

Financial Reporting (FR)

March/June 2026

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 March/June 2026 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 case 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

Flottay Co acquired 70% of Silpark Co's ordinary (equity) share capital on 1 June 20X5. Extracts from the financial statements are as follows:

Statement of profit or loss (extracts) for the year ended 30 November 20X5

	Flottay Co	Silpark Co
	\$'000	\$'000
Revenue	1,500	780
Cost of sales	(450)	(180)
Gross profit	1,050	600

During August 20X5, Silpark Co sold goods to Flottay Co for \$60,000 at a gross profit margin of 20%. All goods were still in Flottay Co's inventories at 30 November 20X5.

What is the gross profit in the Flottay Group's consolidated statement of profit or loss for the year ended 31 December 20X5 (in \$'000)?

\$ ____,000

What does this test?

This question tests SLO D2(b) and IFRS 10 *Consolidated Financial Statements*. Candidates needed to know to apportion the subsidiary's results for six months only and, also, to eliminate the intragroup transfer of goods.

What is the correct answer?

The correct answer is **1338**.

Consolidated financial statements only include post-acquisition results of the subsidiary; therefore, as Silpark was acquired six months into the year, **only six months of transactions may be consolidated**.

Additionally, consolidated financial statements eliminate intragroup transfers of assets, including **any unrealised profits resulting from intragroup transactions**.

Intragroup unrealised profit in inventories

= 100% unrealised × (20% gross profit margin × \$60,000 selling price)

= 100% unrealised × \$12,000 profit
= \$12,000

Consolidated gross profit

= \$1.05m parent + (6/12 months × \$600,000) subsidiary - \$12,000 intragroup unrealised profit
= \$1.35m parent and subsidiary - \$12,000 intragroup unrealised profit
= **\$1.338m (1338)**

Where did candidates go wrong?

Most candidates answered this question incorrectly. The most common error was to ignore the pro-rating of the gross profit of the subsidiary. As the subsidiary was acquired during the year, only the six months of post-acquisition profits should be consolidated. The other common error was to ignore the intragroup transfer of goods. Some candidates made both errors.

Question two

Which ONE of the following transactions will increase total equity on the statement of financial position?

- A. An issue of six-year 8% non-convertible loan notes
- B. An issue of six-year 8% convertible loan notes
- C. An issue of six-year 8% redeemable preference shares
- D. A one-for-five issue of bonus shares

What does this test?

This question tests SLO B5(e) and IAS 32 *Financial Instruments: Presentation*. Candidates needed to know how to correctly present financial instruments.

What is the correct answer?

The correct answer is **B**.

Convertible loan notes are a compound instrument, for which both a financial liability and equity component are recognised in the financial statements. Total equity is, therefore, increased by the issue of convertible loan notes.

Where did candidates go wrong?

The most common error was to select an issue of bonus shares. An issue of bonus shares increases share capital but reduces another component of equity (e.g., retained earnings or share premium) by the same amount; therefore, it has no effect on total equity. The next most common error was to select redeemable preference shares. **Redeemable** preference shares are a liability as there is a contractual obligation to transfer cash to the holder of the shares; therefore, they increase both cash and cash equivalents and financial liabilities, with no impact on total equity.

Question three

Which TWO of the following events would give rise to a provision, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets?

- A. Compensation claimed from an insurance company for water damage where it is probable that this will be paid
- B. A warranty offered on the sale of a bespoke piece of equipment where it was estimated that there is a 35% chance of a claim being made
- C. An established policy, shown on a company's website, stating that customers can make a return if they change their mind about the goods
- D. A lawsuit for wrongful dismissal filed by an employee where it is probable that the employee will succeed in their claim

What does this test?

This question tests SLO B7(c) and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Candidates needed to know that a provision is a liability of uncertain timing or amount.

What are the correct answers?

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

Provisions recognised as liabilities where there is a **present obligation** and it is **probable** that an outflow of resources embodying economic benefits will be required to settle the obligation. Contingent liabilities are **not** recognised as liabilities because they are **possible** obligations, yet to be confirmed.

