

*Valid for September 2026,
December 2026, March 2027 and June 2027*

ACCA

Financial Reporting (FR)

Exam Kit



ACCA

Applied Skills

Financial Reporting (FR)

EXAM KIT

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This document references IFRS® Accounting Standards and IAS® Accounting Standards, which are authored by the International Accounting Standards Board (the Board), and published in IFRS® Accounting Standards – Issued 1 January 2025.

This document also references IFRS Sustainability Disclosure Standards, which are authored by the International Sustainability Standards Board (ISSB) and issued prior to 31 August 2025.

Features in this edition

In addition to providing a wide-ranging bank of exam-standard questions, we have also included in this edition:

- Details of the examination format.
- Examples of objective-test, objective-test case and constructed response questions that will form part of the examination format.
- Exam-specific information and advice on exam technique.
- An analysis of all of the recent published examinations.
- Our recommended approach to make your revision for this particular subject as effective as possible. This includes step-by-step guidance on how best to use our Kaplan material (Study Text, Pocket Notes and Exam Kit) at this stage in your studies.
- Enhanced tutorial answers packed with specific key answer tips, technical tutorial notes and exam technique tips from our experienced tutors.

You will find a wealth of other resources to help you with your studies on the following sites:

www.mykaplan.co.uk and www.accaglobal.com/students

Quality and accuracy are of the utmost importance to us so if you spot an error in any of our products, please send an email to mykaplanreporting@kaplan.com with full details.

Our Quality Co-ordinator will work with our technical team to verify the error and take action to ensure that it is corrected in future editions.

INDEX TO QUESTIONS AND ANSWERS

INTRODUCTION

A number of the previous ACCA exam questions within this kit have been adapted to reflect updated standards, and the revised exam format. If changed in any way from the original version, whether due to updates in the IFRS® Accounting Standards or due to changes in exam format, this is indicated in the end column of the index below with the mark (A).

The specimen examination is included at the end of the kit.

KEY TO THE INDEX

ENHANCEMENTS

We have added the following enhancements to the answers in this exam kit:



Key answer tips

Answers include key answer tips to help your understanding of each question.



Tutorial note

Answers include more tutorial notes to explain some of the technical points in more detail.



Top tutor tips

For selected questions, we 'walk through the answer' giving guidance on how to approach the questions with helpful 'tips from a top tutor', together with technical tutor notes.

These answers are indicated with the 'footsteps' icon in the index.

ONLINE ENHANCEMENTS



Answer debrief

For selected questions, we recommend that they are to be completed in full exam conditions (i.e. properly timed in a closed book environment).

In addition to the examining team's technical answer, enhanced with key answer tips and tutorial notes in this exam kit, online you can find an answer debrief by a top tutor that:

- works through the question in full
- explains key elements of the answer
- ensures that the easy marks are obtained as quickly as possible.

These questions are indicated with the 'video' icon in the index.

Answer debriefs will be available on MyKaplan at:

www.mykaplan.co.uk

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ANALYSIS OF PAST EXAMINATIONS

The table summarises the key topics that **have been published by ACCA** as tested in recent Financial Reporting exams. The information only relates to constructed response questions released by ACCA, as objective-test questions have not usually been published.

	Mar/ Jun 2021	Sep/ Dec 2021	Mar/ Jun 2022	Sep/ Dec 2022	Mar/ Jun 2023	Sep/ Dec 2023	Mar/ Jun 2024	Sep/ Dec 2024	Mar/ Jun 2025	Sep/ Dec 2025
Group financial statements										
Consolidated statement of financial position							✓			
Consolidated statement of profit or loss and other comprehensive income	✓			✓					✓	✓
Associates	✓						✓		✓	
Disposal		✓				✓				
Single entity financial statements										
Full trial balance			✓		✓			✓		
Trial balance extract		✓				✓				
Adjusted profit					✓			✓		
Statement of profit or loss		✓	✓			✓				
Statement of financial position			✓		✓			✓		
Statement of changes in equity		✓			✓	✓				
Cash flow extract		✓								
Performance appraisal										
Single entity	✓			✓			✓		✓	✓
Groups		✓	✓		✓	✓		✓		

