

December 2025 Exam Model Answers

F7 Financial Reporting -

This exam is divided into three sections:

Section A

- 15 objective (OT) questions: each worth 2 marks.
- 30 marks in total.

Section B

- Three OT cases. each containing a scenario which relates to five OT questions; each worth 2 marks.
- 30 marks in total,

Section C

- Two constructed response questions, each containing a scenario which relates to one or more requirements.
- Each constructed response question is worth 20 marks in total.
- 40 marks in total

F7 Financial Reporting

Section A

This section of the exam contains 15 objective test (OT) questions.

Each question is worth 2 marks and is compulsory.

This exam section is worth 30 marks in total.

1 - A

The finance was only available after the year end. Therefore the criteria of recognising an asset were not met, as the resources were not available to complete the project.

Even though the brand is internally generated in the subsidiary's accounts, it can be recognised at fair value for the group. Item C can be recognised as a purchased intangible and item D meets the criteria for being capitalised as development costs.

2 - A

Assets held for sale should be held at the lower of carrying value and fair value less costs to sell. Therefore the asset should be held at \$750.

Item B is just the fair value. Item C is the fair value plus the costs to sell, which is incorrect.

Item D is the carrying value.

3 - D

Information is relevant if it influences the economic decisions of the users. The other definitions describe good treatment but are not explaining the concept of relevance.

4 - B

Level 3 inputs do include the best information available, but this is not regarded as the most reliable evidence of fair value, as level 1 inputs are likely to provide the most reliable evidence.

5 - D

Biological assets should be revalued to fair value less point of sale costs at the year end, with the gain or loss being taken to the statement of profit or loss.

If you chose A, you have used the cost model. If you chose B or C, you have not deducted the point of sale costs.

6 - \$493,000

The investment would initially be recorded at its fair value plus any transaction costs. As the \$7m loan note was purchased at a 12% discount and no transaction costs are included in the question, this means that the investment would be recorded on 1 July 20X7 at its fair value of \$6,160,000 ($\$7\text{m} \times 88\%$). Interest is charged at the effective rate of 8%.

\$000	b/f	Interest @ 8%	Paid (\$7m × 5%)	c/f
30 June 20X8	6,160	493	(350)	6,303
30 June 20X9	6,303	504	(350)	6,457

Note that the nominal interest and closing balance at 30 June 20X9 have been included for illustrative purposes only and were not required to reach the answer of \$493,000.

7

Revenue	Cost of sales
\$63 million	\$83 million

Step 1 – Overall	\$ M
Price	90
Total cost - incurred to date	(77)
- estimated future	<u>(33)</u>
Overall loss	<u>(20)</u>

Step 2 - Progress

Progress = work certified 63/total price 90 = 70%

Step 3 – SPL	\$ M
Revenue (70% of 90)	63
Cost of sales (balancing figure to recognise full loss)	<u>(83)</u>
FULL loss to be recognised immediately	(20)

8 - 89.1€

$$\text{EPS} = \$3,000,000 / 3,366,667 \text{ (W1)} = 89.1\text{€}$$

(W1) Weighted average number of shares

Step 1 - Theoretical ex-rights price (TERP)

2 shares @\$2 = \$4.00

1 share @ \$1.40 = \$1.40

3 shares \$5.40

$$\text{TERP} = \$5.40 / 3 = \$1.80$$

Step 2 - Rights fraction = $2/1.8$

Step 3 - Weighted average number of shares (WANS)

Date	Number	Fraction of year	Rights fraction	Weighted average
1 January	2,400,000	3/12	2/1.8	666,667
1 April	3,600,000	9/12		<u>2,700,000</u>
				<u>3,366,667</u>

9 - B

Extraction provision at 30 September 20X4 is \$2.5 million (250×10).

Dismantling provision at 1 October 20X3 is \$20.4 million ($30,000 \times 0.68$).

This will increase by an 8% finance cost by 30 September 20X4 = \$22,032,000.