A provision shall be recognised when:

- (a) an entity has a **present obligation (legal or constructive)** as a result of a **past event**;
- (b) it is **probable** that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) a **reliable estimate** can be made of the amount of the obligation.

An established and publicised policy allowing for the return of goods due to a customer changing their mind is an example of a **constructive obligation** (an established pattern of past practice and a published policy) that has arisen from a past event (the sale of goods). Therefore, a provision would be recognised for the expected returns (C).

A lawsuit (D) for which it is probable the company will lose would meet the criteria of a provision. The entity has a **legal obligation** as a result of the wrongful dismissal.

Where did candidates go wrong?

Most candidates answered this question incorrectly. The most common error was for candidates to incorrectly select the compensation being claimed (A) and not for the returns policy (C). The compensation being claimed is a probable future **inflow** which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the

control of the entity; i.e., this is a **contingent asset**. Many candidates also classified the warranty (B) as a provision. As the chance of a claim being made was only 35% and this was one warranty on a bespoke piece of equipment, this outflow is **not probable**. The claim would be recorded as a **contingent liability**.

Question four

Toblee Co entered into a five-year lease on 1 July 20X6. Payments of \$4.5m are made in advance, commencing on 1 July 20X6.

The present value of the future lease payments at 1 July 20X6 was \$19.81m, immediately prior to the first payment. The interest rate implicit in the lease is 6.8%. The underlying asset's useful life was ten years from the commencement date.

Match the appropriate items to indicate the amounts that should be charged to Toblee Co's statement of profit or loss for the year ended 30 June 20X7.

Items	Amount
Interest expense of \$1.04m	
Interest expense of \$1.17m	
Depreciation charge of \$1.98m	
Depreciation charge of \$3.96m	
Lease expense of \$4.50m	

What does this test?

This question tests SLO B6(a) and IFRS 16 *Leases*. Candidates needed to know how to account for a lease where payments are made in advance, including the corresponding depreciation charge on the right-of-use asset.

What are the correct answers?

The correct answers are **Interest expense of \$1.04m** and **Depreciation charge of \$3.96m**.

Interest expense

$$= 6.8\% \times (\$19.81\text{m} - \$4.5\text{m})$$

$$= 6.8\% \times \$15.31\text{m}$$

$$= \mathbf{\$1.04\text{m}}$$

Depreciation charge

$$= 1/5 \text{ years} \times \$19.81\text{m}$$

$$= \mathbf{\$3.96\text{m}}$$

The right-of-use asset is depreciated over the shorter of the lease term (five years) and its useful life (ten years) – there is nothing in the scenario to suggest that Toblee Co will obtain ownership at the end of the lease term.

Where did candidates go wrong?

Most candidates answered this question incorrectly. Most candidates correctly identified that the interest expense was \$1.04m and not \$1.17m; the latter assuming payments in arrears. However, almost half of candidates selected that the depreciation on the right-of-use asset was \$1.98m, which incorrectly assumes that the right-of-use asset should be depreciated over its useful life. Few candidates selected that a lease expense of \$4.50m was appropriate.

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 5 Non-current Assets Held for Sale and Discontinued Operations, IAS 10 Events after the Reporting Period and IFRS 18 Presentation and Disclosure in Financial Statements.

Candidates must read the case scenario and its requirements carefully. Each objective test question is worth two marks and so reading the question carefully may avoid misreading or missing information in the scenario. It is also important to identify any specific instructions, such as rounding of monetary amounts.

Scenario

Relicoz Co prepares its financial statements to 31 October each year. Relicoz Co's financial statements were finalised on 21 November 20X4. They were authorised for issue on 15 January 20X5 and the annual general meeting took place on 23 January 20X5.

On 31 October 20X4, Relicoz Co vacated one of its properties and advertised it for sale. The property met the criteria to be classified as held for sale on 31 October 20X4. On 1 November 20X3, the property had a carrying amount of \$10.4m and a remaining useful life of 10 years. The property is held under the revaluation model and its fair value at 31 October 20X4 was \$10m. The property was expected to sell for its fair value of \$10m, with selling costs estimated at \$200,000.