	Mar/ Jun 2021	Sep/ Dec 2021	Mar/ Jun 2022	Sep/ Dec 2022	Mar/ Jun 2023	Sep/ Dec 2023	Mar/ Jun 2024	Sep/ Dec 2024	Mar/ Jun 2025	Sep/ Dec 2025
Framework/IFRS										
IAS 2			✓			✓				
IAS 7										
IAS 8		✓								
IAS 10										
IAS 12		✓	✓		✓	✓		✓		
IAS 16	✓		✓	✓	✓	✓		✓	✓	
IAS 20										
IAS 21		✓			✓					✓
IAS 23								✓		
IAS 32 / IFRS 7/ IFRS 9	✓		✓		✓	✓	✓	✓	✓	
IAS 33						✓	✓			
IAS 36										
IAS 37		✓	✓					✓		
IAS 38	✓	✓								
IAS 40		✓								
IAS 41										
IFRS 3					✓					✓
IFRS 5		✓	✓							
IFRS 10										✓
IFRS 13										
IFRS 15						✓				
IFRS 16								✓		

EXAM TECHNIQUE

Computer-based exams (CBE)

- Do not attempt a CBE until you have **completed all study material** relating to it.
- On the ACCA website there are Financial Reporting CBE past exams as well as a full specimen CBE. It is **ESSENTIAL** that you attempt a few of these before your real CBE. You will become familiar with how to move around the screens and the way that questions are formatted, increasing your confidence and speed in the actual exam.
- Be sure you understand how to use the **software** before you start the exam. Ensure that you use the resources on the ACCA website to practise, **especially the ACCA Practice Platform**. If in doubt, ask the assessment centre staff to explain it to you.

Time management

- The examination is 3 hours long.
- This equates to 1.8 minutes per mark, so you need to allow 36 minutes per Constructed Response (CR) question and an average of 3.6 minutes per objective-test (OT) question.
- Decide whether you want to attempt the OTs first, or after completion of the CR questions. Whichever you choose to do first, ensure that you leave enough time to tackle the remainder.
- Whatever happens, always keep your eye on the clock and **do not over-run on any part of any question!**

Objective-test questions

- **Do not skip any of the material** in the syllabus during revision.
- No credit for workings will be given in these questions. The answer will either be correct (2 marks) or incorrect (0 marks).
- Read each question **very carefully**, as the alternative answer choices will be given based on common mistakes that could be made in attempting the question.
- **Double-check your answer** before committing yourself to it.
- Answer **every** question – if you do not know an answer, you don't lose anything by guessing, but think carefully before you **guess**.
- Remember that there is **only one correct answer to a multiple-choice question**. After you have eliminated the ones that you know to be wrong, if you are still unsure, guess. Only guess after you have **double-checked** that you have only eliminated answers that are **definitely** wrong.
- If you are **completely stuck** with a question, choose your best answer, flag the question for review and **return to it later** if you have time.

- The objective-test question types are as follows:
 - **Multiple choice** – choose one answer from a number of given options
 - **Multiple response** – choose more than one answer from a number of given options
 - **Fill in the blank** – type an answer into a box
 - **Drag and drop** – drag an answer and drop it into place
 - **Drop-down list** – choose one answer from a drop-down list
 - **Hot spot** – choose one point in an image
 - **Hot area** – choose an area in an image

Constructed Response questions

- There will be a computational financial statements preparation question and a written analysis question. The workspace provided for response will be determined by the marks available. So, for example, if a question has a computational element for 6 marks (e.g. ratios) and a written element for 14 marks (e.g. interpretation) then the response area provided would be a word document rather than a spreadsheet.
- **Computational questions** require the use of a standard format, e.g. statement of profit or loss and other comprehensive income. Be sure that you know all the formats thoroughly before the exam and use the layouts that you see in the answers given in this book and in model answers.
- It is essential to show all your workings in your answer, especially if using a word document.
- For the **written question** consider how to structure the response and lay it out to articulate the answer clearly.
- Stick to the question and **ensure that you explain the reasons** why the numbers have changed.
- Your response should have:
 - a clear structure
 - a brief introduction, a main section, and a conclusion.

It is better to write a little about a lot of different points than a great deal about one or two points.

- You should do everything you can to make things easy for the marker. Cross-reference answers to workings in computational questions and use headings and sub-headings in written answers.
- For some computational questions, such as the calculation of ratios, the response area will contain a pre-formatted area to encourage and enable you to set out your workings easily. Please ensure that you use it!

