June 2026 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. D

Item A cannot be capitalised because it does not meet all the criteria as it is not viable.
Item B is research and cannot be capitalised.
Item C cannot be capitalised because it does not meet all the criteria as it is making a loss.

2. C

A sale has to be expected within 12 months, not one month. The others are all criteria which must be met to classify an asset as held for sale.

3.

	True	False
It is a principles-based framework	✓	
It is a legal obligation		✓

IFRS Standards are based on a principles-based framework, as they are based on the IASB's Conceptual Framework for Financial Reporting. It does not represent a legal obligation.

4. B

A change in the method of inventory valuation would be classed as a change in accounting policy under IAS 8. The allowance for receivables, useful life and depreciation method are all accounting estimates.

5. C

Depreciation of leased plant	$68,000	($340,000/5 years)
Finance cost	$25,000	(($340,000 - $90,000) × 10%)
Rental of equipment	$13,500	($18,000 × %12)
Total	$106,500.	

6. $9,500

The investment should be classified as fair value through other comprehensive income.
As such, they will initially be valued inclusive of transaction costs.
Therefore, the initial value is 10,000 × $3.50 = $35,000 + $500 = $35,500.
At year-end, these will be revalued to fair value of $4.50 each, therefore 10,000 × $4.50 = $45,000.
The gain is therefore $45,000 - $35,500 = $9,500.

7. $90

The discount should be allocated to each part of the bundled sale. Applying the discount across each part gives revenue as follows:

Goods	$50	($75 × $100/$150)
Installation	$20	($30 × $100/$150)
Service	$30	($45 × $100/$150)

The revenue in relation to the goods and installation should be recognised on 1 May 20X1.
As 8 months of the service has been performed (from 1 May to 31 December 20X1), then $20 should be recognised ($30 × ⅜12).
This gives a total revenue for the year of 50 + 20 + 20 = $90.

8. A

EPS= $2,000,000/4,250,000 (W1) = 47.1€

(W1) Weighted average number of shares

Date	Number	Fraction of year Bonus fraction		Weighted average
1 January	3,000,000	5/12	4/3	1,666,667
1 June	4,000,000	4/12		1,333,333
30 September	5,000,000	3/12		1,250,000
				4,250,000

If you chose C or D, you have failed to apply the bonus fraction correctly. If you chose B you have ignored the bonus fraction.

9. B, C

The change in tax rate and the fire will be non-adjusting events as the conditions did not exist at the reporting date.

10.

	Include in cost of investment	Do not include in cost of investment
An agreement to pay a further $30,000 if the subsidiary achieves an operating profit of over $100,000 in the first 3 years after acquisition	✓	
Professional fees of $10,000 in connection with the investment		✓

Any incidental costs associated with the acquisition should be expensed as incurred.
Contingent consideration can all be included as part of the cost of an investment in a subsidiary.

11.

30% of the share capital of Hansen Co. The other 70% is owned by Lawro, another listed entity, whose directors make up Hansen's board	Subsidiary
80% of the share capital of Kennedy Co, whose activities are significantly different from the rest of the Nicol group.	Associate
30% of the share capital of Bruce Co. The Nicol group have appointed 2 of the 5 board members of Bruce Co, with the other board members coming from three other entities.	Investment

Normally 30% would suggest that Nicol have significant influence, making Hansen an associate. However, Lawro having 70% and controlling the entire board would mean that it is unlikely that Nicol have influence and therefore treat it as a trade investment.

12. $1,335,000

	$000	
Investment at cost	1,200	
Share of post-aca profit	150	(750 x %/12 × 30%)
Inventory PUP	(15)	(300 × 20/120 × 30%)
	1,335	

13. A

While the website is new in the year, the additional delivery costs are likely to be incurred every year in the future, meaning it is not a 'one-off item.

14. B, D

Factoring with recourse means Trent still has the risk of an irrecoverable receivable and therefore could not derecognise the receivable. The cash sales are irrelevant as Trent does not include them within the calculation.

15. A

PPE

b/f	180	Disposal	60
Revaluation	25	Depreciation c/f	20
Paid (balance)	125	c/f	250
	330		**330**

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- A and C

Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life. It serves the same function as depreciation for a tangible non-current asset. Where the intangible asset has a finite useful life, it should be amortised.

A variety of amortisation methods can be used (e.g. straight-line or reducing balance method). The method used should be selected on the basis of the expected pattern of consumption of the future economic benefits.

