

Financial Reporting (FR) September/ December 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.

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General comments

This examiner's report should be used in conjunction with the published September/December 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

Glooble Co acquired 55% of the ordinary (equity) shares of Stekk Co on 1 June 20X8, when the retained earnings of Stekk Co were \$500,000. On that date, Stekk Co sold items of machinery to Glooble Co for proceeds of \$560,000. The total carrying amount of the machinery in Stekk Co's general ledger was \$448,000 immediately prior to the sale. The remaining useful life was ten years from 1 June 20X8.

At 31 May 20X9, retained earnings were \$1.66m and \$740,000 for Glooble Co and Stekk Co, respectively.

What were the consolidated retained earnings presented on the Glooble Group's consolidated statement of financial position as at 31 May 20X9, in accordance with IFRS 10 *Consolidated Financial Statements*?

- A. \$1,686,000
- B. \$1,730,400
- C. \$1,736,560
- D. \$1,741,600

What does this test?

This question tests SLO D2(d) and IFRS 10 *Consolidated Financial Statements*. Candidates needed to know how to calculate the impact on **both** the parent and subsidiary of a transfer of non-current assets.

What is the correct answer?

The correct answer is **D**.

Per IFRS 10 (para B86), consolidated financial statements eliminate in full intragroup assets, including any **profits or losses resulting from intragroup transactions**.

Adjusted profit of Stekk Co (subsidiary)

$$\begin{aligned} &= (\$740,000 - \$500,000) \text{ profit for the year} - (\$560,000 - \$448,000) \text{ intragroup unrealised gain} \\ &= \$240,000 - \$112,000 \\ &= \$128,000 \end{aligned}$$

Adjustment to profit of Glooble Co (parent)

$$\begin{aligned} &= 1/10 \text{ years} \times \$112,000 \text{ increase in depreciable amount} \\ &= \$11,200 \end{aligned}$$

Consolidated retained earnings
= \$1.66m + \$11,200 + (55% × \$128,000)
= \$1.66m + \$11,200 + \$70,400
= **\$1,741,600**

Where did candidates go wrong?

Most candidates answered this question incorrectly and many candidates did not answer it at all. A similar number of candidates selected B (ignored the depreciation adjustment of \$11,200) or C (applied the group share of 55% to **both** the \$128,000 **and** the \$11,200). Very few candidates selected A (**parent** as the seller).

Question two

Gamara Co acquired 30% of Shintee Co's ordinary (equity) shares for \$207m on 1 January 20X5. On 10 June 20X5, Shintee Co paid a dividend of \$22m. Shintee Co's profit for the year ended 30 September 20X5 was \$62m.

What is the carrying amount of the investment in the associate in the Gamara Group's consolidated statement of financial position as at 30 September 20X5, in accordance with IAS 28 *Investments in Associates and Joint Ventures* (to the nearest \$m)?

- A. \$214m
- B. \$219m
- C. \$221m
- D. \$226m

What does this test?

This question tests SLO D2(a) and IAS 28 *Investments in Associates and Joint Ventures*. Candidates needed to know how to calculate the carrying amount of an investment in an associate – **deducting** the group's share of dividends and **adding** the group's share of profits to the original investment.

What is the correct answer?

The correct answer is **C**.

In accordance with IAS 28 (para 10), under the equity method, on initial recognition the investment in an associate is recognised at **cost**, and the carrying amount is **increased** to recognise the investor's share of the profit of the investee after the date of acquisition. Distributions (e.g., dividends) received from an investee **reduce** the carrying amount of the investment.

Carrying amount of associate
= \$207m consideration + (30% × [9/12 months × \$62m]) profit
= \$207m + (30% × \$46.5m)

= \$220.95m (\$221m)

Where did candidates go wrong?

Most candidates answered this question incorrectly. The most common error was to ignore apportionment of profits (B). Many candidates ignored the dividends (C) – some of whom also failed to apportion profit (D).

Question three

Profysh Co acquired 80% of Smockhaus Co's ordinary (equity) shares on 1 August 20X6.

Both companies correctly recognised revaluation increases on land in the year ended 31 July 20X7, in accordance with IAS 16 *Property, Plant and Equipment*.

The revaluation surplus balances, as reported in the individual statement of financial position of each company, are as follows:

Revaluation surplus	Profysh Co	Smockhaus Co
	\$m	\$m
Opening balance at 1 August 20X6	250	50
Closing balance at 31 July 20X7	375	75

What is the balance on the revaluation surplus in the Profysh Group's consolidated statement of financial position as at 31 July 20X7, in accordance with IFRS 10 *Consolidated Financial Statements*?

