

Financial Reporting (FR)

March/June 2025

Examiner's report

The examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for those sitting the exam in the future.

Contents

General comments	2
Section A.....	3
Question one.....	3
Question two.....	4
Question three	5
Question four	6
Section B.....	8
Question one.....	9
Question two.....	9
Question three	10
Question four	11
Question five	12
Section C.....	14
Longannet Co.....	14
Requirement (a) – 4 marks	14
Requirement (b) – 4 marks	15
Requirement (c) – 12 marks	16
Stuipulotu Co	18
Requirement (a) – 16 marks	18
Requirement (b) – 4 marks	22

General comments

This examiner's report should be used in conjunction with the published March/ June 2025 sample exam, which can be found on the [ACCA Practice Platform](#).

In this report, the examining team provide constructive guidance on how to answer the questions whilst sharing their observations from the marking process, highlighting the strengths and weaknesses of candidates who attempted these questions.

Future candidates can use this examiner's report as part of their exam preparation, attempting question practice on the [ACCA Practice Platform](#) and reviewing the published answers alongside this report.

The Financial Reporting (FR) exam is offered as a computer-based exam (CBE). The model of delivery for the CBE means that candidates do not all receive the same set of questions.

This report includes the following:

- Section A: Objective test questions – we focus on four specific questions that caused difficulty in these sittings of the exam.
- Section B: Objective test case questions – here we look at one specific question that was challenging for candidates.
- Section C: Constructed response questions – here we provide detailed commentary around two constructed response questions and identify some of the main issues that affected candidates' performance in this section, identifying common knowledge gaps and offering guidance on where exam technique could be improved, including in the use of the CBE functionality where appropriate.

Section A

Here we look at **FOUR** Section A questions which proved to be challenging for candidates. These objective test questions examine syllabus learning outcomes in a lower level of detail than those in Sections B and C.

Question one

Faiser Co has leased motor vehicles, laptops and mobile phones during the current financial year. Faiser Co has no other leases.

Which TWO of the following statements regarding recognition exemptions are correct, in accordance with IFRS 16 Leases?

- A. A lease that has a term of 12 months or less must be expensed on a straight-line (or other systematic) basis over the lease term
- B. A lease that has a term of 12 months or less may be expensed on a straight-line (or other systematic) basis over the lease term
- C. Faiser Co can apply the exemption for low-value underlying assets to all its new leases
- D. The election for leases for which the underlying asset is of low value can be made on a lease-by-lease basis

What does this test?

This question tests syllabus learning outcome (SLO) B6(b) and IFRS® 16 *Leases*. Candidates needed to know that, for short-term leases and for leases for which the underlying asset is of low value, a lessee **may** elect not to apply the requirements for lease recognition and measurement. These exemptions are **not** mandatory.

What are the correct answers?

The correct answers are **B** and **D**.

As the exemptions are **not** mandatory, a lease that has a term of 12 months or less **may** be recognised and measured as a lease.

For leases that have an underlying asset of low value, the exemption may be applied based on each individual lease. Note that IFRS 16 specifically gives the example that leases of cars would **not** qualify as leases of low-value assets because a new car would typically not be of low value.

Where did candidates go wrong?

More than half of candidates incorrectly selected A, believing lease exemptions to be mandatory. In general, a wide range of combinations of answers suggested that candidates may have guessed answers.

Question two

Awfer Co acquired 80% of Binz Co's ordinary (equity) shares on 1 January 20X4, when Binz Co's retained earnings were \$4.2m. Awfer Co measured the non-controlling interests at fair value at the date of acquisition, which was \$3.2m.

Extracts from the financial statements are as follows:

Statement of financial position (extracts)

As at 31 December 20X4

	Awfer Co	Binz Co
	\$m	\$m
Equity		
Share capital	2.0	2.0
Retained earnings	12.4	7.6
Revaluation surplus	2.8	2.6
Total equity	17.2	12.2

Binz Co's revaluation surplus of \$2.6m arose post-acquisition.

Match the correct amounts with the items to be shown in the Awfer Group's consolidated statement of financial position as at 31 December 20X4.

