ACA ICAEW FINANCIAL ACCOUNTING AND REPORTING PRACTICE EXAM (SAMPLE)

STUDY GUIDE

SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

VISIT US ONLINE FOR
THE FULL VERSION STUDY GUIDE

https://acaicaewfinancialacctreporting.examzify.com

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. 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.

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. 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. **What happens to the carrying amount of an investment in an associate once it is reduced to zero?**
    A. Additional losses can still be recognized
    B. No further losses are recognized by the group
    C. The investment must be reevaluated
    D. The losses are carried forward indefinitely

2. **How is the bonus fraction calculated for a bonus issue?**
    A. Old number of shares divided by the new number of shares
    B. New number of shares divided by the old number of shares
    C. Weighted average shares divided by total shares
    D. Theoretical shares issued divided by shares before the issue

3. **How is equity displayed in a consolidated SFP?**
    A. It only includes non-controlling interests
    B. Parent's share capital plus their share of the subsidiary's post-acquisition reserves
    C. Only the reserves of the subsidiaries
    D. All shareholders' investments in the subsidiaries

4. **When should capitalization of borrowing costs cease?**
    A. Once the workload significantly decreases
    B. When the asset is fully paid for
    C. When substantially all activities for preparing the asset are complete
    D. When the financial period ends

5. **What happens to impairment losses in inventory under UK GAAP FRS 102?**
    A. They cannot be reversed
    B. They can be reversed if impairing circumstances no longer exist
    C. They must be recognized annually
    D. They reduce the expected selling price

6. **What happens to depreciation on a non-current asset held for sale under IFRS 5?**
   - A. It continues to be charged
   - B. It is ceased
   - C. It must be recalculated annually
   - D. It is transferred to other comprehensive income

7. **What components are included in the initial measurement of intangibles?**
   - A. Cost of raw materials used for production
   - B. Advertising expenditures related to the asset
   - C. Legal and professional fees incurred during acquisition
   - D. Depreciation on similar fixed assets

8. **How is the excess depreciation from a revaluation surplus treated under IAS 16?**
   - A. It is distributed to shareholders
   - B. It can be transferred to retained earnings
   - C. It is applied to reduce future income tax expenses
   - D. It must be recognized immediately in profit or loss

9. **What does 'value in use' refer to in the context of recoverable amount?**
   - A. The original purchase price of the asset
   - B. The present value of future cash flows expected from the asset
   - C. The carrying amount of the asset
   - D. The fair value of the asset less costs to sell

10. **What should be the treatment of costs related to advertising and training associated with intangibles?**
    - A. They should be capitalized for future use
    - B. They should always be expensed
    - C. They can be deferred to future accounting periods
    - D. They should only be recognized if successful

Answers

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

Explanations

1. What happens to the carrying amount of an investment in an associate once it is reduced to zero?

A. Additional losses can still be recognized

B. No further losses are recognized by the group

C. The investment must be reevaluated

D. The losses are carried forward indefinitely

When the carrying amount of an investment in an associate is reduced to zero, it indicates that all the initial investment has been expensed due to accumulated losses. According to accounting standards, particularly the International Financial Reporting Standards (IFRS), once the carrying amount reaches zero, the investor will not recognize any further losses from that associate. This is rooted in the principle that the investor should not report a negative asset position. At this point, the investor's obligation is limited to its initial investment, and it cannot recognize additional losses that exceed the investment amount. This restriction applies until there is evidence that the associate has become profitable again or any further contributions are made, which might allow the recognition of previously unrecognized losses. Therefore, the carrying amount being reduced to zero serves as a cap on the investor's liability in terms of losses related to that investment. The other options are not aligned with accounting standards regarding investments in associates. For example, the recognition of additional losses after the carrying amount is zero is not permissible, and there isn't a provision for indefinite carryforward of losses once the investment is fully accounted for. The investment does not require reevaluation just because it reaches zero; that happens under specific circumstances such as an impairment review or a significant change in the underlying

