ACA ICAEW Financial Accounting and Reporting Practice Exam (Sample)

Study Guide

BY EXAMZIFY

Everything you need from our exam experts!

This is a sample study guide. To access the full version with hundreds of questions,

Table of Contents

Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- **Practice answering questions under realistic conditions,**
- **Improve accuracy and speed,**
- **Review explanations to strengthen weak areas, and**
- **Approach the exam with greater confidence.**

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here’s how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Don’t worry about getting everything right, your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations, and take breaks to retain information better.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don’t just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning.

7. Use Other Tools

Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There’s no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly — adapt the tips above to fit your pace and learning style. You've got this!

Questions

1. **How does UK GAAP treat acquisition related costs compared to IFRS?**
   - A. They are expensed as incurred
   - B. They are written off entirely
   - C. They are added to the cost of the investment
   - D. They are excluded from financial statements

2. **What does it mean for an asset to be separable under IAS 38?**
   - A. It is integrated within the business only
   - B. It can only generate revenue when bundled
   - C. It can be sold or transferred independently
   - D. It must not generate any cash flow

3. **What is the key difference between IFRS and UK GAAP regarding non-controlling interest valuation?**
   - A. IFRS is always higher than UK GAAP
   - B. UK GAAP only allows fair value method
   - C. IFRS allows both proportionate and fair value methods
   - D. UK GAAP provides more options than IFRS

4. **How is the rights issue bonus fraction calculated?**
   - A. Share price after the issue divided by theoretical ex-rights price
   - B. Share price before the issue divided by theoretical ex-rights price
   - C. Theoretical ex-rights price divided by share price
   - D. New shares issued divided by current market value

5. **What happens to the fair value (FV) of deferred consideration over time?**
   - A. It remains constant
   - B. It decreases to reflect market trends
   - C. It increases due to unwinding of the discount
   - D. It adjusts only at year-end

6. **According to IAS 21, how should monetary items be treated at year-end?**
   - A. They are not retranslated
   - B. They must be recorded at the historical cost
   - C. They must be retranslated at the closing rate
   - D. They are adjusted for inflation

7. **What is required for a restructuring obligation to be recognized?**
   - A. A valid expectation raised in those affected by casual announcements
   - B. A detailed plan with uncertain features
   - C. A formal plan and a valid expectation in those affected
   - D. A constructive agreement with third parties involved

8. **Under which basis are effects of transactions recognized when they occur rather than when cash is exchanged?**
   - A. Cash basis
   - B. Accruals basis
   - C. Going concern basis
   - D. Historical cost basis

9. **What are the conditions for recognizing intangibles under IAS 38?**
   - A. Cost must be high and clearly defined
   - B. Probable future economic benefits and reliable cost measurement
   - C. Must have a finite life and be amortizable
   - D. Must be backed by goodwill

10. **What happens to impairments of goodwill under IFRS?**
   - A. They can be reversed in future periods
   - B. They are permanent and cannot be reversed
   - C. They are only noted but not accounted for
   - D. They are journaled as deferred expenses

Answers

1. C
2. C
3. C
4. B
5. C
6. C
7. C
8. B
9. B
10. B

Explanations

1. How does UK GAAP treat acquisition related costs compared to IFRS?

A. They are expensed as incurred

B. They are written off entirely

C. They are added to the cost of the investment

D. They are excluded from financial statements

Under UK GAAP, acquisition-related costs are typically treated as part of the cost of the investment. This means that when a business acquires another entity, any costs directly attributable to the acquisition, such as legal fees, due diligence costs, and other associated expenses, are capitalized as part of the investment value reported in the financial statements. This treatment contrasts with the IFRS approach, which generally requires such costs to be expensed as incurred rather than capitalized. The capitalizing of these costs under UK GAAP reflects the idea that they are integral to the acquisition process and should be factored into the overall investment figure, thus impacting the valuation of the acquired entity on the acquiring company's balance sheet. This approach aligns with the matching principle, as it helps to match the costs incurred during an acquisition with the future benefits that are expected to arise from that investment. Other options may suggest alternative treatments such as expensing costs or excluding them from financial statements, but these do not align with the UK GAAP framework's perspective on treating acquisition-related expenses as part of the capital investment.