- A. \$395m
- B. \$400m
- C. \$435m
- D. \$450m

What does this test?

This question tests SLO D2(c) and IFRS 10 *Consolidated Financial Statements*. Candidates needed to know that the group's share of other comprehensive income applies the same concept as the group's share of profits (and, in turn, retained earnings).

What is the correct answer?

The correct answer is **A**.

In accordance with IFRS 10 (para B88), an entity includes the income and expenses of a subsidiary in the consolidated financial statements **from the date it gains control** until the date when the entity ceases to control the subsidiary. Therefore, the Profysh Group does **not** include a share of Smockhaus Co's \$50m **pre-acquisition other comprehensive income**.

Post-acquisition revaluation increase recognised by Smockhaus Co

$$= \$75\text{m} - \$50\text{m}$$

$$= \$25\text{m}$$

Consolidated revaluation surplus

$$= \$375\text{m} + (80\% \times \$25\text{m})$$

$$= \$375\text{m} + \$20\text{m}$$

$$= \mathbf{\$395\text{m}}$$

Where did candidates go wrong?

Candidates were relatively evenly spread across three of the four options. Few candidates selected B, which allocated 100% of the \$25m increase. The candidates answering incorrectly either took a group share of the **entire** \$75m (C) or simply added together the parent and subsidiary balances without further consideration for acquisition accounting (D).

Question four

On 1 March 20X5, Beecol Co invested in a five-year loan note with a nominal value of \$3.5m. Beecol Co received a discount of \$398,000 on the nominal value. The loan note pays interest at 7% in arrears and has an effective interest rate of 10%. The financial asset is classified as amortised cost.

Calculate the carrying amount of Beecol Co's financial asset at 28 February 20X7, in accordance with IFRS 9 *Financial Instruments* (to the nearest \$'000)?

\$ _____,000

What does this test?

This question tests SLO B5(d) and IFRS 9 *Financial Instruments*. Candidates needed to know how to calculate a carrying amount using the amortised cost method of subsequent measurement but, also, to consider the discount.

What is the correct answer?

The correct answer is **3239**.

Discounted opening balance

$$= \$3.5\text{m} - \$398,000$$

$$= \$3.102\text{m}$$

Nominal interest receipts

$$= 7\% \times \$3.5\text{m}$$

$$= \$245,000$$

Year ending	Opening balance	Effective interest at 10%	Receipt at 7% of nominal value	Closing balance
	\$'000	\$'000	\$'000	\$'000
28 February 20X6	3,102	310	(245)	3,167
28 February 20X7	3,167	317	(245)	3,239

Where did candidates go wrong?

Although most candidates answered correctly, many candidates either **ignored the discount** of \$398,000 (3721) or selected the year ended 28 February **20X6** (3167).

Section B

Section B tests candidates' knowledge of 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 **IFRS 16 Leases**. 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 read the question carefully to avoid misreading or missing information in the scenario**. It is also important to identify any specific instructions, such as rounding of monetary amounts.

Scenario

Klokken Co entered three new leases during the year ended 31 March 20X5. The commencement date of all three leases was 1 April 20X4.

Plant

The present value of future lease payments, prior to the payment of a deposit, was \$446,500. The deposit was \$40,000 and was paid on the commencement date. The first of five annual instalments of \$110,000 was paid on 31 March 20X5 and the interest rate implicit in the lease is 11%

Tablet devices

The fair value of the tablet devices totalled \$26,000 at the commencement date and they are considered assets of low value. The lease has a three-year term and the first of two annual instalments will be paid on 31 March 20X6.

Property

On 1 April 20X4, Klokken Co sold a property for its fair value of \$7.4m when the carrying amount of the property was \$5m. Klokken Co immediately leased the property back on 1 April 20X4 and the first of five annual instalments of \$1.6m was paid on 31 March 20X5. The relevant five-year discount factor was 4.452 on 1 April 20X4.

Question one

A contract is a lease only if it has specific characteristics.

Which TWO of the following are characteristics of a contract which is a lease, in accordance with IFRS 16 Leases?

- A. A period of time must be described only in terms of days, weeks or years
- B. It conveys the right to control the use of an identified asset
- C. It identifies the period of time over which the asset may be used
- D. It automatically transfers ownership of the underlying asset to the user

What does this test?