Some intangible assets may have an indefinite useful life (i.e. there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity) - this includes goodwill. In such cases, these intangible assets are not amortised but are instead tested for impairment annually and whenever there is an indication that the intangible asset may be impaired.

Option B is not correct as this would only apply to intangible assets with an indefinite useful life (such as goodwill). It does not apply to intangible assets as a whole and the question specifically excluded goodwill.

Option D is not correct and would lead to intangible assets being overstated in the accounts.

2- C and D

An entity's accounting policy for intangible assets is separate to its accounting policy for tangible non-current assets. Intangible assets must be measured initially at cost, but subsequently it is possible to measure certain intangible assets under the revaluation model where, after initial recognition, intangible assets will be carried at a revalued amount.

However, it is only possible to hold intangible assets under the revaluation model where an active market exists for such assets. In practice, this means that most intangible assets will not be measured under the revaluation model. IAS 38 states that it is uncommon for an active market to exist for an intangible asset, although it may happen (e.g. for freely transferable intangible assets such as taxi licences, fishing licences or production quotas).

3- A

	$m
Costs between 1 April and 31 December 20X6	15
Costs capitalised (after criteria met) $15m × 6/9	(10)
Costs w/o as research $15m × 3/9	5
Amortisation of development cost $10m x 1/5 × 3/12	0.5
Total charge to profit or loss	5.5

The $15m of project costs incurred cover a nine-month period. As the project did not meet the capitalisation criteria of IAS 38 until 30 June 20X6, this means that any costs related to the first

three months of the year (1 April 20X6 - 30 June 20X6) were research expenditure which should be charged to the statement of profit or loss.
As the project was completed and began to generate revenue from 1 January 20X7, the capitalised development expenditure should then be amortised from that date over its useful life of five years. This requires an amortisation expense for three months (1 January 20X7 - 31 March 20X7) which should be charged to the statement of profit or loss.

4-

	True	False
The cost for project 325 should be expensed in the statement of profit or loss for the year ended 31 March 20X7	✓	
The specialist equipment which was purchased for project 325 should not be depreciated as it has been used in abandoned or research projects		✓
The costs for project 326 should be included as an asset in the statement of financial position as at 31 March 20X7		✓

Statement 1 If the cost were not expensed to the statement of profit or loss it would be capitalised on the statement of financial position as an asset, which would not be appropriate for an abandoned research project.
Statement 2 IAS 16 Property, Plant and Equipment would apply to the specialist equipment used in project 325. In accordance with IAS 16, depreciation of the asset would begin when it was available for use. As it was being used for this project, then it should be depreciated and it makes no difference that the project was abandoned.
Statement 3 The requirements for the development phase of an internally generated intangible asset are quite strict and prescriptive, including being able to demonstrate how the intangible asset will generate probable future economic benefits. Since the directors were not confident of the success of the project at the year end, it would not have been possible to recognise this project as an intangible asset and any costs incurred should instead be expensed to the statement of profit or loss.

5- C

An intangible asset can be recognised when it meets the definition of an intangible asset and the recognition criteria.
An intangible asset is an identifiable non-monetary asset without physical substance.
An intangible asset can only be recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.
Both the domain name and the patent meet the definition of being intangible assets and the cost of each can clearly be measured reliably. Based on the information available, it appears that economic benefits will flow to the entity through revenue from online sales (domain name) and production cost savings (patent).
Internally generated customer lists are specifically excluded by lAS 38 from being recognised as intangible assets (along with other items such as internally generated brands). This is because any

expenditure incurred on such items cannot be distinguished from the cost of developing the business as a whole.

Second Question

1. C

The lease grants the lessee the beneficial rights of asset use, meaning that a right-of-use asset and lease liability are recorded.
A is incorrect as it treats the rental as an expense, which is not permitted under IFRS 16 Leases.
B outlines incorrect treatment for interest, which should decrease over the life of the lease as the lease liability decreases.
D is incorrect as the payments reduce the lease liability rather than being treated as prepayments.

2. A

Leased assets are exempt from capitalisation where the lease period is for 12 months or less, or the assets are low-value assets. IFRS 16 Leases does not give a value for what is meant by low-value assets, but gives examples, including telephones. In this case the lease rentals would be charged as an expense within the statement of profit or loss.