A typical pre-formatted area might look like this:

Ratio	Working	20X7	Working	20X6
Gross profit margin				
Operating profit margin				
Interest cover				
Inventory turnover days				

EXAM SPECIFIC INFORMATION

THE EXAM

FORMAT OF THE EXAM

The exam will be in **THREE sections**, and will be a mix of narrative and computational answers. Section A will be 15 objective test questions, each worth 2 marks. Section B will consist of 3 objective case questions, each worth 10 marks and containing 5 questions. Section C will consist of two 20-mark questions

	<i>Number of marks</i>
Section A: Fifteen 2-mark objective test questions	30
Section B: Three 10-mark objective case questions, comprising five 2-mark questions each	30
Section C: Two 20-mark constructed response questions, covering the interpretation and preparation of financial statements for a single entity or a group	40
	100

Note that the FR exam will have both a discursive and computational element. The questions will therefore include a mix of calculation-based and explanations-based questions.

PASS MARK

The pass mark for all ACCA Qualification examinations is 50%.

DETAILED SYLLABUS, STUDY GUIDE AND CBE SPECIMEN EXAM

The detailed syllabus and study guide written by the ACCA, along with the specimen exam, can be found at <https://www.accaglobal.com/in/en/student/exam-support-resources/fundamentals-exams-study-resources/f7.html>

Within the main accaglobal.com website this is accessed within the Study Support Resources area.

KAPLAN'S RECOMMENDED REVISION APPROACH

QUESTION PRACTICE IS THE KEY TO SUCCESS

Success in professional examinations relies upon you acquiring a firm grasp of the required knowledge at the tuition phase. In order to be able to answer the questions, knowledge is essential.

However, the difference between success and failure often hinges on your exam technique on the day and making the most of the revision phase of your studies.

The **Kaplan Study Text** is the starting point, designed to provide the underpinning knowledge to tackle all questions. However, in the revision phase, poring over textbooks is not the answer.

Kaplan online knowledge check tests help you consolidate your knowledge and understanding, and are a useful tool to check whether you remember key topic areas.

Kaplan Pocket Notes are designed to help you quickly revise a topic area, but you then need to practise questions. There is a need to progress to full exam standard questions as soon as possible, and to tie your exam technique and technical knowledge together.

The **ACCA Practice Platform** provides an essential practice area for you to become familiar with the software available on the examination day. Use this to practise answering Constructed Response questions from this Exam Kit wherever possible.

The importance of question practice cannot be over-emphasised.

The recommended approach below is designed by expert tutors in the field, in conjunction with their knowledge of the examiner.

The approach taken for the Applied Skills exams is to revise by topic area.

You need to practise as many questions as possible in the time you have left before the exam.

OUR AIM

Our aim is to get you to the stage where you can attempt exam standard questions confidently, to time, in a closed-book environment, with no supplementary help (i.e. to simulate the real examination experience).

Practising your exam technique on exam standard examination questions, in timed conditions, is also vitally important for you to assess your progress and identify areas of weakness that may need more attention in the final run-up to the examination.

In order to achieve this, we recognise that initially you may feel the need to practise some questions with open book help and exceed the required time.

The approach below shows you which questions you should use to build up to coping with exam standard question practice, and references the sources of information available, should you need to revisit a topic area in more detail.

Remember that, in the real examination, all you have to do is:

- attempt all questions required by the exam
- only spend the allotted time on each question, and
- get them at least 50% right!

Try to practise this approach on every question you attempt from now to the real exam.

EXAMINER COMMENTS

We have included some of the examiner's comments to the examination questions in this kit for you to see the main pitfalls that students fall into with regard to technical content.

However, too many times in the general section of the report, the examiner comments that students had failed due to poor time management where students had shown signs of 'spending too much time on an earlier question and clearly rushing the answer to a subsequent question'.

Ensure that you read the examiner's comments from recent exams on the ACCA website.