Total provision is \$24,532,000.

10 - B, E

The fact that unanimous consent is required would suggest that there is no control over the investee. Preference shares carry no voting rights and therefore are excluded when considering the control held over an investee.

11

	Single entity concept	Going concern concept
Removing unrealised profits on group sales	<input checked="" type="checkbox"/>	
Removing intra-group balances	<input checked="" type="checkbox"/>	

12 -

	True	False
The profit made by a parent on the sale of goods to a subsidiary is only realised when the subsidiary sells the goods to a third party	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Eliminating intra-group unrealised profits never affects non-controlling interests	<input type="checkbox"/>	<input checked="" type="checkbox"/>
The profit element of goods supplied by the parent to an associate and held in year-end inventory must be eliminated in full	<input type="checkbox"/>	<input checked="" type="checkbox"/>

13 - 0.87:1

The quick ratio is made up of the current assets excluding inventory divided by the current liabilities = $(\$80,000 + \$10,000)/(\$70,000 + \$34,000) = 0.87:1$.

14 - 51

Year-end inventory of six times is 61 days $(365/6)$.

Trade payables period is 42 days $(230,000 \times 365/2,000,000)$.

Therefore receivables collection period is 51 days $(70 - 61 + 42)$.

15 - A

PPE			
b/f	180	Disposal	60
Revaluation	25	Depreciation	20
Paid (balance)	<u>125</u>	C/F	<u>250</u>
	<u>330</u>		<u>330</u>

The amounts to be shown in investing activities will be:

Purchase of PPE: $(\$125,000)$ (See working above)

Sale of PPE: $\$50,000$ (Given in question)

This gives a **net outflow of \$75,000**

If you chose B or D, you have only accounted for one of the cash flows. If you chose C, you have missed the disposal from your PPE working.

Section B

This section of the exam contains three OT cases.

Each OT case contains a scenario which relates to five OT questions.

Each question is worth 2 marks and is compulsory.

This exam section is worth 30 marks in total.

First Question:

1- D

The head office and machinery only need an impairment review where there are any indications that these assets might be impaired. The fact that they have previously been impaired does not mean that an annual impairment review is required regardless of whether there are any indicators of impairment.

2- A

At 1 January 20X7, Chestnut Co's factory had a carrying amount of \$5m and a useful life of ten years. Therefore, the annual depreciation charge required would be \$0.5m ($\$5\text{m} / 10 \text{ years}$) and the carrying amount at 31 December 20X7 would be \$4.5m ($\$5\text{m} - \0.5m).

The recoverable amount of the factory was deemed to be \$2.5m which means that an impairment loss of \$2m is required ($\$4.5\text{m} - \2.5m).

As there is an existing revaluation surplus of \$1m relating to this factory, the impairment loss is treated as a revaluation decrease and the impairment loss should first be debited to the revaluation surplus before any remaining loss is debited to the statement of profit or loss.

Therefore, the carrying amount of the factory within non-current assets will reduce by \$2.5m in total (\$2m impairment and \$0.5m depreciation), split between \$1m to the revaluation surplus and \$1.5m to the statement of profit or loss (\$1m impairment and \$0.5m depreciation).

3- B

On 31 December 20X4, the carrying amount of the head office would have been \$10.8m ($\$12\text{m} \times 36/40 \text{ years}$) before the impairment review on that date.

Following the impairment review, the head office would have been impaired to its recoverable amount of \$9m with an impairment loss of \$1.8m ($\$10.8\text{m} - \9m) being charged to the statement of profit or loss.

The valuation of \$11m on 31 December 20X7 means that there is a reversal of this original impairment loss.

In accordance with IAS 36, an increase to the carrying amount of the head office attributable to the reversal of an impairment loss must not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

As the head office is accounted for under the cost model (rather than the revaluation model), the impairment loss can only be reversed to the extent that the asset is carried at the amount that it would have been had no impairment taken place. This would be \$9.9m, being \$12m less seven years' depreciation (1 January 20X1 to 31 December 20X7) at \$0.3m per year ($\$12\text{m} / 40 \text{ years}$).