3. $306,250

The plant would be capitalised at $350,000, equal to the lease liability plus the initial payment. This would then be depreciated over the four year lease term, giving depreciation of $87,500 a year.
As Fino only entered into the lease halfway through the year, this would give depreciation of $43,750. Therefore the carrying amount would be $350,000 less $43,750, which is $306,250.

4. A

	$
Present value of total lease payments	35.000
Less initial lease rental	(100,000)
Initial lease liability	250,000
Interest to 30 September 20X7 (6 months at 10%)	12,500

5.

	Increase	Decrease
Return on Capital Employed		✓
Gearing	✓	
Interest cover		✓

Recognition of the lease liability would cause debt liabilities and finance costs to increase. This means that the capital employed would be higher, therefore decreasing return on capital employed. Gearing would increase due to the increased debt. Interest cover would decrease due to the higher level of finance costs.

Third Question

1. **B**
   Both statements are true.
2. **B**
   The acquisition of a subsidiary after the accounting period does not provide evidence of a situation or condition existing at the year-end.
3. **B**
   Property is depreciated by $130,000 ($2,600,000/20) giving a carrying amount of $2,470,000. When classed as held for sale, property is revalued to its fair value of $2,500,000 (as it is carried under the revaluation model, $30,000 would go to revaluation surplus). Held for sale assets are measured at the lower of carrying amount (now $2,500,000) and fair value less costs to sell ($2,500,000 - $50,000 = $2,450,000), giving an impairment of $50,000. Total charge to profit or loss is $130,000 + $50,000 = $180,000.
4. **C**
   Carrying amount at 1 April 20X3 is $455,000 (490 - (490/7 x 6/12)). This is below the fair value less costs to sell, and is therefore the value shown in the statement of financial position.
5. **C**
   An asset held for sale needs to be available for immediate sale in its present condition, so the land does not satisfy this criterion. The sale needs to be highly probable, which discounts both the brand and the overpriced plant.

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

Palistar – Consolidated statement of financial position as at 30 June 20X5

Assets	$000
Non-current assets	
Property, plant and equipment	83,600
Goodwill	3,000
Game rights	10,800
Financial asset equity investments	21,100
Total non-current assets	**118,500**
Current assets	
Inventory	32,600
Trade receivables	22,400
Bank	3,800
Total current assets	**58,800**
Total assets	**177,300**
Equity and Liabilities	
Equity attributable to owners of the parent	
Equity shares of $1 each	26,000
Other components of equity (share premium)	22,000
Retained earnings	52,425
Total equity attributable to owners	**100,425**
Non-controlling interest	15,675
Total equity	**116,100**
Current liabilities	
Deferred consideration	18,900
Other current liabilities	42,300
Total current liabilities	**61,200**
Total equity and liabilities	**177,300**

Workings

(W1) Group structure

Palistar
|
75% – owned for 6 months
|
Stretcher

(W2) Net assets

	Acquisition $000	Reporting date $000	Post-acquisition $000
Share capital	20,000	20,000	–
Retained earnings (see below)	18,000	24,000	6,000
Fair value: game rights	12,000	12,000	–
Amortisation × 1/5 × 6/12	–	(1,200)	(1,200)
Fair value investments	1,000	1,900	900
Total	51,000	56,000	5,700
	W3		W4/W5

Stretcher makes 60% of its profit in the period from 1 June. Therefore the post-acquisition retained earnings is $6 million (60% × $10 million), making the retained earnings at acquisition $18 million ($24 million less $6 million).

(W3) Goodwill in Stretcher

	$000
Share exchange (20,000 × 75% × 2/5) = (6,000 × $4)	24,000
Deferred consideration (20,000 × 75% × $1½)	18,000
Non-controlling interest (20,000 × 25% × $3)	15,000
Total Consideration	57,000
Net assets at acquisition	(51,000)
Goodwill on acquisition	6,000
Impairment	(3,000)
Goodwill at 30 June 20X5	3,000

The shares issued by Palistar (6 million at $4 – see above) would be recorded as share capital of $6 million (6,000 × $1) and share premium in other components of equity of $18 million (6,000 × $3).