This question tests SLO B6(a) and IFRS 16. Candidates needed to know the characteristics of a contract that is a lease.

What are the correct answers?

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

Per IFRS 16 (para 9), a contract is, or contains, a lease if the contract **conveys the right to control the use of an identified asset** for a **period of time** in **exchange for consideration**.

Where did candidates go wrong?

Although almost all candidates identified that B was correct, most candidates still answered incorrectly. Candidates who answered incorrectly selected **A** and B or, alternatively, B and **D**. A period of time may be described in terms of the amount of use of an identified asset (for example, mileage for vehicles). A lease contract does **not** automatically transfer ownership of the underlying asset to the user. There **may** be a transfer at the end of the lease or a purchase option.

Question two

The interest expense was correctly accounted for during the year ended 31 March 20X5.

Calculate the interest expense to be recognised on the plant lease liability for the year ended 31 March 20X6 (to the nearest \$'000)?

\$ _____,000

What does this test?

This question also tests SLO B6(a) and IFRS 16. Candidates needed to know how to calculate the unwinding of the discount on the present value of future lease payments, using the effective interest rate provided.

What is the correct answer?

The correct answer is **38**.

Per IFRS 16 (para 26), at the commencement date, a lessee shall measure the lease liability at the **present value of the lease payments that are not paid at that date**. As a payment of \$40,000 is made at the commencement date, this must **not** be included in the lease liability.

Lease liability immediately following payment of deposit

= \$446,500 - \$40,000

= **\$406,500 (407)**

Year ended	Opening liability	Effective interest	Nominal payment	Closing liability
	\$'000	\$'000	\$'000	\$'000
31 March 20X5	407	45	(110)	342
31 March 20X6	342	38		

Where did candidates go wrong?

Few candidates answered this correctly. There were a significant number of different numbers input by candidates. The most common number input by candidates was 45 (the **20X5** amount). Many candidates entered **\$37,534 (not rounded)** to the nearest \$'000) or **37** (incorrectly rounding down). Both of these errors evidenced the **misreading of the question** rather than a lack of technical knowledge.

Question three

Klokken Co intends to take advantage of any exemptions available under IFRS 16 *Leases*.

Select which of following statements regarding exemptions available are TRUE or FALSE, in accordance with IFRS 16 *Leases*.

The election for leases for which the underlying asset is of low value can be made on a lease-by-lease basis	TRUE	FALSE
A class of underlying asset is a grouping of underlying assets of a similar fair value	TRUE	FALSE

What does this test?

This question tests SLO B6(b) and IFRS 16. Candidates needed to know the characteristics of leases under which an exemption is available.

What are the correct answers?

The correct answers are **TRUE** (Statement 1) and **FALSE** (Statement 2).

Per IFRS 16 (para 8), the election for **short-term leases** shall be made **by class of underlying asset to**

which the right of use relates. A class of underlying asset is a grouping of **underlying assets of a similar nature** and use in an entity's operations. The **election for leases for which the underlying asset is of low value** can be made on a **lease-by-lease basis**.

Where did candidates go wrong?

Few candidates answered this correctly. The spread of selected answers suggests that many candidates had guessed the answer and had not studied this area of the syllabus. **Any area of the syllabus may be tested in an objective test question** (i.e., in Sections A and B).

Question four

The annual instalments for tablet devices are \$16,000 each.

What liability should be reported on the statement of financial position as at 31 March 20X5 regarding the tablet devices lease (to the nearest \$'000)?

- A. \$11,000
- B. \$16,000
- C. \$26,000
- D. \$32,000

What does this test?

This question also tests SLO B6(b) and IFRS 16. Candidates needed to know how to perform calculations for lease exemptions (using the straight-line method).

What is the correct answer?

The correct answer is **A**.

In accordance with IFRS 16 (para 6), the lessee shall recognise the lease payments associated with those (short-term and low-value) leases as an expense on either a straight-line basis over the lease term or another systematic basis.

Liability (Accrued expense)
= $12/36 \text{ months} \times (2 \times \$16,000)$
= $12/36 \text{ months} \times \$32,000$
= **\$10,667 (\$11,000)**

Where did candidates go wrong?

This question was performed least well in the case. There was a relatively equal spread of answers across A, C and D which, consistent with Question three, suggests that many candidates had guessed the answer and had not studied this area of the syllabus.