Amounts	Consolidated statement of financial position as at 31 December 20X4
\$3.9m	Revaluation surplus
\$4.4m	Non-controlling interests
\$4.9m	
\$5.4m	

What does this test?

This question tests SLO D2(a) and IFRS 10 *Consolidated Financial Statements*. Candidates needed to know that non-controlling interests are apportioned a share of **both** post-acquisition profits **and** other post-acquisition gains, such as a revaluation increase.

What are the correct answers?

The correct answers are:

Revaluation surplus

$$\begin{aligned} &= \$2.8\text{m parent} + (80\% \times \$2.6\text{m}) \text{ share of subsidiary} \\ &= \$2.8\text{m} + \$2.1\text{m} \\ &= \mathbf{\$4.9\text{m}} \end{aligned}$$

Non-controlling interests

$$\begin{aligned} &= \$3.2\text{m fair value} + (20\% \times [\$7.6\text{m} - \$4.2\text{m}]) \text{ profits} + (20\% \times \$2.6\text{m}) \text{ revaluation surplus} \\ &= \$3.2\text{m} + \$680,000 + \$520,000 \\ &= \mathbf{\$4.4\text{m}} \end{aligned}$$

Where did candidates go wrong?

The most common error was that candidates ignored the non-controlling interests' share of the subsidiary's revaluation surplus; incorrectly calculating an amount of \$3.9m.

Some candidates apportioned 100% of the subsidiary's revaluation surplus to the group, incorrectly calculating an amount of \$5.4m.

Question three

Delug Co and Ribbim Co are competitors within the same industry and are in an inflationary economy. Delug Co's profitability ratios are consistently higher than those of Ribbim Co's.

The two companies' accounting policies are consistent, except for inventories and property.

Identify, by clicking on the relevant boxes in the table, which company each of the following accounting policies it belongs to.

Use of the "first-in, first-out" method rather than the "weighted average" method for calculating the cost of inventories	DELUG CO	RIBBIM CO
Use of "cost" rather than "revaluation" model for calculating the carrying amount of property	DELUG CO	RIBBIM CO

What does this test?

This question tests SLO C2(c) and the comparison of different accounting policies for ratio analysis. Candidates needed to consider the impact that income and expenses have on profitability ratios.

What is the correct answer?

The correct answer is **Delug Co** for **both** statements.

Delug Co will have comparatively lower cost of sales. The first-in, first-out method, in an inflationary economy, would mean that the less costly inventories are transferred to cost of sales first. Therefore, profit (and any profitability ratios) would be comparatively higher.

The weighted average method would, instead, mean that the more costly inventories increase the average costs that are transferred to cost of sales. Therefore, profit is comparatively lower.

Delug Co will have a comparatively lower depreciation charge. Using the cost model to calculate the carrying amount of property, in an inflationary economy, would mean that property would have a lower carrying amount than it would if the revaluation model was being used. Therefore, the depreciation charge will be comparatively lower and profit will be comparatively higher.

Where did candidates go wrong?

There was a variety of combinations provided which suggests that perhaps candidates did not know how to approach the question and guessed at what the correct answer could be. In such questions, candidates should always break down components of the ratio to check.

Question four

Which TWO of the following statements regarding the International Accounting Standard Board's Conceptual Framework for Financial Reporting are TRUE?

- A. It assists all parties to understand and interpret IFRS Accounting Standards
- B. It does not override any IFRS Accounting Standard or any requirement in an IFRS Accounting Standard
- C. It introduces the enhancing qualitative characteristics of relevance and faithful representation
- D. It introduces materiality as an entity-specific aspect of relevance based on nature only

What does this test?

This question tests SLO A1(a) and the *Conceptual Framework for Financial Reporting* ("Conceptual Framework"). Candidates needed to know the purpose and content of the Conceptual Framework.

What are the correct answers?

The correct answers are **A** and **B**.

The Conceptual Framework **assists all parties to understand and interpret** the IFRS Accounting Standards. It does **not** override any of these.

The Conceptual Framework lists the two **fundamental** qualitative characteristics as **relevance** and **faithful representation**. It also states that materiality is based on nature **or** magnitude; not solely magnitude.