2. How is the bonus fraction calculated for a bonus issue?

A. Old number of shares divided by the new number of shares

B. New number of shares divided by the old number of shares

C. Weighted average shares divided by total shares

D. Theoretical shares issued divided by shares before the issue

The bonus fraction is calculated to determine the entitlement of shareholders to new shares based on their existing holdings in a company. In a bonus issue, companies distribute additional shares to existing shareholders without any additional cost, usually in proportion to their existing shareholdings. The correct method to calculate the bonus fraction is by taking the new number of shares divided by the old number of shares. This reflects how the ownership of the shares is adjusted post-bonus issue. For example, if a company has 100 old shares and issues 50 new shares, the bonus fraction is 150 (the new total) divided by 100 (the old total), effectively giving existing shareholders a clear understanding of how many new shares they receive relative to their old shares. The other options do not effectively capture this relationship. The first option presents the calculation in reverse, which would not provide the correct entitlement ratio. The third option introduces weighted averages, which are not relevant in a straightforward bonus issue context. Lastly, the fourth option discusses theoretical shares but does not accurately express the concept of entitlement in relation to existing shareholdings. Understanding the calculation of the bonus fraction is crucial for determining the impact of bonus issues on shareholdings and overall equity.

3. How is equity displayed in a consolidated SFP?

A. It only includes non-controlling interests

B. Parent's share capital plus their share of the subsidiary's post-acquisition reserves

C. Only the reserves of the subsidiaries

D. All shareholders' investments in the subsidiaries

In a consolidated statement of financial position (SFP), equity is presented in a manner that reflects the ownership interests of the parent company and any subsidiaries. The correct answer outlines that equity includes the parent's share capital along with the parent's share of the subsidiary's post-acquisition reserves. This is important for a couple of key reasons. First, the consolidated SFP is designed to present the financial position of the entire group as a single economic entity. Therefore, the equity section must show not only the capital contributed by the parent company but also the retained earnings generated by the subsidiaries since the date of acquisition. This differentiation is crucial because it highlights the ongoing operations of the subsidiaries and how they contribute to the overall equity of the group. The concept of post-acquisition reserves is particularly significant because any profits or losses generated by the subsidiary after acquisition directly impact the group's consolidated equity. By including these reserves, the consolidated SFP provides a more comprehensive view of the financial strength of the entire group. Additionally, recognizing both the parent's share capital and their portion of the subsidiaries' post-acquisition earnings accurately reflects the total interests of the parent in the subsidiaries, clarifying the investment value from the perspective of the parent company.

4. When should capitalization of borrowing costs cease?

A. Once the workload significantly decreases

B. When the asset is fully paid for

C. When substantially all activities for preparing the asset are complete

D. When the financial period ends

The correct choice highlights that capitalization of borrowing costs should cease when substantially all activities for preparing the asset are complete. This aligns with the accounting principles set forth in IAS 23 Borrowing Costs, which specifies that borrowing costs incurred during the construction or production of an asset should be capitalized as part of the cost of that asset. Capitalization of borrowing costs is intended to reflect the true cost of acquiring an asset, and it must stop when the asset is ready for its intended use, meaning that it is substantially complete. At this point, all necessary work related to its construction or enhancement has been finished, and no further borrowing costs related to the asset are required. The other options do not accurately reflect the completion of the capitalization process. The decrease in workload does not directly indicate readiness for use. Full payment of the asset does not impact whether capitalization should cease, and simply ending the financial period does not determine when the asset is complete and ready for use. Therefore, the cessation of capitalization is best determined by the status of the asset rather than payment, workload, or timing related to financial reporting periods.

5. What happens to impairment losses in inventory under UK GAAP FRS 102?

A. They cannot be reversed

B. They can be reversed if impairing circumstances no longer exist

C. They must be recognized annually

D. They reduce the expected selling price

Under UK GAAP FRS 102, impairment losses on inventory can indeed be reversed if the circumstances that initially led to the impairment no longer exist. This is aligned with the principle of reflecting the economic reality of the inventory's value. If the factors that contributed to the impairment—such as a decline in market price or a change in demand—are resolved, the inventory may regain its value. Thus, when assessing whether to reverse an impairment loss, management must consider the current conditions affecting the inventory's valuation. This not only ensures a more accurate portrayal of the company's financial position but also adheres to the prudent approach of accounting that FRS 102 promotes, permitting a balance between caution and fair representation of assets. In contrast, the other options either suggest restrictions on the treatment of impairment losses or focus on inappropriate measures of valuation that do not apply under the FRS 102 framework.