Question five

The property transaction qualified as a sale, in accordance with IFRS 15 *Revenue from Contracts with Customers*.

What is the recognised gain on the sale of property for the year ended 31 March 20X5, in accordance with IFRS 16 Leases (to the nearest \$'000)?

- A. \$90,000
- B. \$519,000
- C. \$1.62m
- D. \$2.31m

What does this test?

This question tests SLO B6(c) and IFRS 16. Candidates needed to know how to perform calculations for a sale and leaseback transaction.

What is the correct answer?

The correct answer is **A**.

Lease liability
= \$1.6m × 4.452
= \$7.123m

Total gain
= \$7.4m - \$5m
= \$2.4m

Portion sold
= \$7.4m - \$7.123m
= \$277,000

Recognised gain
= \$2.4m × (\$277,000 ÷ \$7.4m)
= \$89,838 (**\$90,000**)

Where did candidates go wrong?

Most candidates answered this question correctly; with a similar number of candidates selecting each incorrect answer.

Section C

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

Aqua Co is a financial statements analysis and interpretation question for an individual entity, including an adjustment for a foreign exchange difference. Partridge Co is a consolidated financial statements preparation question, including the calculation of goodwill.

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.

Aqua Co

Aqua Co required candidates to demonstrate and apply knowledge from the ‘analysing and interpreting financial statements’ area of the syllabus (section C) and required a recommendation for investing in **one** company (only). The question contained both financial and non-financial information relating to the entity.

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, including:

- 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.

Aqua Co contains three requirements.

Requirement (a) – 4 marks

Calculate, using the pre-formatted response provided and ignoring Coral Co’s foreign exchange difference, the following ratios for Coral Co and Reef Co:

- **Gross profit margin;**
- **Operating profit margin;**
- **Return on capital employed; and**
- **Gearing (calculated as ‘Debt ÷ Equity’).**

This part of the question tests SLO C2(a) and the calculation of financial ratios. Candidates needed to know how to calculate these relatively common ratios and, specifically, to calculate

gearing **as stated in the requirement**.

When calculating ratios, candidates **must show their workings in full**. The pre-formatted response provided to candidates facilitates this.

Most candidates performed very well on this requirement. However, some common errors included:

- using the wrong profit measure in calculations for **operating profit margin (operating profit)** and **return on capital employed (profit before financing and income taxes)**;
- calculating capital employed as **solely** debt or **solely** equity; and
- calculating gearing as “Debt ÷ (Debt + Equity)” when the **correct formula was stated in the requirement**. No credit was awarded and no ‘own figure rule’ was applied if the wrong formula was used by a candidate, given the gearing formula was explicitly stated in the requirement.

Requirement (b) – 3 marks

Calculate the foreign exchange difference and, using the pre-formatted response provided, recalculate Coral Co’s:

- **Operating profit margin**
- **Return on capital employed**
- **Gearing (calculated as ‘Debt ÷ Equity’)**

This part of the question tests SLO B12(b) and the calculation of a foreign exchange difference. Candidates needed to know how to **both** calculate the difference **and** correctly recognise a **gain**; before then **recalculating** three of the four ratios from the first requirement.

The foreign exchange difference was calculated as follows:

1	(W1) Foreign exchange difference	
2		\$'000
3	1 December 20X5 (6m dinars ÷ 2.00)	3,000
4	30 April 20X6 (6m dinars ÷ 3.00)	2,000
5	Forex gain	1,000
6		

Many candidates correctly calculated the foreign exchange gain and were able to increase operating profit accordingly; whereas some candidates treated this, incorrectly as a loss. Most candidates did **not** recognise the effect of the foreign exchange difference in **equity** (i.e., retained earnings).

Any formula error penalised in requirement (a) was **not** subsequently penalised in part (b) due to the application of the ‘own figure rule’. This, however, did not apply to gearing (discussed above).

Requirement (c) – 13 marks

Analyse the performance and position of the potential acquisition targets:

- Explaining whether Aqua Co would exert control over its investment; and
- Concluding, with a clear recommendation, on which company to invest in.

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 analyse and interpret the information in the scenario to conclude on which **one** of two companies Aqua Co should invest in. Some short calculations were also required to determine the shareholding that Aqua Co could acquire as this influenced the investment decision.