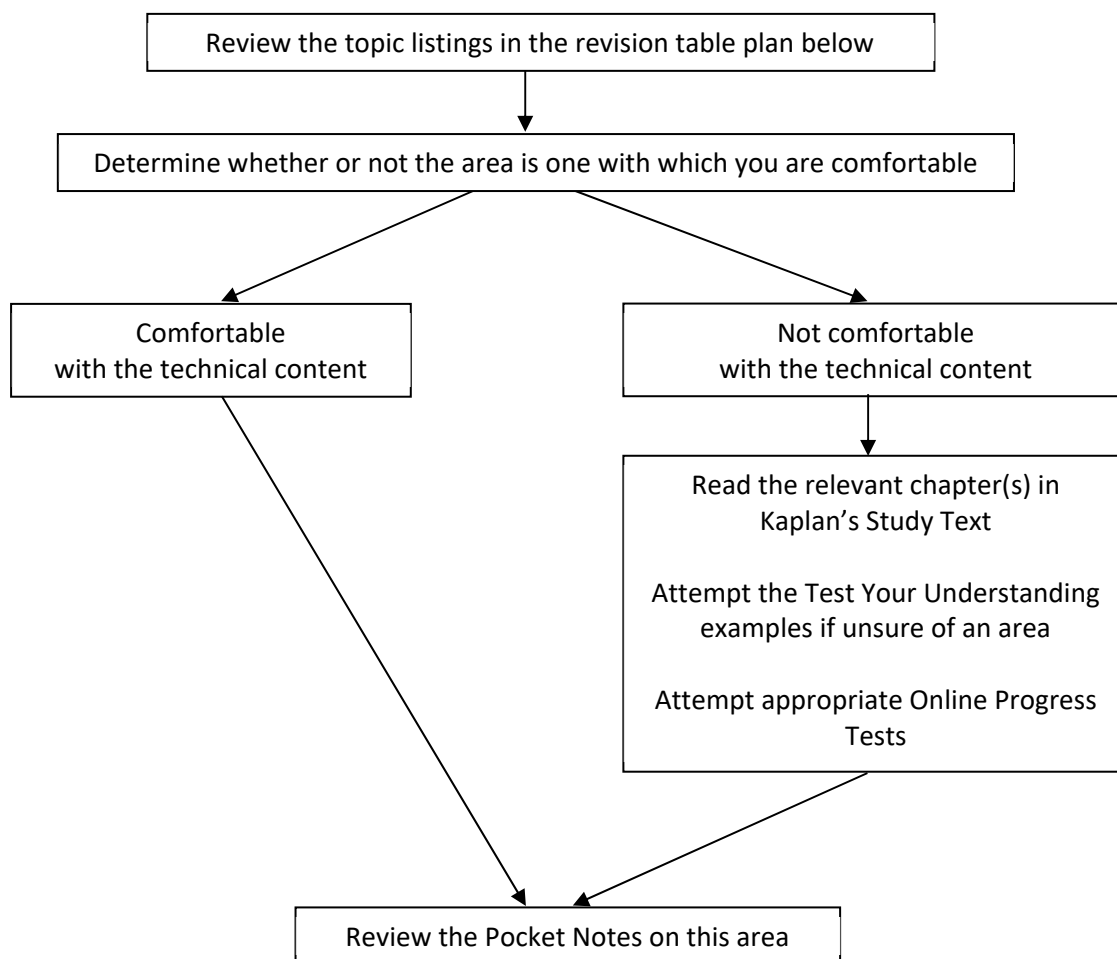
Good exam technique is vital.

ACCA SUPPORT

For additional support with your studies please also refer to the ACCA Global website.