Where did candidates go wrong?

The most common error was candidates misunderstanding **fundamental** qualitative characteristics compared to **enhancing** qualitative characteristics.

The Conceptual Framework lists the **enhancing** qualitative characteristics as **comparability, verifiability, timeliness and understandability**.

Section B

Section B tests candidates' knowledge on several IFRS Accounting Standards in more depth than Section A, with three case questions worth 10 marks each. Each case contains five, two-mark objective test questions.

We have selected a case that examined:

- IAS 41 *Agriculture*;
- IAS 2 *Inventories*; and
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Note that, from March 2025, IAS 8 has been amended and is now the *Basis of Preparation of Financial Statements*. This follows the issue of IFRS 18 *Presentation and Disclosure in Financial Statements*. This impacts the syllabus from September 2025 onwards.

Although IAS 41 and IAS 8 are comparatively short IFRS Accounting Standards, they are **equally as examinable** as other IFRS Accounting Standards within the Examinable Documents. Most candidates did **not** perform well on this case.

Candidates must **read the case scenario and its requirements carefully**. Each objective test question is worth two marks and so it is important that candidates do not misread or miss information in the scenario. It is also important to identify any specific instructions, **such as rounding of monetary amounts**.

Scenario

Timbur Co maintains thousands of acres of land on which it grows trees, which are later harvested by cutting them down. Its year-end date is 31 March.

Timbur Co primarily sells unprocessed, harvested trees. In March 20X3, Timbur Co harvested 800,000 cubic metres (m³) of trees at a cost of \$56 per m³. The sales price is \$75 per m³ and selling costs are \$3 per m³.

As a byproduct, Timbur Co also sells 750-litre bags of processed woodchips at a price of \$185 per bag. The woodchips are the result of processing the harvested trees.

Question one

Use the tokens to ensure that the following statements correctly describe agricultural produce and a biological asset in accordance with IAS 41 Agriculture.

Agricultural produce is the _____ of the entity's _____.

A biological asset is _____.

Tokens	
a living animal or plant	biological assets
manufacturing process	harvested produce
inventory derived from chemicals	organic produce

What does this test?

This question tests SLO B4(b) and IAS 41. Candidates needed to know the definitions of agricultural produce and a biological asset.

What are the correct answers?

Agricultural produce is the **harvested produce** of the entity's **biological assets**. A biological asset is a **living animal or plant**. The trees are, therefore, biological assets and they become agricultural produce when harvested (felled).

Examples of biological assets include dairy cattle, tea bushes and fruit trees.

Where did candidates go wrong?

Candidates performed well on this question, with most candidates correctly identifying the tokens to complete the two statements. However, many candidates confused **harvested** produce with **organic** produce. IAS 41 does not refer to whether or not produce is organic.

Question two

In accordance with IAS 41 Agriculture, how should each cubic meter of harvested trees be measured at 31 March 20X3?

- A. Fair value of \$75 only
- B. Fair value of \$75, less costs of harvesting trees of \$56 and selling costs of \$3
- C. Fair value of \$75, less selling costs of \$3 only
- D. Fair value of \$75, less costs of harvesting trees of \$56 only

What does this test?

This question also tests SLO B4(b) and IAS 41. Candidates needed to know that, unlike IAS 2 *Inventories*, IAS 41 applies a fair value approach.

What is the correct answer?

The correct answer is **C**.

Agricultural produce harvested from an entity's biological assets is measured at its fair value less costs to sell at the point of harvest. In this case, the fair value of the agricultural produce (harvested trees) is \$75 and the selling costs are \$3. This is similar to the concept of net realisable value under IAS 2.

Where did candidates go wrong?

Only half of candidates answered this question correctly. Most candidates who answered incorrectly selected **B** and incorrectly deducted the cost of harvesting the trees. These expenses would, instead, be transferred to profit or loss.

Question three

At 31 March 20X3, Timbur Co had 500 bags of woodchips in inventories.

During the year ended 31 December 20X5, the following overheads were incurred:

	\$'000
Fixed production overheads	180
Variable production overheads	198
Total	378

Selling costs were estimated to be \$163,500 for the units produced.