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

Candidates continue to provide **generic answers that fail to relate to the information provided in the scenario. No marks are awarded for stating the constituent parts of a ratio calculation or what the ratio means (in general terms); nor are marks awarded for stating that a ratio is 'better' or 'worse' (a simple observation).**

A **good** answer reflects on the information from the scenario and how it may have impacted the ratios. For example, Notes (2) and (3) provided information on debts for the two potential acquisition targets. Many candidates simply stated that the gearing of Coral Co (125% excl. foreign exchange gain; 100% incl. foreign exchange gain) was worse than Reef Co (33.3%) because its gearing level was higher. A strong answer would recognise that not only is Coral Co's debt greater **but it is due for repayment in two years' time**. Reef Co has less debt **and eight years before repayment is due**. The impact of this on acquisition could then be explored.

When reviewing the ratio movements, candidates should consider the **impact of the foreign currency gain**. For example, when comparing the operating profit margin for Coral Co and Reef Co, it appears that Coral Co is outperforming Reef Co using the ratios calculated in part (b). However, it would have been appropriate to comment further on the effect of the gain and to recognise that this **is likely to be a one-off transaction**. Many candidates did not utilise this point within their analysis.

The requirement specifically asked candidates to explain whether Aqua Co would exert **control** over its investment. **Many candidates ignored this completely in their analysis**. When there are specific requirements in addition to the usual 'performance and position' analysis, it is recommended that candidates create a specific heading. This will encourage candidates to consider this as part of their overall analysis.

Finally, the requirement asked candidates to conclude on which company to invest in. Many candidates did provide a brief conclusion stating who Aqua Co should invest in, which showed that this element of the requirement was understood. However, the candidates that stated Coral Co **or**

Reef Co would be a good investment were **not** awarded full marks for their conclusion. Candidates are encouraged to use a separate heading for a conclusion.

Partridge 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.

Partridge 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 goodwill calculation was also required.

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).

Partridge Co contains two requirements.

Requirement (a) – 5 marks

Calculate the goodwill arising on the acquisition of Strawberry Co at 1 July 20X5.

This part of the question tests D2(a) and IFRS 3 *Business Combinations*. Candidates needed to know how to calculate goodwill at the date of acquisition, including deferred consideration, non-controlling interests and fair value adjustments.

Some candidates did not discount the deferred consideration to present value despite being given the appropriate discount factor in note (1).

Note (3) advised candidates to measure non-controlling interests (NCI) at acquisition using the fair value method. NCI at acquisition was \$2.6m ($[20\% \times 1 \text{ million shares}] \times \13.00). Some candidates incorrectly used the full 1 million shares within their calculation or used 80% of shares. Several candidates incorrectly calculated NCI by using the alternative method – the proportionate share of Strawberry Co’s identifiable net assets.

Some candidates found the calculation of net assets at acquisition challenging. The most

common errors related to the fair value adjustment for inventories and the inclusion of the share capital of Strawberry Co. The carrying amount of the net assets at acquisition provided in note (2) already includes these shares.

Requirement (b) – 15 marks

Prepare the Partridge Group's consolidated statement of profit or loss for the year ended 31 March 20X6.

This part of the question tests various SLOs, 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, including the impact on non-controlling interests.

Performance on this part of the question was mixed. When asked to prepare a consolidated statement of profit or loss (CSPL), it is recommended 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's results accordingly.

Strawberry Co was acquired on 1 July 20X5 and, therefore, consolidation should be time apportioned by nine months (9/12 months × income or expense).

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

For example:

B3		:	$\times$	$\checkmark$	f_x	$\vee$	=35000+(24000*9/12)
	A						B
1	Part (b) Consolidated Statement of Profit or Loss						
2							\$'000
3	Revenue (35,000 + (24,000 x 9/12))						53,000
4	Cost of sales (21,000 + (14,000 x 9/12))						
5	Gross profit						
6	Operating expenses:						
7	General and administrative expenses (4,000 + (2,800 x 9/12))						
8	Selling expenses (2,000 + (1,200 x 9/12))						
9	Operating profit						
10	Investment income (4,200 + (200 x 9/12))						
11	Profit before financing and income taxes						
12	Interest expenses on borrowings (2,000 + (1,000 x 9/12))						
13	Interest expenses on unwinding of discount*						
14	Profit before income taxes						
15	Income tax expense (2,450 + (1,000 x 9/12))						
16	PROFIT						
17							

Note that the interest expenses on unwinding of discount relate to the deferred consideration in note (1). Candidates were **not** penalised if they included all interest expenses in one line.