4- D

Grants related to assets can be accounted for using the differed income method or by deducting from the asset carrying's amount, and grants related to assets may similarly either be shown as income or deducted from expenses.

5- B

	\$000
Grant received 1 April 20X7	2,600
Recognised in income 20X7 ($1/5 \times 9/12$)	<u>(390)</u>
Total balance at 31 December 20X7	2,210
Less: current liability	(520)
(\$2.6m x 1/5 to be recognised 20X8)	
Non-current liability at 31 December 20X7	<u>1,690</u>

Second Question

1- C

The cattle will be classed as a biological asset and the milk will be classed as agricultural produce. The cheese is produced after processing so will be classed as inventory.

2- \$19,000

The sheep will be held at fair value less point of sale costs. Initially the sheep would have been recognised at \$95,000, being the \$100,000 less 5% selling costs. At 31 March 20X6, they will be valued at \$114,000, being \$120,000 less 5% selling costs. Therefore a gain of \$19,000 will be recorded in the statement of profit or loss.

3- B

Current cost accounting will apply the current cost of the asset less depreciation to date to reflect the age of the asset. As a new asset would cost \$300,000, a 4 year old asset under current cost accounting will be valued at \$180,000 ($\$300,000 - (110 \times \$300,000)$).

4- B

This will be a level 2 input, as it is using the price of similar assets without adjustment.

5- A, C

The revaluation will increase equity, therefore affecting the gearing and return on capital employed. The depreciation will also increase. As Schrute charges depreciation to operating expenses, this will affect the net profit margin.

Third Question

1- B

Provisions must be made if a legal or constructive obligation exists. The provision will be made at present value and added to the cost of the asset. Over the 10 year period, the asset will be depreciated and the discount on the provision will be unwound.

2- \$7,452,000

The provision should be recorded at the present value of \$6.9 million initially (\$15 million x 0.46). After this, the discount on the provision must be unwound, meaning the provision will increase by 8% a year. Therefore the year-end provision is $\$6.9 \text{ million} \times 1.08 = \$7,452,000$.

3-

	Adjusting	Non-adjusting
Fire in the warehouse		✓
Sale of inventory	✓	

The fire will be a non-adjusting event as the condition did not exist at the year end. The sale of inventory will be an adjusting event, as this shows that the net realisable value of the inventory is lower than its cost, meaning that inventory was incorrectly valued at the year end.

4- C

The date of the government announcement of the tax change is beyond the period of consideration in IAS 10 Events After the Reporting Period. Thus this would be neither an adjusting nor a non-adjusting event. The increase in the deferred tax liability will be provided for in the year to 30 September 20X9. Had the announcement been before 6 November 20X8, it would have been treated as a non-adjusting event requiring disclosure of the nature of the event and an estimate of its financial effect in the notes to the financial statements.

5- A

From Promoil's perspective, as a separate entity, the guarantee for Hamlet's loan is a contingent liability of \$10 million. As Hamlet is a separate entity, Promoil has no liability for the secured amount of \$15 million, not even for the potential shortfall for the security of \$3 million. The \$10 million contingent liability would be disclosed in the notes to Promoil's financial statements. In Promoil's consolidated financial statements, the full liability of \$25 million would be included in the statement of financial position as part of the group's non-current liabilities - there would be no contingent liability disclosed.

Section c

This section of the exam contains two constructed response questions.

Each question contains a scenario which relates to one or more requirement(s) which may be split over multiple question screens.

Each question is worth 20 marks and is compulsory.

This exam section is worth 40 marks in total.