THE KAPLAN FINANCIAL REPORTING REVISION PLAN

Stage 1: Assess areas of strengths and weaknesses



Stage 2: Practise questions

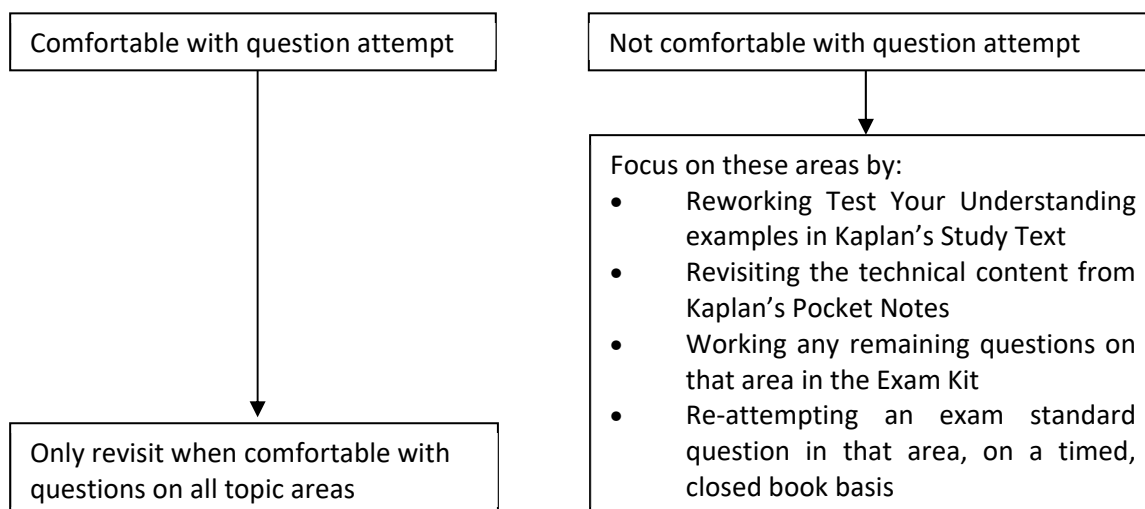
Follow the order of revision of topics as recommended in the revision table plan below and attempt the questions in the order suggested.

Try to avoid referring to textbooks, notes or the model answer until you have completed your attempt.

Try to answer the question in the allotted time.

Review your attempt with the model answer and assess how much of the answer you achieved in the allocated exam time.

Use the self-assessment box below to decide on your best course of action.



Note that:



The 'footsteps questions' give guidance on exam technique and how you should have approached the question.

Stage 3: Final pre-exam revision

We recommend that you **attempt at least one three-hour mock computer-based examination** containing a set of previously unseen exam standard questions.

It is important that you get a feel for the breadth of coverage of the real exam without advanced knowledge of the topic areas covered – just as you will see on the real exam day.

Ideally this mock should be sat in timed, closed book, real exam conditions and could be:

- an online mock examination offered by your tuition provider and/or
- the specimen examination in the back of this Exam Kit (answered using ACCA CR Workspace) and/or
- the latest released examination Constructed Response questions. Ensure that you use the ACCA Practice Platform to attempt these.

KAPLAN'S DETAILED REVISION PLAN

Topic	Study Text Chapter	Pocket Notes Chapter	Questions to attempt	Tutor guidance	Date attempted	Self-assessment
Consolidated statement of financial position	18	18	145–152 170, 172–173 175, 178, 180 386–395 401–405 431–432 435–436	Practise using the Kaplan 5-working approach. Ensure you get the easy marks available in the question from adding the parent and subsidiary assets and liabilities together.		
Consolidated statement of profit or loss and other comprehensive income	19	19	153–161 171, 174 396–400 433–434 437–438	Watch the dates carefully – is there a mid-year acquisition? If so, you have to time-apportion the subsidiary company results when adding the parent and subsidiary together.		
Associates	20	20	162–169 176–177 431–433 436–437	Make sure that you understand the equity method of accounting, and the different treatments of PUP, dependent upon the seller.		
Disposal of subsidiaries	21	21	179, 181–184 434	Ensure you familiarise yourself with the workings related to calculating a profit/loss on disposal.		

Topic	Study Text Chapter	Pocket Notes Chapter	Questions to attempt	Tutor guidance	Date attempted	Self-assessment
Accounting standards:						
Non-current assets (IAS 16, IAS 20, IAS 23, IAS 38, IAS 40, IFRS 5)	2, 3, 5	2, 3, 5	1–22, 30–36 211–250 261–265 271–275 366–370	Be clear on initial recognition rules and subsequent measurement for property, plant and equipment, intangible assets and investment properties. Ensure you know the definition of borrowing costs and the three recognition and two derecognition criteria. Ensure you understand how to deal with government grants and with assets held for sale.		
IAS 36	4	4	23–29 251–255 266–270	Learn the impairment test proforma and the cash-generating unit write-down rules.		
Framework	6/7	6/7	37–54	Learn the key definitions and be able to apply them to various situations.		
IAS 2, IAS 8, IAS 41, IFRS 13	8	8	55–68 276–285	Each standard is relatively small, but it is key that you learn definitions and the specific rules relating to each.		
IAS 21	9	9	69–73 256–260 321–325	Learn the initial and subsequent treatment, for settled and unsettled transactions.		
IFRS 15	10	10	74–86 286–300	Look at different revenue scenarios, in particular where revenue is recognised over time.		