Relicoz Co decided to sell an item of equipment during the year ended 31 October 20X4. On 1 November 20X3, the equipment had a carrying amount of \$1,960,000 and a remaining useful life of 5 years. The equipment met the criteria to be classified as held for sale on 1 May 20X4. At 1 May 20X4, the equipment had a fair value less costs to sell of \$1,880,000, which then fell to \$1,860,000 at 31 October 20X4.

Question one

Select whether each of the following statements is TRUE or FALSE, in accordance with IAS 10 *Events after the Reporting Period* and IFRS 18 *Presentation and Disclosure in Financial Statements*.

For material non-adjusting events after the reporting period, an entity shall make disclosures in the notes to the financial statements only	TRUE	FALSE
An entity must adjust the amounts recognised in its financial statements to reflect both material and immaterial adjusting events after the reporting period	TRUE	FALSE

What does this test?

This question tests SLO B7(g) and IAS 10. Candidates needed to know the definitions of, and requirements for, adjusting and non-adjusting events after the reporting period.

What are the correct answers?

For material non-adjusting events after the reporting period, an entity shall make disclosures in the notes to the financial statements only – **TRUE**

An entity must adjust the amounts recognised in its financial statements to reflect both material and immaterial adjusting events after the reporting period – **FALSE**

Only material information must be presented and disclosed by entities.

An entity shall **not** adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period but an entity shall **disclose** the nature of the event; and an estimate of its financial effect, or statement that such an estimate cannot be made.

An entity shall **adjust** the amounts recognised in its financial statements to reflect adjusting events after the reporting period. However, an entity need only present or disclose **material** information.

Where did candidates go wrong?

Most candidates were able to identify that it is true that material non-adjusting events after the reporting period require only a disclosure in the notes **or** that it was false that an entity must adjust the amounts in its financial statements for immaterial adjusting events after the reporting period.

However, only a narrow majority of candidates could correctly classify **both** statements. Candidates must ensure they are comfortable with the details of the accounting standards and should read the question carefully.

Question two

In accordance with IAS 10 *Events after the Reporting Period*, which TWO of the following material events must be adjusted for in Relicoz Co's financial statements for the year ended 31 October 20X4?

- A. On 14 December 20X4, a storm destroyed equipment with a carrying amount of \$2.1m at 31 October 20X4
- B. On 11 November 20X4, Relicoz Co was sued by a customer over the low quality of goods supplied on 17 October 20X4; it is most likely that the customer will win the case and be awarded \$530,000 in compensation
- C. On 3 December 20X4, a key customer with a balance of \$250,000 at 31 October 20X4 declared bankruptcy and no receipt is expected for this debt
- D. On 20 January 20X5, a change in legislation led to scrapping machinery with a carrying amount of \$3.4m at 31 October 20X4

What does this test?

This question also tests SLO B7(g) and IAS 10. Candidates needed to know the definition and requirements for adjusting events after the reporting period.

What are the correct answers?

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

The settlement after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period is an adjusting event. The case with the customer relates to goods provided before the year end date. The bankruptcy of a customer that occurs after the reporting period usually confirms that the customer was credit-impaired at the end of the reporting period.

The destruction of an asset by an unexpected event after the reporting period is a non-adjusting event. Similarly, as the change in legislation arose after the year-end date, this is a non-adjusting event.

Where did candidates go wrong?

Most candidates were able to correctly identify that B and C were material events requiring adjustment in the financial statements. Particularly, candidates could identify that C was correct. The most common error was to incorrectly select that D (a post-year end change in legislation) required an adjustment.

Question three

For the property, what is the total amount charged to Relicoz Co's statement of profit or loss for the year ended 31 October 20X4?

- A. \$400,000
- B. \$1,040,000
- C. \$1,240,000
- D. \$600,000

What does this test?

This question tests SLO B9(b) and IFRS 5. Candidates needed to know how to account for an asset classified as held for sale at the year end.

What is the correct answer?

The correct answer is C.