Timbur Co absorbs overheads on the basis of units produced which, for the year ended 31 March 20X3, was 4,200 bags. This was equal to budgeted production.

What are the total overheads that should be included in the cost of closing inventories at 31 March 20X3 (to the nearest \$'000)?

\$ _____,000

What does this test?

This question tests SLO B4(a) and IAS 2. Candidates needed to know how to absorb costs of production into the **cost** of closing inventories.

What is the correct answer?

The correct answer is **45** (\$45,000).

As actual production was equal to budgeted production, fixed overheads do **not** need to be restricted.

Total absorption of overheads cost in closing inventories
 = $(500 \div 4,200)$ bags $\times$ \$378,000 total production overheads
 = **\$45,000**

The question specifically asks for the **overhead costs to be included in the cost of closing inventories**; therefore, a comparison to net realisable value was **not** required.

Where did candidates go wrong?

There was an equal split of candidates who selected 45 (\$45,000) or, incorrectly, 378 (\$378,000). The total overheads needed to be **apportioned** to the 500 units in closing inventories. Some candidates calculated the correct amount but ignored the required rounding and, incorrectly, entered '45,000' or '45000' (rather than '45').

Question four

Indicate, by clicking on the relevant boxes in the table below, whether each of the following cost formulae is permitted by IAS 2 Inventories to calculate the cost of inventories.

IAS 2 Inventories states that the following cost formulae can be used to calculate the cost of inventories:		
First in, first out (FIFO)	TRUE	FALSE
Last in, first out (LIFO)	TRUE	FALSE
Weighted average cost (AVCO)	TRUE	FALSE

What does this test?

This question also tests SLO B4(a) and IAS 2. Candidates needed to know which cost formulae are permitted.

What are the correct answers?

The correct answers are **True, False, True**.

LIFO is **not** permitted by IAS 2 whereas FIFO and AVCO are.

Where did candidates go wrong?

Most candidates answered this question correctly; for those that didn't, all three methods were, incorrectly, selected.

Question five

At 31 March 20X3, Timbur Co has cut timber that has been processed and will be sold to building merchants in the year ended 31 March 20X4.

For the preparation of its financial statements for the year ended 31 March 20X3, it was decided to change the inventories valuation method from cost formula (a) to cost formula (b).

A schedule showing inventories valuation using these methods is provided below:

Year end	New formula (b)	Current formula (a)	Difference (b) less (a)
	\$	\$	\$
31 March 20X3	182,850	184,005	(1,155)
31 March 20X2	164,100	167,700	(3,600)
	18,750	16,305	(2,445)

What is the impact on cost of sales for the (current) year ended 31 March 20X3 due to the change in the inventories valuation method?

- A. \$2,445 increase
- B. \$2,445 decrease
- C. \$1,155 increase
- D. \$1,155 decrease

What does this test?

This question tests syllabus learning outcome B9(d) and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Candidates needed to know how to account for a change in accounting policy for inventories.

What is the correct answer?

The correct answer is **B**.

A change in accounting policy is applied retrospectively and Timbur Co must adjust the prior year balance as if the new accounting policy had always been applied:

		\$
Opening inventories under current formula	167,700	
Restated opening inventories	164,100	
Decrease in cost of sales		(3,600)
Closing inventories under current formula	184,005	
Restated closing inventories	182,250	
Increase in cost of sales		1,115
Net decrease in current year cost of sales		(2,445)

Cost of sales for the year is calculated as **opening inventories + purchases - closing inventories**. A reduction in opening inventories will, therefore, **decrease** cost of sales. A reduction in closing inventories will **increase** cost of sales.

Where did candidates go wrong?

An equal spread across all four options suggests that candidates may have guessed the correct answer.

Section C

We have selected two constructed response questions, Longannet Co and Stuipulotu Co, that are available on the [ACCA Practice Platform](#).

Longannet Co is a financial statements analysis and interpretation question for an individual entity. Stuipulotu Co is a consolidated financial statements preparation question, including a disposal (and discontinued operation).

When using the following detailed commentary, it would be helpful to consult the questions and answers available to you on the [ACCA Practice Platform](#). The full scenario is not reproduced in this report.