First Question

PENKETH

(a) Goodwill

	\$000
Deferred consideration ($1.54 \times 90,000 \times \frac{1}{4}1.1$)	126,000
Non-controlling interest ($1.25 \times 60,000$)	75,000
Less: Fair value of net assets at acquisition (W1)	<u>(196,000)</u>
Goodwill on acquisition	<u>5,000</u>

(b) Penketh - Consolidated statement of profit or loss and other comprehensive income for the year ended 31 March 20X4

	\$000
Revenue ($620,000 + (310,000 \times 12) - 20,000$ intra-group sales)	755,000
Cost of sales (W2)	<u>(457,300)</u>
Gross profit	297,700
Distribution costs ($40,000 + (20,000 \times \frac{5}{8}12)$)	(50,000)
Administrative expenses ($36,000 + (25,000 \times 12) + (5,000/5 \times \%12$ re customer list))	(49,000)
Investment income ($5,000 + (1,600 \times \frac{5}{8}12)$)	5,800
Finance costs ($2,000 + (5,600 \times 6/12) + (126,000 \times 10\% \times \frac{5}{8}12$ re deferred consideration))	<u>(11,100)</u>
Profit before tax	193,400
Income tax expense ($45,000 + (31,000 \times \frac{5}{8}12)$)	<u>(60,500)</u>
Profit for the year	132,900
Other comprehensive income	
Loss on revaluation of land ($2,200 - 1,000$ gain for Sphere)	<u>(1,200)</u>
Total comprehensive income for the year	<u>131,700</u>
Profit attributable to:	
Owners of the parent (balance)	117,700
Non-controlling interest (W2)	<u>15,200</u>
	<u>132,900</u>
Total comprehensive income attributable to:	
Owners of the parent (balance)	116,100
Non-controlling interest (W3)	<u>15,600</u>
	<u>131,700</u>

Workings

(W1) Net assets of Sphere at acquisition

	\$000
Share capital	75,000
Retained earnings (70,000 b/f + 40,000 pre-acquisition)	110,000
Fair value adjustment – plant	6,000
Fair value adjustment - customer relationships	<u>5,000</u>
	<u>196,000</u>

(W2) Cost of sales

	\$000
Penketh	400,000
Sphere ($150,000 \times \%12$)	75,000
Intra-group purchases	(20,000)
Additional depreciation of plant ($6,000/2 \text{ years} \times 12$)	1,500
Unrealised profit in inventory ($20,000 \times /s \times 25/125$)	<u>800</u>
	<u>457,300</u>

(W3) Non-controlling interest in profit for the year

	\$000
Sphere's profit ($80,000 \times 12$)	40,000
Fair value depreciation – plant	(1,500)
Fair value amortisation - customer list	<u>(500)</u>
Sphere adjusted profit	<u>38,000</u>
Non-controlling interest at 40%	<u>15,200</u>

Non-controlling interest in total comprehensive income

	\$000
Non-controlling interest in statement of profit or loss (above)	15,200
Other comprehensive income ($1,000 \times 40\%$)	<u>400</u>
	<u>15,600</u>

marking guide	
	Marks
(a) Goodwill	
Consideration paid	1
NCI at acquisition	1
Net assets at acquisition ($\frac{1}{2}$ share capital, $1\frac{1}{2}$ RE, 1 FV adjustments)	3
(c) Consolidated statement of profit or loss and other comprehensive income	
Revenue	2
Cost of sales	3
Distribution costs	$\frac{1}{2}$
Administrative expenses	$1\frac{1}{2}$
Investment income	1
Finance costs	$1\frac{1}{2}$
Income tax expense	1
Other comprehensive income	$1\frac{1}{2}$
Non-controlling interest in profit for year	2
Non-controlling interest in other comprehensive income	<u>1</u>
Total	<u>20</u>

Second Question:**PARUL CO****(a) Statement of profit or loss**

	As given	Adjustments	As restated
	\$000		\$000
Revenue	267,920	- (* / 12 × 87,600) + 1,600	240,320
Cost of sales	<u>(165,840)</u>	- (* / 12 × 30,780)	<u>(155,580)</u>
Gross profit	102,080		84,740
Net operating expenses	<u>(44,920)</u>	-(* 12 × 8,020) + 1,600	<u>(43,847)</u>
Operating profit	<u>57,160</u>		<u>40,893</u>

Statement of financial position

	As given	Adjustments	As restated
	\$000	\$000	\$000
Inventories	151,920	- 4,240	147,680
Cash and cash equivalents	15,120	- 14,680	440

Note: The adjustments represent the removal of Saachi's figures plus the reversal of the intra-group adjustment in respect of four months' consultancy fees.

