCI line in the CSPL entirely, losing marks for both the NCI amount and the profit attributable to owners figure. Option B is the parent's share. Option C uses wrong percentage. Option D is the total before attribution.

Section D, Consolidated SPLOCI — NCI calculation · Ref D2b · fr089

Question 14: B Sub Co's post-disposal results are excluded; only pre-disposal results are included, with a single-line disclosure of profit/loss from discontinued operations

When a subsidiary is disposed of during the year, its results are included in the consolidated SPLOCI only for the period it was controlled (pre-disposal). Under IFRS 5, if it meets the definition of a discontinued operation, its results are presented as a single line item in the statement of profit or loss ('profit/loss from discontinued operations') separate from continuing operations. Sub Co's results are not excluded entirely (C) — they are included up to disposal. Full year inclusion (A) is incorrect — control ceased at disposal. The results go to a single discontinued line (D), but only for the pre-disposal period.

Section D, Consolidation — disposal of subsidiary · Ref D2i · fr090

Question 15: C Owners of parent $770,000; NCI $30,000

NCI's share = NCI% × subsidiary's post-acquisition profit = 25% × $120,000 = $30,000. Profit attributable to owners of parent = $800,000 − $30,000 = $770,000. Total = $800,000. ✓ Option A gives all profit to parent. Option B uses 75% × $120,000 = $90,000 for NCI (wrong — NCI is 25%). Option D uses 50% of subsidiary profit for NCI. The key is that NCI's share is always NCI% × subsidiary's profit only — not NCI% of total group profit.

Section D, CSPL — worked example structure · Ref D2b · fr135