Topic	Study Text Chapter	Pocket Notes Chapter	Questions to attempt	Tutor guidance	Date attempted	Self-assessment
IFRS 16	11	11	87–97 326–345	Be sure that you are able to construct a lease liability table.		
IAS 32/IFRS 7/IFRS 9	12	12	98–107 301–320	Amortised cost is the core area of financial liabilities here. Make sure you can deal with loans issued at a discount and redeemed at a premium. You will also need an awareness of the categories of financial assets in accordance with IFRS 9 and the accounting treatment for them.		
IAS 12	13	13	108–112	Learn the definition of a temporary difference and practise its application.		
IAS 33	14	14	113–122 346–350	Learn the EPS formula and apply to share issues.		
IAS 37, IAS 10	15	15	123–134 351–365 371–375	For IAS 37 the recognition rules are very clear – learn the 3 recognition rules. Learn the differences between adjusting and non-adjusting events.		

Topic	Study Text Chapter	Pocket Notes Chapter	Questions to attempt	Tutor guidance	Date attempted	Self-assessment
Statement of cash flows	16	16	135–144 376–385	Learn the proforma. Start with calculations in questions 135–144 before moving on to analysing cash flows in 376–385.		
Preparation of individual company financial statements	1, 23	1	421–430	You have to learn the accounting standards examinable first and then apply your knowledge to these recommended questions.		
Ratio interpretation – single entity	22	22	185–210 406–420 439, 442, 445 447–448	Learn the ratio calculations and practise identifying where you pull the information from the financial statements to put into the formulae. Ensure your explanations are specific to the scenario.		
Ratio interpretation – groups	22	22	440–441 443–444 446	Focus on the impact of any acquisition/disposal of a subsidiary within the scenario.		

TECHNICAL UPDATE

There were no significant changes to the Financial Reporting syllabus from 2025/26 to 2026/27.

Section 1

OBJECTIVE TEST QUESTIONS – SECTION A

CONCEPTUAL FRAMEWORK/IFRS ACCOUNTING STANDARDS

- 1 IAS 16 *Property, Plant and Equipment* requires an asset to be measured at cost on its original recognition in the financial statements. EW used its own staff, assisted by contractors when required, to construct a new warehouse for its own use.

Identify whether the costs listed below should be capitalised or expensed.

	Capitalise	Expense
Clearance of the site prior to commencement of construction		
Professional surveyor fees for managing the construction work		
EW's own staff wages for time spent working on construction		
A proportion of EW's administration costs, based on staff time spent		

- 2 On 1 July 20X4, Experimenter opened a chemical reprocessing plant. The plant was due to be active for five years until 30 June 20X9, when it would be decommissioned. At 1 July 20X4, the costs of decommissioning the plant were estimated to be \$4 million in 5 years' time. Experimenter considers that a discount rate of 12% is appropriate for the calculation of a present value, and the discount factor at 12% for five years is 0.567.

What is the total charge to the statement of profit or loss in respect of the decommissioning for the year ended 30 June 20X5?

- A \$453,600
- B \$725,760
- C \$800,000
- D \$2,268,000

- 3** An entity purchased property for \$6 million on 1 July 20X3. The land element of the purchase was \$1 million. The expected life of the building was 50 years and its residual value nil. On 30 June 20X5 the property was revalued to \$7 million, of which the land element was \$1.24 million and the buildings \$5.76 million. On 30 June 20X7, the property was sold for \$6.8 million.

What is the gain on disposal of the property that would be reported in the statement of profit or loss for the year to 30 June 20X7?

- A Gain \$40,000
 - B Loss \$200,000
 - C Gain \$1,000,000
 - D Gain \$1,240,000
- 4** A manufacturing entity receives a grant of \$1m towards the purchase of a machine on 1 January 20X3. The grant will be repayable if the entity sells the asset within 4 years, which it does not intend to do. The asset has a useful life of 5 years.

What is the deferred income liability balance at 30 June 20X3?