(b)

	20X8 (restated)	20X7
Gross profit margin	35.3%	38.2%
	(84,740/240,320)	(97,320/254,680)
Operating profit margin	17.0%	22.0%
	(40,893/240,320)	(56,080/254,680)
Inventory days	346 days	283 days
	(147,680/155,580 × 365)	(121,800/157,360 × 365)

(c) Revenue and gross margin

Athough 20X8's gross margin as given in the question is almost identical to 20X7, the restated gross margin has fallen by 3%. Saachi Co's gross margin is almost double tha of the rest of the Parul Group at 64.9% and the acquisition of Saachi Co has helped to mask the Parul Group's deteriorating performance.

The restated revenue for 20X8 is 5.6% lower than the previous year, which could be due to falls in sales volume or prices or both.

Restated cost of sales has fallen by around 1%, so it would appear that the reason for the fall in the Parul Group's gross margin is primarily a fall in sales prices.

Operating profit margin

The fall in the restated operating profit margin from 22% to 17% is partly caused by the fall in gross profit margin, but would also be affected by movements in net operating expenses. Again, the Parul Group's operating profit margin has been boosted by the inclusion of Saachi Co, which has an operating profit margin of 55.7%.

The operating margin may also have decreased due to potential one-off costs arising as a result of the acquisition of Saachi. These costs will not be repeated in the future and the operating profit margin should improve.

The inter-company charge for the consultancy service had been removed on consolidation, and adding this back worsens the Parul Group's operating expenses and operating profit margin.

Statement of financial position

The Parul Group has very slow inventory turnover, with 283 days in 20X7 worsening further in 20X8 to a restated 346 days. We are not told the industry in which the Parul Group operates and further investigation would be advisable to determine how typical this is of that industry. Given the fall in revenue and gross margin, it seems likely that the Parul Group is experiencing falling demand and is struggling to sell its inventory.

If, as suggested above, selling prices are being reduced, it is possible that some of the inventory may be overvalued, and it may be necessary to reduce the value down to net realisable value. The resulting reduction in inventory value (and increase in cost of sales) would improve calculated inventory days, but the impact of the charge to the statement of profit or loss would worsen profitability margins still further.

The restated amount for cash and cash equivalents shows that the inclusion of Saachi Co's cash balances in the consolidated accounts masked a large drop in the underlying cash balances of the Parul Group. However it should be noted that the acquisition of Saachi Co may have been wholly or partly financed by cash and so the fall in the Parul Group's cash balances might be due to the acquisition.

We also do not know how much of the increase in loans relates to Saachi Co. Saachi Co may have high levels of borrowings (and interest) or the loans may have been taken out by the Parul Group in order to finance the acquisition of Saachi Co.

Caution must be exercised when interpreting the unadjusted consolidated financial statements of the Parul Group as these include only four months of the items on Saachi Co's statement of profit

or loss yet 100% of the values from Saachi Co's statement of financial position and ratios may be distorted.

Conclusion

The concern that the acquisition of Saachi is obscuring Parul's underlying performance seems justified.

Overall, the underlying performance in 20X8 is markedly worse than 20X7, and Parul may have acquired Saachi in order to bolster its own results.

marking guide	
	Marks
(a) Restatement - profit or loss inventory and cash	4
	<u>2</u>
	<u>6</u>
(b) Ratios (½ mark each)	<u>3</u>
(c) Performance	5
Position and conclusion	<u>6</u>
	<u>11</u>
Total	<u>20</u>