(W4) Non-controlling interest

	$000
Fair value on acquisition (W3)	15,000
Post-acquisition profit (5,700 × 25% (W2))	1,425
NCI share of impairment (3,000 × 25%)	(750)
Non-controlling interest	15.675

(W5) Consolidated retained earnings

	$000
Palistar's retained earnings (26,200 + 24,000)	50,200
Stretcher's adjusted post-acquisition profit (5,700 (W2) × 75%)	4,275
Palistar's share of impairment (3,000 × 75%)	(2,250)
Finance cost on deferred consideration (18,000 × 10% × 6/12)	(900)
PUP in inventory (W6)	(600)
Gain on equity investments (13,200 – 11,500)	1,700
Consolidated retained earnings	52,425

(W6) Provision for unrealised profit (PUP)

The inventory of Stretcher at 30 June 20X5 (adjusted for goods-in-transit (GIT) sale of $800,000) is $2.6 million (1,800 + 800). The unrealised profit on this will be $600,000 ($2.6m × 30/130).

Marking guide

Consolidated statement of financial position:

Item	Marks
Property, plant and equipment	½
Goodwill	5
Game rights	1
Financial asset investments	1
Inventory	2
Receivables	1
Bank	½
Equity shares	1
Other component of equity	1
Retained earnings	4
Non-controlling interest	1
Deferred consideration	1
Other current liabilities	1

Second Question:

(a) Ratio calculations

	Fit Co	**Sporty Co**
Gross profit	24.0%	31.8%
	(60,000/250,000)	(70,000/220,000)
Operating profit	10.0%	14.5%
	(25,000/250,000)	(32,000/220,000)
Trade payables days	67 days	29 days
	((35,000/190,000)×365)	((12,000/150,000) × 365)
Return on capital employed	18.5%	42.7%
	(25,000/(90,000+45,000))	(32,000/(60,000+15,000))
Gearing	50%	25%
	(45,000/90,000)	(15,000/60,000)

(b) Performance and position

Performance

As can be seen from the ratio calculations, Sporty Co has a higher gross profit margin than Fit Co, even though it has lower revenue overall. The reason for this could be that Sporty Co sources its items direct from the manufacturer, and so does not incur manufacturing costs.

Indeed, it is surprising that Fit Co has a lower GPM than Sporty Co given that it is selling premium branded goods – it would be expected that such goods would be sold at a higher margin.

The difference could also be a result of the competition suffered by Fit Co in the year, which may have led Fit Co to decrease its selling prices.

The gross profit margin of Fit Co may also fall further, as the gross profit margin of the Active division is 40%, which is much higher than Fit Co overall. Therefore, the underlying gross profit of the remaining Fit Co business would be expected to be lower than that shown for the current year.

The operating profit for Sporty Co is 4% higher than Fit Co. This is not surprising given that Sporty Co's GPM is higher than that of Fit Co. On closer inspection, Fit Co's OPM is inflated because of the non-recurring $5m gain on disposal. In addition to this, Fit Co profit for 31 December 20X0 includes central services income of $1.2m which will not recur following the disposal of the Active division. It is also worth noting that Fit Co will have a higher cost base, which would be expected as it operates its own stores, whereas Sporty Co uses department stores.

Sporty Co has a much higher return on capital employed than Fit Co, as it has a higher operating profit, and lower long-term debt and equity.

Position

Fit Co has a gearing ratio twice that of Sporty Co, as it has much higher long-term debt. This makes Fit Co a riskier business than Sporty Co, as it must meet these debt repayments or would face insolvency.

As the gearing for Sporty Co is much lower than that of Fit Co, Sporty Co should be able to secure debt finance if needed for its planned international expansion.

Fit Co will incur much higher finance costs on its debt than Sporty Co, which is equity financed. Both companies can currently cover interest payments from operating profits however the cash balance for Fit Co is much lower than Sporty Co, which applies further pressure to Fit Co as it must meet high interest payments. The current year interest payments for Fit Co exceed the cash balance at year-end, therefore Fit Co must ensure that its cash interest payments are sustainable in the long term.

Trade payables days are 67 for Fit Co and 29 for Sporty Co. This is consistent with the fact that Fit Co has a much lower cash balance than Sporty Co and shows that Fit Co is unable to pay suppliers quickly. This could lead to future problems with suppliers and shows that Fit Co needs to monitor its cash balance to ensure it can continue to trade in the long term.

Conclusion

Overall, it would appear that Sporty Co is in a better financial position than Fit Co, as it is more profitable, has lower debt, and should be able to access additional resources for its planned expansion.

Marking guide

	Marks
(a) Ratio calculations	6
(b) Performance	9
Position and conclusion	5
Total	20