Depreciation charge on the property for the year ended 31 October 20X4

= $1/10 \text{ years} \times \10.4m

= **\$1.04m**

Carrying amount of asset at year end, prior to reclassification
= \$10.4m - \$1.04m
= \$9.36m

The property follows the revaluation model and should be revalued in line with IAS 16 *Property, Plant and Equipment* immediately before reclassification – to a carrying amount of \$10m. This has no impact on profit or loss. Upon reclassification to held for sale, the asset is measured at the lower of the carrying amount and fair value less costs to sell (FVLCTS). FVLCTS is lower than the carrying amount:

FVLCTS
= \$10m - \$200,000
= \$9.8m

Impairment loss on reclassification
= \$10m - \$9.8m
= **\$200,000**

Total amount charged to statement of profit or loss
= \$1.04m + \$200,000
= **\$1.24m**

Where did candidates go wrong?

This question was not well-attempted by candidates. A minority of candidates answered this correctly.

The most popular answer was B, which was only the depreciation charge.

D was the next most popular answer. Candidates selecting D incorrectly included the revaluation surplus in the statement of profit or loss instead of the statement presenting other comprehensive income. Few candidates answered (A), which incorrectly included the revaluation surplus in the statement of profit or loss and excluded the loss on reclassification as held-for sale.

Candidates are reminded that immediately before a non-current asset is classified as held for sale, it should be remeasured in accordance with IFRS 5.

Then, on initial classification as held for sale, non-current assets are measured at the lower of:

- carrying amount; or
- FVLCTS.

Where FVLCTS is less than the carrying amount, an impairment loss must be recognised in the statement of profit or loss.

Question four

In accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, what is the carrying amount of the equipment in Relicoz Co's statement of financial position as at 31 October 20X4?

- A. \$1.880m
- B. \$1.568m
- C. \$1.764m
- D. \$1.860m

What does this test?

This question also tests SLO B9(b) and IFRS 5.

What is the correct answer?

The correct answer is **C**.

Depreciation on equipment for the six months ended 1 May 20X4
= $6/60 \text{ months} \times \1.96m
= \$196,000

Carrying amount of equipment classified as held-for-sale
= \$1.96m – \$196,000
= \$1.764m

Upon classification to held for sale, the asset is measured at the lower of carrying amount and FVLCTS. The carrying amount of \$1.764m is less than the FVLCTS of \$1.88m; therefore, the held-for-sale asset will be initially measured at \$1.764m. At the year end, although the FVLCTS was \$1.86m the asset value is not increased.

Where did candidates go wrong?

This requirement was not answered well by candidates. The most selected answer was \$1.860m (D). Candidates selecting D selected the FVLCTS at 31 October 20X4. These candidates made one of the following mistakes:

- failure to recognise that depreciation needed to be charged on the equipment up until the date it was classified as held for sale and, therefore, initially recording the asset at FVLCTS, resulting in further impairment at the year end;
- failure to recognise that, upon classification as held for sale, an asset is held at the lower of the carrying amount or fair value less costs to sell; thereby incorrectly initially recording the asset at FVLCTS, resulting in further impairment at the year end;
- failure to recognise that measurement of a held-for-sale asset at the reporting date can only result in a reversal of an impairment loss where the asset was measured at fair value less costs to sell on classification as held for sale; thereby incorrectly increasing the year-end carrying amount to the FVLCTS value.

Many candidates selected \$1.568m (B), failing to pro-rate the depreciation charges for the six months to 1 May 20X4. Candidates **must** read questions carefully and it is recommended that dates are highlighted to avoid mistakes with pro-rating.

Few candidates selected \$1.880m (A), initially measuring the held-for-sale equipment at FVLCTS but then not remeasuring the equipment to its year-end FVLCTS.

Question five

Which of the following items should be classed as an asset held for sale under IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*?

- A. Relicoz Co plans to demolish its head office and, subsequently, sell the underlying land; the sale of which is highly likely within four months of demolition
- B. A brand purchased by Relicoz Co several years ago to sell a single product, which is not currently being produced or sold due to new legislation making the product illegal
- C. An item of plant is currently being marketed at a price of \$960,000 and only bids up to \$640,000 have been received
- D. An empty, unused warehouse is being marketed, and several potential buyers have offered the asking price, with a sale expected within 30 days

What does this test?