Longannet Co

Longannet Co required candidates to demonstrate and apply knowledge from the ‘analysing and interpreting financial statements’ area of the syllabus (section C) from the perspective of Longannet Co. The question had both numerical and additional information relating the entity.

The second task, in fact, included a convertible loan note for which both calculations and a journal entry were required (Section B). This shows candidates that other areas, outside of section C, may be examined within such questions.

The analysis and interpretation of an individual company is an important area of the syllabus and will continue to be examined. As in previous examination sessions, most candidates failed to score high marks on this question. The reason for this seemed to be poor exam technique:

- not addressing the requirement; or
- not adequately using the information in the scenario.

The focus for this detailed commentary, rather than simply recreating the suggested solution, will highlight the importance of using the scenario when constructing an answer to an interpretation question.

Longannet Co contains three requirements.

Requirement (a) – 4 marks

Calculate, using the pre-formatted table provided and excluding the gearing ratio, the equivalent ratios for Longannet Co for the year ended 31 March 20X5 to compare to the sector averages.

This part of the question tests SLO C2(a) and the calculation of financial ratios. Candidates needed to know how to calculate gross profit margin, operating profit margin, return on capital

employed, inventories turnover period (in days), payables payment period (in days) and the current ratio. A sector-specific ratio of “revenue per employee” was also requested (revenue ÷ average number of employees).

There were seven financial ratios in total to be calculated. Pre-calculated sector averages were provided as the comparative results.

When calculating ratios, candidates should **show their workings in full**. The workspace provided to candidates included a pre-formatted response that encouraged candidates to show workings:

Ratios	Workings	Longannet Co	Sector average
Gross profit margin			13.0%
Operating profit margin			3.3%
Return on capital employed			1.7%
Revenue (per employee)			\$94,250 p/e
Gearing (debt ÷ equity)			68%
Inventories turnover period (in days)			13 days
Trade payables payment period (in days)			65 days
Current ratio			1.8:1

In the calculation of ratios, common errors included:

- applying the wrong measure of profit in the operating profit margin and return on capital employed ratios;
- uncertainty as to what to include in capital employed; and
- incorrectly using revenue, rather than cost of sales, in the calculation of inventories turnover period and the trade payables payment period.

Requirement (b) – 4 marks

Prepare the manual journal entry to correctly account for the convertible loan notes and, having adjusted the relevant line items, calculate Longannet Co’s gearing ratio.

This part of the question tests SLO C2(a), specifically the calculation of gearing. However, before this can be calculated, the question tests SLO B5(f). Candidates needed to know how to calculate the debt and equity elements of convertible debt before making a correcting journal entry; only then could candidates calculate gearing.

Convertible loan notes

Most candidates – but not all – attempted this requirement and understood the need to split the proceeds of issue between equity and liabilities to reflect the substance of the transaction. The calculation of the liability element was well performed in most cases; however, applying this to the preparation of the correcting journal entry was poorly performed.

It was noted that most candidates did not read the information which stated that the proceeds had already been recorded (credited) to “Other reserves” within total equity. Consequently, a common incorrect answer was to recognise the correct journal entry for initial recognition rather than the correcting journal, which reclassified the debt element from “Other reserves” to “Financial liabilities”.

Some candidates presented a journal entry with imbalanced debit and credit sides and, in general, many candidates confused debits and credits.

Gearing ratio

This was poorly performed and many candidates omitted the calculation entirely. Two common errors, for those candidates who did attempt the calculation, were that:

- the incorrect gearing ratio was used – despite the question **clearly stating that gearing was to be expressed as “Debt ÷ Equity”**; and/ or
- there was either no adjustment to debt or equity for the convertible loan notes or the **wrong signage** was used (i.e., incorrectly increasing equity and decreasing debt).

Candidates should note that the ‘own figure rule’ applied where an **incorrect amount/ journal entry** was **correctly applied** to the ratio calculation. However, the own figure rule **may only be applied if clear workings are presented**.

Requirement (c) – 12 marks

Analyse the financial performance and position of Longannet Co for the year ended 31 March 20X5, compared to the sector averages provided.