\$ _____,000

- 5** On 1 January 20X1 Sty received \$1m from the local government on the condition that they employ at least 100 staff each year for the next 4 years. Due to an economic downturn and reduced consumer demand on 1 January 20X2, Sty no longer needed to employ any more staff and the conditions of the grant required full repayment.

What should be recorded in the financial statements on 1 January 20X2?

- A Reduce deferred income balance by \$750,000
 - B Reduce deferred income by \$750,000 and recognise a loss of \$250,000
 - C Reduce deferred income by \$1,000,000
 - D Reduce deferred income by \$1,000,000 and recognise a gain of \$250,000
- 6** Which of the following properties owned by Scoop would be classified as an investment property?
- A A property that had been leased to a tenant but which is no longer required and is now being held for resale
 - B Land purchased for its investment potential. Planning permission has not been obtained for building construction of any kind
 - C A new office building used as Scoop's head office, purchased specifically in order to exploit its capital gains potential
 - D A stately home used for executive training

- 7 During the current year an entity had in place \$1 million of 6% loan finance and \$2 million of 9% loan finance.

It constructed a new factory which cost \$600,000 and this was funded out of the existing loan finance. The factory took 8 months to complete.

To the nearest thousand, what borrowing costs should be capitalised?

\$ _____,000

- 8 Which of the following statements is correct?

Statement 1 If the revaluation model is used for property, plant and equipment, revaluations must subsequently be made with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value at each reporting date.

Statement 2 When an item of property, plant and equipment is revalued, there is no requirement that the entire class of assets to which the item belongs must be revalued.

	Statement 1	Statement 2
True		
False		

- 9 Pootle Co received a government grant of \$60,000 on 1 September 20X4. The conditions of the grant state that Pootle Co must employ a local worker on a full-time contract over a five-year period. Pootle Co expects to meet the conditions of the grant.

The full grant has been recorded as other income for the year ended 31 December 20X4.

What is the adjustment required to account correctly for the grant as at 31 December 20X4?

	Account name	Value
Debit		
Credit		

Select your answer from the following options:

Account name
Bank
Other income
Total accrued income
Total deferred income

Value
\$4,000
\$48,000
\$56,000
\$57,000

- 10** Tibet acquired a new office building on 1 October 20X4. Its initial carrying amount consisted of:

	\$000
Land	2,000
Building structure	10,000
Air conditioning system	4,000
	16,000

The estimated lives of the building structure and air conditioning system are 25 years and 10 years respectively.

When the air conditioning system is due for replacement, it is estimated that the old system will be dismantled and sold for \$500,000.

Depreciation is time-apportioned where appropriate.

At what amount will the office building be shown in Tibet's statement of financial position as at 31 March 20X5?

- A \$15,625,000
B \$15,250,000
C \$15,585,000
D \$15,600,000
- 11** The following trial balance extract relates to a property which is owned by Veeton as at 1 April 20X4.

	Dr	Cr
	\$000	\$000
Property at cost (20-year original life)	12,000	
Accumulated depreciation as at 1 April 20X4		3,600

On 1 October 20X4, following a sustained increase in property prices, Veeton revalued its property to \$10.8 million.

What will be the depreciation charge in Veeton's statement of profit or loss for the year ended 31 March 20X5?

\$ _____,000

12 Which TWO of the following statements about IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* are true?

- A A government grant related to the purchase of an asset must be deducted from the carrying amount of the asset in the statement of financial position
- B A government grant related to the purchase of an asset should be recognised in profit or loss over the life of the asset
- C Free marketing advice provided by a government department is excluded from the definition of government grants
- D Any required repayment of a government grant received in an earlier reporting period is treated as prior period adjustment

13 Smithson Co purchased a new building with a 50-year life for \$10 million on 1 January 20X3. On 30 June 20X5, Smithson Co moved out of the building and rented it out to third parties on a short-term lease. Smithson Co uses the fair value model for investment properties. At 30 June 20X5 the fair value of the property was \$11 million and at 31 December 20X5 it was \$11.5 million.

What is the total net amount to be recorded in the statement of profit or loss in respect of the office for the year ended 31 December 20X5?

- A Net income \$400,000
- B Net income \$500,000
- C Net income \$1,900,000
- D Net income \$2,000,000

14 Gilbert took out a \$7.5 million 10% loan on 1 January 20X6 to build a new warehouse during the year. Construction of the warehouse began on 1 February 20X6 and was completed on 30 November 20X6. As not all the funds were needed immediately, Gilbert invested \$2 million in 4.5% bonds from 1 January to 1 May 20X6.