This question tests SLO B9(b) and IFRS 5. Candidates needed to know the criteria for an asset being classified as held for sale.

What is the correct answer?

The correct answer is **D**.

An entity shall classify a non current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be **available for immediate sale in its present condition** subject only to terms that are usual and customary for sales of such assets and its sale must be **highly probable**.

An empty, unused warehouse that is being marketed is available for immediate sale in its present condition. The asking price offers indicate that the terms are usual and customary and as a sale is expected within 30 days it is highly probable.

Where did candidates go wrong?

Most candidates answered this correctly. The most common error was A. The land is not held for sale as it is not available for immediate sale in its present condition (the property still needs to be demolished); therefore, the land cannot be classified as held for sale.

B cannot be classified as held for sale as the new legislation making the corresponding product illegal means that the sale of the brand is not highly probable as many of the highly probable criteria have not been met. For C, the item of plant is marketed at a price well above the bids

received; therefore, the asset is not actively marketed for sale at a price that is reasonable in relation to its current fair value and so is not highly probable that a sale will take place.

Section C

We have selected two constructed response questions, Puget Co and Astroid Co, that are available on the ACCA Practice Platform.

Puget Co is a financial statements analysis and interpretation question for a group, including a goodwill calculation for a subsidiary acquired during the year. Astroid Co is an individual financial statements preparation question, including the preparation of extracts from the statement of cash flows.

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.

Puget Co

Puget Co contains three requirements. The first requirement was to calculate goodwill on the acquisition of a subsidiary, Seattle Co. The main requirements were to analyse and interpret the financial statements, which should specifically reference the impact of the mid-year acquisition. The question provided financial and non-financial information for both parent and subsidiary.

The analysis and interpretation of a group is an important area of the syllabus and will continue to be examined. As in previous examination sessions, most candidates scored poorly on this group interpretation question. The reason for this continued 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, is to highlight the importance of using the scenario when constructing an answer to an interpretation question.

Requirement (a) – 5 marks

Calculate the goodwill arising on the acquisition of Seattle Co.

This requirement was generally well answered, with most candidates scoring a high mark.

a) Goodwill					
Consideration					
Cash				64,000	
Share based payment	(2,000 x \$7.10)			14,200	
Deferred cash	(80% x 20,000 x \$1.00) / 1.10			14,545	
					92,745
Non-controlling interest					
Fair value	(20% x 20,000 x \$3.20)				12,800
Fair value of net assets at acquisition					
Share capital				20,000	
Retained earnings				31,000	
Fair value adjustment on property				5,000	
					- 56,000
Goodwill					49,545

For those candidates that did not score highly, workings were often unclear; with numbers from the question listed without showing how they were to be combined to determine the goodwill. A clear working is essential, such as the layout shown above, to allow the marker to see how the goodwill answer is derived. Candidates lost marks where correct signage was not applied.

Some candidates were unsure how to measure the fair value of the consideration paid, either forgetting to multiply the shares issued by the share price or not discounting the deferred consideration.

The question specified that the fair value model was to be applied for the non-controlling interest calculation, yet some candidates applied the proportionate method or used the share price of the parent, rather than that of the subsidiary.

The calculation of net assets caused the most problems, with some candidates not aware that net assets are equal to equity, a basic concept which is part of assumed knowledge (i.e., Equity = Assets - Liabilities).

Requirement (b) – 4 marks

Calculate, using the pre-formatted response provided, the following ratios for the years ended 31 December 20X5 and 20X4:

- **Gross profit margin**
- **Operating profit margin**
- **Current ratio**
- **Receivables collection period (in days)**

Most candidates scored full marks on this requirement; however; many candidates made mistakes in the calculation of the receivables collection period. As trade receivables reflect the invoiced amount, the appropriate denominator is revenue and not cost of sales.