2. What does it mean for an asset to be separable under IAS 38?

A. It is integrated within the business only

B. It can only generate revenue when bundled

C. It can be sold or transferred independently

D. It must not generate any cash flow

An asset being separable under IAS 38 refers to its ability to be sold or transferred independently of other assets or liabilities of the entity. This characteristic is crucial as it distinguishes intangible assets that can stand alone in terms of marketability and economic utility. When an asset is separable, it means that the asset can be sold individually, enhancing its recognition as an intangible asset under IAS 38. Separation implies that the asset has a distinct value and can provide benefits independently, allowing it to be recognized in financial statements. For instance, a patent that can be licensed to another company or sold on its own qualifies as a separable asset because it can generate revenue without needing to be bundled with other assets. This characteristic underpins a significant aspect of asset valuation and allows for clarity in financial reporting. In contrast, assets that are only integrated within the business or can only generate revenue when bundled do not meet the criteria for separability, as they rely on other assets for their value and thus do not qualify as independently recognized intangible assets. Additionally, the notion that an asset must not generate any cash flow contradicts the fundamental principle of recognizing assets based on their income-generating potential.

3. What is the key difference between IFRS and UK GAAP regarding non-controlling interest valuation?

A. IFRS is always higher than UK GAAP

B. UK GAAP only allows fair value method

C. IFRS allows both proportionate and fair value methods

D. UK GAAP provides more options than IFRS

The key distinction in the valuation of non-controlling interests under IFRS and UK GAAP lies in the flexibility provided by IFRS. Under IFRS, entities can choose between two methods for measuring non-controlling interests: the proportionate share of the acquiree's identifiable net assets or the fair value on the acquisition date. This allows for a more tailored approach to accounting for non-controlling interests based on the specific circumstances of the acquisition and the accounting policies of the reporting entity. In contrast, UK GAAP has a more restrictive approach to the measurement of non-controlling interests, typically only allowing the fair value method. This lack of options makes IFRS the more versatile framework in this regard, thereby enabling reporting entities to select the most suitable approach for their specific financial reporting needs. The ability to apply either method under IFRS can lead to different financial outcomes and provides entities with greater flexibility in reflecting their economic reality in their financial statements. This is central to the understanding of how non-controlling interests can be presented, and why IFRS accommodates multiple valuation approaches.

4. How is the rights issue bonus fraction calculated?

A. Share price after the issue divided by theoretical ex-rights price

B. Share price before the issue divided by theoretical ex-rights price

C. Theoretical ex-rights price divided by share price

D. New shares issued divided by current market value

The calculation of the rights issue bonus fraction is correctly identified as taking the share price before the issue and dividing it by the theoretical ex-rights price. This method reflects how the rights issue affects existing shareholders' equity and the value of shares they hold. In a rights issue, existing shareholders are typically allowed to purchase additional shares at a discounted price relative to the market price. The theoretical ex-rights price represents the new "average" price of the shares after the rights issue has taken place, reflecting the dilution of value but also the increase in the number of shares in circulation. By taking the share price before the issue and dividing it by the theoretical ex-rights price, one can see how much value the new shares bring to existing shareholders. This fraction indicates how many new shares they can afford to buy per share currently held, thereby helping them maintain their proportional ownership in the company. Understanding this calculation is crucial for financial analysts and shareholders alike since it directly impacts investment decisions and the perception of share value post-issue.

5. What happens to the fair value (FV) of deferred consideration over time?

A. It remains constant

B. It decreases to reflect market trends

C. It increases due to unwinding of the discount

D. It adjusts only at year-end

When considering the fair value of deferred consideration over time, the correct understanding is that it typically increases due to the unwinding of the discount. Deferred consideration often pertains to amounts payable in the future as part of a business acquisition, and when recorded, it's recognized at its present value using an appropriate discount rate. As time progresses and the settlement date approaches, the present value of that deferred consideration will change — specifically, it will increase towards its nominal value. This increase is attributed to unwinding the discount applied to the future cash flows. Essentially, as each reporting period elapses, the effect of discounting diminishes, reflecting a gradual adjustment to the fair value upwards. Hence, the fair value trajectory reflects the time value of money principle, as future payment obligations become less discounted and align closer to their full value as time progresses. This process is integral to maintaining accurate financial reporting and helps ensure that stakeholders have a realistic view of future obligations and their financial implications.

6. According to IAS 21, how should monetary items be treated at year-end?

A. They are not retranslated

B. They must be recorded at the historical cost

C. They must be retranslated at the closing rate

D. They are adjusted for inflation

Monetary items must be retranslated at the closing rate at year-end, as stipulated by IAS 21, "The Effects of Changes in Foreign Exchange Rates." This standard mandates that entities present their monetary assets and liabilities in their functional currency at the exchange rate applicable at the balance sheet date. Monetary items include cash, receivables, payables, and other amounts that will be settled in cash or equivalents. This treatment reflects any fluctuations in the foreign currency exchange rates that may have occurred during the reporting period. By re-translating these items at the closing exchange rate, the financial statements accurately represent the economic reality and financial position of the entity at year-end, ensuring consistency and comparability over reporting periods. This is particularly important in providing shareholders and stakeholders with relevant and up-to-date financial information. Other approaches, such as recording at historical cost or not re-translating amounts, do not adhere to the requirements set out in IAS 21 and would fail to provide a true and fair view of the entity's financial state. Adjusting for inflation is also not a consideration under this standard, as it specifically addresses the treatment of foreign exchange rates rather than inflation adjustments.