This part of the question tests SLO C2(c) and C2(d); including the interpretation of financial and non-financial information. Candidates needed to know how to use the information in the scenario to discuss how Longannet Co compared to the wider sector.

The performance in interpretation questions continues to be poor. Candidates are advised to read the following advice carefully so that they can be better prepared.

The main concern is that students provide generic answers that fail to make good use of the information in the scenario. **No marks will be awarded** for stating the constituent parts of a ratio calculation or what the ratio means (in general terms); nor will marks be awarded for stating that a ratio has increased or decreased (a simple observation). Instead, a good answer will reflect on the key information from the scenario and how it may have impacted the ratios.

For example, the opening paragraph of the question identifies Longannet Co as the **largest supermarket chain in its country**. A candidate should, therefore, consider that this is **likely to result in economies of scale and better negotiating power**. This supports Longannet Co’s **higher gross profit margin** of 16.1% compared to the sector average of 13.0% and its **longer**

trade payables payment period of 79 days compared to 65 days for the sector; making this an appropriate comment to include.

Where use of the scenario is inappropriate, marks will not be awarded. To illustrate this point, many candidates commented that the opening of the budget stores in the year would have caused the difference in gross profit margin. This comment was incorrect as the budget stores would have resulted in a comparatively **lower**, not higher, gross profit margin for Longannet Co. Budget supermarkets operate on high volumes of sales at lower margins.

When reviewing the ratio differences, candidates should also consider the accounting impact of the **convertible loan notes** and the fact that Longannet Co **owns**, rather than leases, its properties. It was common to see leasing cited as impacting the operating profit margin due to rentals. This shows a fundamental misunderstanding of IFRS 16 *Leases*. A lease, providing there are no exemptions used, is reflected in the statement of profit or loss as **depreciation** on the right-of-use asset, and as a **finance cost** on the lease liability.

Markers noted that where candidates **did** use the scenario, they often **failed to develop their answer** to explain how or why the ratio may be affected. For example, Longannet Co's relatively higher inventories days was often attributed to the new home furnishings agreement. To score well, the candidate needed to consider **why** this might be and suggest that home furnishings are **likely to have a slower turnover compared to food**. This point could be developed further to observe that as inventories of home furnishings are not perishable, a higher inventories days is not necessary cause for concern. Well-developed points such as this will result in a strong mark in this question.

The above examples illustrate the importance of obtaining a good appreciation of key points in the scenario before starting to write an answer. In turn, candidates should be able to appropriately link these key points to the differences in the ratios.

A mark is awarded in all analysis questions for providing a short, concluding paragraph, **specific to the scenario**. In the case of Longannet Co, it is worth noting that although profitable and liquid, the opening of the budget stores and the new home furnishings agreement introduce risk for the future. Candidates are encouraged to use a separate heading for a conclusion.

Stuipulotu Co

In the numerical style questions, it is even more vital that candidates **show their workings in full**. Workings can either be shown separately or can be included within a cell in the response area (spreadsheet). Some candidates use the calculator tool instead of the spreadsheet functionality and do not provide workings. When this happens, candidates will only score full marks for a correct answer but, **if the answer is incorrect and in the absence of a relevant working, no marks will be awarded**. The marking team always award credit for “own figure” (consequential) marks but this is only possible with accompanying workings.

Stuipulotu Co is an example of a consolidated financial statements preparation question – covering syllabus area D. Additional information is presented that will require adjustment in accordance with relevant IFRS Accounting Standards and accounting principles. A short narrative requirement on equity accounting was also included.

The requirements of accounts preparation questions will vary; however, you can expect to be asked to prepare one or more of the following:

- statement of profit or loss (SPL);
- statement of profit or loss and other comprehensive income (SPLOCI);
- schedule of adjusted profit;
- statement of financial position (SFP);
- statement of changes in equity (SCE); and/or
- extracts from an individual entity’s statement of cash flows (SCF).

Stuipulotu Co contains two requirements.

Requirement (a) – 16 marks

Prepare the Stuipulotu Group’s consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 20X8.

This part of the question tests various SLO, including D2(b) and IFRS 10 *Consolidated Financial Statements*. Candidates needed to know the impact on the consolidated statement of profit or loss of various income and expense adjustments.