When calculating ratios, it is important that **workings are shown in full**, presenting both the numerator and denominator used in the calculation of each ratio. Where a calculation error is made, 'own figure' (consequential) marks may be still be awarded if clear workings are provided.

Requirement (c) – 11 marks

Analyse the performance and position for the Puget Group in comparison to Puget Co for the years ended 31 December 20X5 and 20X4 respectively, referring specifically to the impact of the acquisition of Seattle Co.

Candidates were required to compare the performance and position of the newly-formed Puget Group to only the parent in the prior year. The conclusion required specific reference to the acquisition of Seattle Co to score full marks.

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** (for example, a comment that the current ratio measures current assets relative to current liabilities); **nor are marks awarded for stating that a ratio is 'better' or 'decreased'** (a simple observation).

A **good** answer reflects on the information from the scenario and how it may have impacted the ratios. Marks will not be awarded where candidates simply copy facts from the scenario, without linking them to the appropriate ratio.

For example, many candidates noted that the acquisition of Seattle Co being mid-year explained the decline in operating margin. Incorporating six months of both operating profit and revenue will not itself result in a change to the **margin**. Instead, explanations for the decline in ratio should have been linked to the acquisition costs and the redundancy costs following the acquisition.

Developing an answer further can earn additional credit. For example, further credit was awarded for identifying that with one-off expenses in the current year, this may lead to an improvement in next year's operating profit margin.

There was considerable confusion regarding the raising of finance for the acquisition. The scenario stated that investments were disposed of for \$40m, to raise finance – i.e., sold for cash proceeds of \$40m. **It is important to read the scenario carefully** as a significant number of

candidates wrongly assumed that the bonds were debt issued to finance the acquisition or that there had been a repayment of the bonds. Such comments did not earn marks.

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, candidates often identified that the objective of acquiring Seattle Co was to diversify; however, many then simply stated that this was the cause of the change in the margins. This link cannot be made without reflecting on the nature of Seattle Co's business compared to that of Puget Co and how any difference may impact financial statements. A good answer discussed the difference in industries, with the property management services at Seattle Co expected to generate 'healthy profit margins', as referred to in the scenario, compared to the retail sector in which Puget Co operates.

The above points illustrate the importance of obtaining a good appreciation of the scenario before starting to write an answer. The use of the highlight function to pull out key points can aid with this.

A strong answer is one that pulls together information from across the question. For example, the scenario stated that the cash paid to acquire Seattle Co was \$64m. This is merely an observation, rather than demonstrating an understanding of the liquidity position of the group. As \$40m was generated by proceeds from the sale of the bonds, we can infer that the balance was settled in existing cash balances. This is supported by the significant decline in the cash balance seen in the statement of financial position. This point can be developed further by reflecting on how the large dividend paid in the year depleted the remaining cash balance, leaving Puget Co without any resources to settle the deferred consideration due in six months.

The examining team recommend that candidates **structure their answer using headings that address each requirement**. In this question there should be a separate heading for both performance and position. Candidates should be confident in the ratios that fall into each category. In Puget Co, the current ratio and trade receivables collection period should be discussed under position and not performance.

The examiner would like to remind candidates that a **mark is awarded in all analysis questions for providing a short, suitable conclusion**. This should be clearly identified as a conclusion, presented under a separate heading. To earn the full mark, it was necessary to refer to the impact of the acquisition of Seattle Co. Here, despite Seattle Co contributing a strong performance, there are cash flow concerns for the coming year.

Astroid Co

In questions with a greater number of calculations, 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 spreadsheet response area. Many 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.

It appears that many candidates are spending a disproportionate amount of time on the financial statements question, leaving insufficient time for the analysis and interpretation question. Time management is an essential skill which is improved through additional question practice.

Astroid Co is a typical example of an individual financial statements preparation question. Additional information is presented that requires adjustments in accordance with the relevant IFRS Accounting Standards. Candidates were required to prepare a statement of profit or loss, statement of financial position and (extracts from) the statement of cash flows.

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);
- statement of financial position (SFP);
- statement of changes in equity (SCE); and/or
- extracts from an individual entity's statement of cash flows (SCF).