7. What is required for a restructuring obligation to be recognized?

A. A valid expectation raised in those affected by casual announcements

B. A detailed plan with uncertain features

C. A formal plan and a valid expectation in those affected

D. A constructive agreement with third parties involved

For a restructuring obligation to be recognized, it is necessary to have a formal plan and a valid expectation among those affected. This aligns with the guidance provided in financial reporting standards regarding recognition of provisions for restructuring. A formal plan indicates that the entity has made a commitment to undertake a restructuring, which includes a specific outline of the measures to be implemented. Furthermore, the presence of a valid expectation in those affected implies that the stakeholders, such as employees or creditors, are led to believe that the restructuring will occur. This situation typically arises when the entity has communicated its intentions clearly and consistently, leading to an expectation that restructuring actions will be executed, thereby creating a basis for the obligation's recognition in the financial statements. In contrast, a mere casual announcement would not suffice to create a binding obligation, nor would an uncertain or vague plan. Also, an agreement with third parties is not a prerequisite for recognizing a restructuring obligation, although it may be part of the overall process. Therefore, the essential elements for recognition are the formalized commitment and the expectations of those impacted by the restructuring plan.

8. Under which basis are effects of transactions recognized when they occur rather than when cash is exchanged?

A. Cash basis

B. Accruals basis

C. Going concern basis

D. Historical cost basis

The accruals basis of accounting recognizes the effects of transactions at the point they occur, regardless of when cash is exchanged. This means that revenues and expenses are recorded when they are earned or incurred, rather than when cash is received or paid. This approach provides a more accurate representation of a company's financial position and performance, as it reflects all obligations and resources that have been committed during a period. For example, if a company provides services in December but receives payment in January, under the accruals basis, the revenue from those services would still be recognized in December's financial statements. This principle is fundamental to the preparation of financial statements that are in alignment with the underlying concept of matching income with expenses incurred to generate that income in the same period. The other bases mentioned do not reflect this timing of recognition. The cash basis recognizes revenues and expenses solely when cash changes hands, while the going concern basis and the historical cost basis focus on different aspects of accounting and reporting rather than the timing of transaction recognition.

9. What are the conditions for recognizing intangibles under IAS 38?

A. Cost must be high and clearly defined

B. Probable future economic benefits and reliable cost measurement

C. Must have a finite life and be amortizable

D. Must be backed by goodwill

The correct conditions for recognizing intangibles under IAS 38 are that there must be probable future economic benefits and reliable cost measurement. This means that an intangible asset can only be recognized if it is expected to generate future economic benefits for the business, such as through increased revenue or cost savings. Additionally, the cost of the intangible asset must be reliably measurable, which allows the entity to determine its carrying amount on the balance sheet. This recognition principle emphasizes the importance of both the prospective financial benefits and the ability to accurately quantify the investment in the intangible. Without either of these conditions being met, it would not be appropriate to recognize the intangible asset in the financial statements. In contrast, while options that discuss high costs or amortization are relevant to intangibles, they don't specifically capture the broader requirement of future economic benefits and reliable measurement. For intangibles, it is essential to assess the future economic benefits rather than a singular focus on cost. Similarly, stating that it must be backed by goodwill overlooks the systematic criteria for recognizing intangible assets, which focuses on their inherent economic benefits, rather than their relation to goodwill.

10. What happens to impairments of goodwill under IFRS?

A. They can be reversed in future periods

B. They are permanent and cannot be reversed

C. They are only noted but not accounted for

D. They are journaled as deferred expenses

Under IFRS, impairments of goodwill are considered to be permanent and cannot be reversed in future periods. This principle is rooted in the fact that goodwill arises from intangible assets that are often related to synergies, brand reputation, or other factors that cannot be remeasured or recovered in the same way tangible assets can be. Once an impairment of goodwill is recognized, it reflects a significant and lasting decrease in value that impacts the company’s financial statements profoundly. The rationale behind this approach is to maintain consistency and reliability in financial reporting. Allowing the reversal of goodwill impairments could lead to volatility in reported earnings and financial position, as goodwill values could fluctuate due to changes in market perception or future performance projections. Consequently, IFRS prescribes that, once impaired, goodwill remains at its reduced value on the balance sheet and is not eligible for reversal, underscoring its permanence in accounting practice.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://acaicaewfinancialacctreporting.examzify.com

We wish you the very best on your exam journey. You've got this!