Performance on this part of the question was mixed. When asked to prepare a consolidated statement of profit or loss and other comprehensive income (CSPLOCI), the examining team recommend that candidates set up a pro forma for the consolidation immediately. Once the pro forma has been set up, candidates should include the results of the parent and subsidiary for income and expenses on a line-by-line basis; **however**, candidates **must** check when the subsidiary was acquired. If the acquisition took place 12 months ago or more, then candidates should add the results of subsidiary in full for the current year. If it was a **mid-year acquisition**, then candidates **must time apportion** the subsidiary results accordingly.

In this question, the acquisition of Sminner Co took place on 1 April 20X8 and, therefore, results of Sminner Co should be time apportioned by nine months for all profit or loss items (9/12 months × income or expense for the year).

The **revaluation increase** relating to Sminner Co, a transaction recognised in the statement of financial position but also presented in other comprehensive income, should **not** be time apportioned. In this question, the revaluation takes places after acquisition and, therefore, should be consolidated in full.

Workings may be presented separately from the financial statements being prepared or, alternatively, candidates may use spreadsheet functionality.

For example:

B4		=225000+117000*9/12	
	A	B	
	Part (a) Consolidated Statement of Profit or loss		
2			
			\$000
4	Revenue (225,000 + 117,000 x 9/12		312,750
	Cost of sales (141,000 + 76,500 x 9/12		
	Gross profit		
	Distribution costs (11,100 + 4,500 x 9/12		
	Administrative expenses (18,750 + 9,000 x 9/12		
	Operating profit		
	Share of Associate*		
	Investment income (1,000		
	Finance costs (3,000 + 1,400 x 9/12		
	Profit before tax		
	Income tax expense (15,600 + 5,400 x 9/12		
	Profit for the year		
	Other comprehensive income		
	Items that will not be reclassified to profit or loss:		
19	Gains on revaluation of property (10,000 + 5,000		
20	Other comprehensive income for the year		
21	TOTAL COMPREHENSIVE INCOME FOR THE YEAR		

* The share of profit of associate relates to note (5). Space was left for this when setting up the pro forma but a candidate could also add this in later by inserting a new row or by leaving a line between each profit or loss item for unexpected, additional items.

The examining team noted that a number of candidates adjusted the subsidiary results incorrectly by either time apportioning by an **incorrect number of months** or, critically, by **not time apportioning at all**. Candidates are reminded that a statement of profit or loss is a summary of performance for a period of time and, therefore, failure to time apportion is considered to be a

fundamental accounting error. Many candidates applied **proportionate consolidation** by multiplying the results of the subsidiary by 80%; again, this is a **fundamental accounting error**.

Candidates are advised to layout the split between the profit and total comprehensive income attributable to parent shareholders and non-controlling interest in advance. Many candidates ignore this area completely and miss what could be several marks. This section can be completed later but, by including it in the workspace at the beginning, candidates are less likely to ignore this altogether.

For example:

15	Profit for the year	
16		
17	Other comprehensive income	
18	Items that will not be reclassified to profit or loss:	
19	Gains on revaluation of property (10,000 + 5,000	
20	Other comprehensive income for the year	
21	TOTAL COMPREHENSIVE INCOME FOR THE YEAR	
22		
23	Profit attributable to:	
24	Owners of the parent	
25	Non-controlling interests	
26		
27		
28	Total comprehensive income attributable to:	
29	Owners of the parent	
30	Non-controlling interests	
31		
32		

Next, candidates can deal with the information in notes (1) to (6). Candidates can tackle these adjustments in any order but for the purpose of this report, they will be dealt with in numerical order.

Note (1) Fair value adjustment

This fair value adjustment on the acquisition of Sminner Co is commonly examined. To calculate the additional amortisation on the intangible assets, candidates first needed to calculate the initial fair value adjustment by comparing fair value at acquisition to the carrying amount.