Astroid Co has three requirements. The first two requirements of the question test several SLO. Candidates needed to know how to account for:

- a lease (IFRS 16);
- a major component of plant with a different useful life from the rest of the plant (IAS 16);
- a brand (IAS 38);
- subsequent depreciation and amortisation (IAS 16 and IAS 38);
- revenue (IFRS 15); and
- current tax (IAS 12).

Requirement (a) – 7 marks

Prepare Astroid Co's statement of profit or loss for the year ended 31 March 20X6.

Requirement (b) – 15 marks

Prepare Astroid Co's statement of financial position as at 31 March 20X6.

Candidates are not provided with pro forma financial statements and so are advised to firstly create these in the response area provided. IFRS 18 Presentation and Disclosure in Financial Statements was introduced into this syllabus from the September 2025 exam; therefore, candidates must present the statement of profit or loss in accordance with IFRS 18.

These first two requirements are best tackled together as the required adjustments typically impact both the statement of profit or loss and the statement of financial position.

Approach

Suggested approaches to accounts preparation are shown below.

Initially, it is recommended that each item in the trial balance is identified as a transaction in the statement of profit or loss or a balance in the statement of financial position. Then, each amount may be transferred into the proforma. Not all amounts will have adjustments, allowing for some easier marks to be earned for presenting correctly.

Candidates may complete this initial transfer to the pro forma in different ways:

- including amounts within a formula in the cell, to be combined with the later adjustments (markers check cell contents);
- using separate columns for draft amounts, adjustments and final amounts (see first illustration, below); or
- presenting as a manual working (see second illustration, overleaf).

	A	B	C	D	E	F	G	H	I
1	Statement of profit or loss								
2						Trial balance	Adjustments		Final
3									\$000
4	Revenue					124,000			
5	Cost of sales					-96,000			
6	Gross profit								
7	Operating expenses								
8	Selling expenses					-4800			
9	General and administrative expenses (4500					-4500			
10	Operating profit								
11	Profit before financing and income taxes								
12	Interest expense								
13	Profit before income taxes								
14	Income tax expense								
15	Profit								

	A	B	C	D	E	F	G
1	Statement of profit or loss						
2							\$000
3	Revenue		(124,000				
4	Cost of sales		(96,000				
5	Gross profit						
6	Operating expenses						
7		Selling expenses		(4,800			
8		General and administrative expenses (4500					
9	Operating profit						
10	Profit before financing and income taxes						
11	Interest expense						
12	Profit before income taxes						
13	Income tax expense						
14	Profit						

Many candidates do not take enough care when posting their adjustments and add/ deduct incorrectly.

Lease liability, interest expenses and right-of-use asset

The annual lease payment was posted incorrectly as a debit to a 'lease payment' account; therefore, candidates were required to correct this adjustment before recognising interest expenses on the lease liability and depreciation charges on the right-of-use asset.

A tabular layout for lease calculations is encouraged as it clearly shows the workings and amounts on which credit may be awarded. Candidates should be careful to note whether lease payments are made in advance or in arrears and adjust the table accordingly:

18	W1.	Lease liability						
19								
20		Opening liability	Interest expense	Payment	Closing liability			
21		\$'000	\$'000	\$'000	\$'000			
22	20X6	14,000	1,400	- 5,500	9,900			
23	20X7	9,900	990	- 5,500	5,390	Non-current liability at YE X6		

The interest is calculated based on the 10% interest rate implicit in the lease, applied to the \$14m lease liability at 1 April 20X5.

The 'lease payment' account must be eliminated and, instead, the correct lease liability calculated in the table should be presented on the statement of financial position. Some candidates incorrectly adjusted cash instead of the 'lease payment' account'.

The lease liability must be presented on the statement of financial position by splitting into its current and non-current elements. To do this, candidates should prepare a working showing the lease liability calculation for the second year (as shown above).

Calculations were generally well done; however, many candidates then failed to transfer the relevant amounts to the financial statements to earn full marks. The most common mistake was an incorrect split of the year-end liability into current and non-current elements.