As in previous diets, many candidates adjusted the subsidiary results incorrectly by either using an incorrect number of months or, critically, by **not apportioning at all**. Candidates are once again 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**. Several candidates incorrectly applied proportionate consolidation by **multiplying the results of the subsidiary by 80%**; **again, this is a fundamental accounting error**. For either of the two fundamental accounting errors described above, the candidate will receive **no marks** for consolidating the parent and subsidiary but may still achieve marks for the consolidation adjustments.

Candidates are also advised to include the profit attributable to owners of the parent and non-controlling interest in their pro forma. Many candidates ignore this area completely and miss several marks as a result. By including it in the workspace at the beginning, candidates are less likely to overlook it.

For example:

16	PROFIT	
17		
18	Profit attributable to:	
19	Owners of the parent	
20	Non-controlling interests	
21		
22		

Once the initial set-up is complete, candidates can address the additional information. Candidates can account for each note in any order but, for the purpose of this report, they will be dealt with in numerical order.

Candidates are also strongly advised to carefully read the additional information in the question and consider whether the adjustments will **impact the non-controlling interests**.

Note (1) Subsequent measurement of deferred consideration

The information in note (1) was firstly used to calculate the consideration for the calculation of goodwill in the first requirement. Partridge Co agreed to pay \$2.4m on 30 June 20X7, one year after acquisition. This was discounted to present value. Here, candidates were required to unwind the discount on the consideration for the **nine months** to year end:

24		\$'000
25	(W1) Interest expenses on unwinding of discount	
26	(9/12 x (10% x \$1.982m))	149

The most common errors on this adjustment were **failing to time apportion the expense for nine months** or **excluding the unwinding entirely**. Several candidates incorrectly included the unwinding of the discount above profit before financing and income taxes. This is incorrect as it is part of financing. Full marks could not be awarded to candidates who included this interest expense outside of the

financing category.

Note (2) Subsequent measurement of fair value adjustments

This note was firstly used to calculate the net assets at acquisition for the goodwill calculation and contained two fair value adjustments.

The first relates to depreciating the plant fair value adjustment. Most candidates had already correctly identified the fair value adjustment for plant and were able to spread this over the remaining life of four years to find the annual depreciation charge for the group. However, this then needed to be **time-apportioned by nine months**. Where candidates had incorrectly dealt with the adjustment in the first requirement, the 'own figure rule' was applied to the related depreciation expense.

The second adjustment related to the inventories fair value adjustment. An adjustment of \$100,000 was included in the net assets at acquisition. Where candidates had incorrectly adjusted net assets in the first requirement, the 'own figure rule' was applied. When candidates did make an adjustment, it was common to see it being incorrectly **deducted** from cost of sales. However, many candidates **did not attempt this adjustment at all**.

Note (4) Intragroup transfer of goods

There are two adjustments required using the information in note (4). Firstly, there is an intragroup sale and purchase of \$3m to be eliminated from revenue and cost of sales when preparing the CSPL:

	A	B
2		\$'000
3	Revenue (35,000 + (24,000 x 9/12) - 3,000	50,000
4	Cost of sales (21,000 + (14,000 x 9/12) - 3,000	
5	Gross profit	

Secondly, there are \$900,000 of goods left in inventories at the reporting date and, therefore, the 25% markup on this sale is unrealised and must be eliminated from the consolidated financial statements:

	A	B
28	(W2) Unrealised profit	
29		\$'000
30	\$900 x 25/125	180

Although many candidates correctly calculated the unrealised profit, common errors included calculating the profit element based on the sale of \$3m, using margin rather than markup and **deducting from** cost of sales.

This adjustment has no effect on the non-controlling interests share of profit as the parent (Partridge Co) sold goods to the subsidiary (Strawberry Co).

Note (5) Intragroup dividend

Strawberry Co paid a dividend of \$2m on 30 September 20X5. This was after acquisition and, therefore, Partridge Co received 80% of this dividend. The dividend must be eliminated:

B10	:	X	✓	f_x	$=4200+(200 \times 9/12) - (2000 \times 0.8)$
				A	B
9				Operating profit	
10				Investment income $(4,200 + (200 \times 9/12) - (2,000 \times 80\%))$	2,750

Most candidates made an adjustment for the intragroup dividend but many eliminated the full \$2m and others time-apportioned the dividend in error. It is important to remember that it is the dividend actually **received by Partridge Co** that needs to be eliminated.

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