This amount could then be spread over the remaining useful life and time apportioned accordingly (for nine months) using either the spreadsheet functionality or a visible working:

B34		$=(35000-25000)/20*9/12$
	A	B
33	(W1) Intangible assets	\$000
34	Amortisation ((35,000 - 25,000) / 20 years x 9/12)	375
35		

The fair value adjustment was generally dealt with well. The most common mistakes made were either to treat the \$35m as an amortisable cost or not to time apportion amortisation, charging a

full 12 months (many candidates made both errors and amortised \$35m over 20 years). Candidates are reminded to be careful of adding or subtracting when including adjustments. The fair value adjustment required an **increase** in intangible assets and, therefore, an **increase** in the amortisation expense to be included in administrative expenses. Many candidates incorrectly **deducted** the amortisation expenses from overall administrative expenses.

Note (2) Intragroup transfer of goods

There are two adjustments required using the information in note (2). Firstly, there is an intragroup sale and purchase of \$15m to be eliminated when preparing the CSPLOC:

B4		=225000+117000*9/12-15000	
A		B	
3		\$000	
4	Revenue (225,000 + 117,000 x 9/12 - 15,000)	297,750	
5	Cost of sales (141,000 + 76,500 x 9/12 - 15,000)		
6	Gross profit		

Secondly, only 75% of these goods have been sold outside of the group at year end, meaning that there are **unrealised profits in inventories** totalling 25% of the original purchase. Unrealised profit, based on a 25% markup, is to be eliminated and is calculated as follows:

B37		=(15000*25/125)*25	
A		B	
36	(W2) PURP	\$000	
37	(15,000 X 25/125) X 25% left in inventory	75000	
38			

The examining team were pleased to note that the majority of candidates dealt with the intragroup transfer of goods correctly. Two common errors in the calculation of unrealised profit in inventories were to use margin rather than markup and/ or to multiply the profit by the 75% sold and not the 25% remaining.

Note (3) Intragroup dividend

Sminner Co paid a dividend of \$1m on 30 November 20X8 and the group received 80% of this amount. The intragroup dividend must be removed as follows:

B11		=1000-(1000*0.8)	
A		B	
11	Investment income (1,000 - (1,000 x 80%))	200	

Many candidates adjusted investment income by removing the full \$1m. Some credit was awarded for this but candidates are reminded to read the question carefully and note down any non-controlling interests (i.e., dividends paid outside of the group).

Note (4)

The revaluation increase is discussed in the opening paragraphs of this section

Note (5) Associate

Stuipulotu Co acquired 30% of the share capital of Hardhorse Co nine months prior to the year end and has **significant influence** over this investment.

Hardhorse Co is, therefore, an **associate** and **equity accounting** will apply. The **share of profit of associate** should be recognised in the CSPLOCI as follows:

B40		$=(20000*9/12)*0.3$
	A	B
39	(W3) Share of associate	\$000
40	Share of post-acquisition profit (\$20m x 9/12) X 30%	4500
41	Less:	
42	Impairment	-1000
43		3500
44		

Many candidates dealt with the associate correctly. The most common mistake was not to time apportion the associate's profit to reflect only the post-acquisition period.

Note (6) Financial liability

This adjustment relates to the parent entity and is not related to consolidation adjustments. The initial accounting for the loan has been correctly accounted for and candidates were required to deal with the subsequent measurement of the loan notes. In accordance with IFRS 9 *Financial Instruments* the loan notes will be subsequently measured using the amortised cost method. Effective interest of 12% should be **added to finance costs** but, because the loan notes were issued on 1 April 20X8, only **nine months should be included**.

Many candidates adjusted for interest correctly using 12% but did not time apportion. Candidates are reminded to look at dates in questions carefully.

Requirement (b) – 4 marks

Explain the principles behind the accounting treatment of Hardhorse Co and summarise, for Hardhorse Co specifically, how this would be recognised in the Stuipulotu Group's statement of financial position as at 31 December 20X8.

This part of the question also tests SLO D2(a) and IFRS 10. Candidates needed to know how to explain the equity accounting treatment, specific to Hardhorse Co and the Stuipulotu Group's (consolidated) statement of financial position.

There was **no credit** available for discussing the statement of profit or loss and other comprehensive income as this was examined in Requirement (a).

The full suggested solutions can be found on the practice platform.