The current liability was often wrongly stated as \$5.5m, which represented the next year's payment. This is incorrect as \$990,000 of this \$5.5m payment is an interest expense. Instead, the \$5.39m outstanding at the end of the next year represents the non-current liability, with the remainder of the lease liability presented as the current element, being \$4.51m (\$9.9m - \$5.39m).

Finally, the annual depreciation charge for the right-of-use asset must be calculated as the trial balance for accumulated depreciation is shown at 1 April 20X5. The \$25m cost is depreciated over the five-year lease term.

The scenario states that depreciation is to be expensed to cost of sales.

Depreciation of owned plant

Depreciation on the owned plant has not been recognised. Each **component** of the plant is depreciated over its separate useful life. The plant includes a \$1.2m component that requires replacing every four years, with the remaining \$4.8m (\$6m - \$1.2m) to be depreciated over 12 years.

Candidates made a wide range of calculation errors that were avoidable by careful reading of the question.

Intangible asset

The brand was incorrectly capitalised. This should have been expensed as it relates to the promotion of the business rather than the enhancement of an asset. To reflect the nature of the expense, it should be presented as a selling expense, disaggregated under the heading of operating expenses.

A common error was to deduct the \$800,000 advertising adjustment from selling expenses, rather than adding it.

Amortisation is then to be charged on the revised intangible cost of \$15m (\$15.8m - \$800,000), apportioned for four months. Showing workings means that partial credit can still be awarded where the wrong number of months is used.

Contract asset

This adjustment was not well attempted. Candidates were unclear on the application of *IFRS 15 Revenue from Contracts with Customers* to the scenario.

The \$1.8m of recoverable costs incurred, represented by the contract asset balance in the trial balance, should be recognised as cost of sales. These are costs incurred in fulfilling performance obligations during the year.

The revenue should be recognised based on the number of pieces of equipment completed (an output method). The contract is profitable (\$6m - \$4.5m) and so it is appropriate that Astroid Co has begun to recognise the revenue. As four of 12 units have been completed, revenue of \$2m ($4/12 \text{ units} \times \6m) should have been recognised and a contract asset should be recorded for the income recognised but not yet earned; i.e., accrued income of \$200,000 (\$2m recognised - \$1.8m invoiced).

Rights issue

As this note stated that the rights issue had been correctly accounted for in the trial balance, no adjustment was necessary to the statement of financial position. However, the information was relevant to the statement of cash flows.

Current tax

This was a non-complex adjustment to recognise the income tax expense and related income taxes payable.

Retained earnings

Candidates should appreciate the importance of allowing time to cast the statement of profit or loss and add the resulting profit for the year to retained earnings in the statement of financial position. Application of the own figure rule means the marking team award full marks for this transfer, even if the profit figure is incorrect due to errors/ omissions at the earlier stages, providing that workings are shown.

Requirement (c) – 3 marks

Prepare extracts from Astroid Co's statement of cash flows for the year ended 31 March 20X6 for cash flows from financing activities only.

Candidates needed to know how to prepare cash flows from financing activities, including proceeds from a rights issue and payment of a lease liability.

Many candidates ignored this requirement and did not provide a response.

Where attempted, most candidates were able to calculate proceeds from the rights issue but there were often mistakes made when determining the number of shares. As the trial balance already reflects the rights issue, it is necessary to work backwards to determine the number of shares before the issue.

Based on the two-for-nine rights issue, the 27.5 million shares at year end represents a total of 11 shares after the rights issue, for every nine shares before the rights issue. Therefore, as the

working below shows, the rights issue is 5 million shares. At \$1.80 per share, \$9m of cash is generated from the issue.

G63 ✕ ✓ <i>fx</i> =E64/F64*F63							
	A	B	C	D	E	F	G
50	Working 2.						
51					\$000		
52	Share capital before the rights issue				?	9	
53	2 for 9 issue				?	2	5000
54	Share capital in the TB				27500	11	

The lease payment is simply the \$5.5m cash repayment in the year. This entry was either omitted by candidates or the interest expense of \$1.4m was included as an additional item.