What are the total borrowing costs to be capitalised in respect of the warehouse?

\$ _____

15 Croft acquired a building with a 40-year life for its investment potential for \$8 million on 1 January 20X3. At 31 December 20X3, the fair value of the property was estimated at \$9 million with costs to sell estimated at \$200,000.

If Croft Co uses the fair value model for investment properties, what gain should be recorded in the statement of profit or loss for the year ended 31 December 20X3?

\$ _____,000

16 Which of the following CANNOT be recognised as an intangible non-current asset in GHK's consolidated statement of financial position at 30 September 20X1?

- A GHK spent \$132,000 developing a new type of product. In June 20X1 management worried that it would be too expensive to fund. The finances to complete the project came from a cash injection from a benefactor received in November 20X1.
- B GHK purchased a subsidiary during the year. During the fair value exercise, it was found that the subsidiary had a brand name with an estimated value of \$50,000, but had not been recognised by the subsidiary as it was internally generated.
- C GHK purchased a brand name from a competitor on 1 November 20X0, for \$65,000.
- D GHK spent \$21,000 during the year on the development of a new product, after management concluded it would be viable in November 20X0. The product is being launched on the market on 1 December 20X1 and is expected to be profitable.

17 Which of the following could be classified as development expenditure in M's statement of financial position as at 31 March 20Y0 according to IAS 38 *Intangible Assets*?

- A \$120,000 spent on developing a prototype and testing a new type of propulsion system. The project needs further work on it as the system is currently not viable.
- B A payment of \$50,000 to a local university's engineering faculty to research new environmentally friendly building techniques.
- C \$35,000 developing an electric bicycle. This is near completion and the product will be launched soon. As this project is first of its kind it is expected to make a loss.
- D \$65,000 developing a special type of new packaging for a new energy-efficient light bulb. The packaging is expected to reduce M's distribution costs by \$35,000 a year.

18 Which TWO of the following factors are reasons why key staff cannot be capitalised as an intangible asset by an entity?

- A They do not provide expected future economic benefits
- B They cannot be controlled by an entity
- C Their value cannot be measured reliably
- D They are not separable from the business as a whole

19 Amco Co carries out research and development. In the year ended 30 June 20X5 Amco Co incurred total costs in relation to project X of \$750,000, spending the same amount each month up to 30 April 20X5, when the project was completed. The product produced by the project went on sale from 31 May 20X5.

The project had been confirmed as feasible on 1 January 20X5, and the product produced by the project was expected to have a useful life of five years.

What is the carrying amount of the development expenditure asset as at 30 June 20X5?

- A \$295,000
- B \$725,000
- C \$300,000
- D \$0

- 20** Sybil has acquired a subsidiary Basil in the current year.

Basil has a brand which has been reliably valued by Sybil at \$500,000, and a customer list which Sybil has been unable to value.

Which of these describes how Sybil should treat these intangible assets of Basil in their consolidated financial statements?

- A They should be included in goodwill
 - B The brand should be capitalised as a separate intangible asset, whereas the customer list should be included within goodwill
 - C Both the brand and the customer list should be capitalised as separate intangible assets
 - D The customer list should be capitalised as a separate intangible asset, whereas the brand should be included within goodwill
- 21** Dempsey Co owns a pharmaceutical business with a year end of 30 September 20X4. Dempsey Co commenced the development stage of a new drug on 1 January 20X4. \$40,000 per month was incurred until the project was completed on 30 June 20X4, when the drug went into immediate production. The directors became confident of the project's success on 1 March 20X4. The drug has an estimated life span of five years and time-apportionment is used by Dempsey where applicable.

What amount will Dempsey charge to profit or loss for development costs, including any amortisation, for the year ended 30 September 20X4?

- A \$12,000
 - B \$98,667
 - C \$48,000
 - D \$88,000
- 22** Which of the following statements relating to intangible assets is/are true?

	True	False
All intangible assets must be carried at amortised cost or at an impaired amount, they cannot be revalued upwards.		
The development of a new process which is not expected to increase sales revenues may still be recognised as an intangible asset.		