6. What happens to depreciation on a non-current asset held for sale under IFRS 5?

A. It continues to be charged

B. It is ceased

C. It must be recalculated annually

D. It is transferred to other comprehensive income

Under IFRS 5, when a non-current asset is classified as held for sale, depreciation on that asset ceases immediately. This is because the asset is no longer being used in the operations of the entity, which is the purpose of depreciation in the first place. Depreciation is meant to reflect the usage and wear of an asset that contributes to generating revenue; however, when an asset is actively marketed for sale, it is no longer generating economic benefits from its use. The standard outlines that non-current assets classified as held for sale should be measured at the lower of their carrying amount and fair value less costs to sell, and since these assets are not intended to be used in operational activities but rather sold, there is no basis for continuing to depreciate them. This aligns with the intent of IFRS 5, which focuses on ensuring that the financial statements reflect the current status of the asset as available for sale rather than subjected to ongoing depreciation charges.

7. What components are included in the initial measurement of intangibles?

A. Cost of raw materials used for production

B. Advertising expenditures related to the asset

C. Legal and professional fees incurred during acquisition

D. Depreciation on similar fixed assets

The initial measurement of intangible assets typically includes costs that are directly attributable to preparing the asset for its intended use. This encompasses the legal and professional fees incurred during the acquisition of the intangible asset, making it a capitalizable cost in the asset's initial valuation. When you acquire an intangible asset, such as a patent or brand, the costs associated with obtaining that asset—like legal fees for registration, costs for professional advice, or registration fees—are significant since they are necessary to ensure the asset is valid and enforceable. These expenditures directly relate to the acquisition and thus are included in the initial measurement of the intangible asset on the balance sheet. In contrast, the other options do not represent costs that would be included in the initial measurement of intangibles. For example, costs related to raw materials or advertising expenditures do not directly relate to the intangible asset itself but rather to operational expenses and marketing strategies that may or may not impact the asset's future economic benefits. Similarly, depreciation is a method used for allocating the cost of a tangible asset over its useful life, and it is not relevant for an intangible asset's initial measurement. Therefore, focusing on costs essential for the acquisition ensures a more accurate valuation of intangible assets on the financial statements.

8. How is the excess depreciation from a revaluation surplus treated under IAS 16?

A. It is distributed to shareholders

B. It can be transferred to retained earnings

C. It is applied to reduce future income tax expenses

D. It must be recognized immediately in profit or loss

Under IAS 16, when an asset is revalued and there is an increase in value leading to a revaluation surplus, any excess depreciation resulting from this revaluation is treated in a specific way. The correct treatment allows for this excess depreciation to be transferred to retained earnings. This transfer occurs because the surplus reflects a change in the value of the asset rather than ongoing operational performance. By moving this excess from the revaluation surplus to retained earnings, it acknowledges that the excess depreciation does not impact the current operating results and instead adjusts the equity to accurately reflect the changes due to the revaluation. This helps maintain clarity in the financial statements by separating unrealized gains from realized earnings. It aligns with the overall principle of not recognizing gains until they are realized while allowing for the excess depreciation to affect retained earnings during future periods in which the revaluation surplus is reduced through depreciation charges.   Thus, transferring excess depreciation to retained earnings effectively maintains the integrity of both the profit or loss statement and the balance sheet when reflecting the true financial standing of the organization after revaluations are considered.

9. What does 'value in use' refer to in the context of recoverable amount?

A. The original purchase price of the asset

B. The present value of future cash flows expected from the asset

C. The carrying amount of the asset

D. The fair value of the asset less costs to sell

'Value in use' refers specifically to the present value of the future cash flows that an asset is expected to generate during its useful life. This concept is crucial for determining the recoverable amount of an asset, which is used in impairment testing. The recoverable amount is the higher of fair value less costs to sell and value in use. When establishing the value in use, an entity must forecast the cash flows that the asset will generate and discount them to reflect their present value. This value takes into account the time value of money—acknowledging that a dollar earned in the future is worth less than a dollar earned today. This approach is essential for understanding how much value an asset contributes to an entity, and it aids in assessing whether the recognized carrying amount exceeds its recoverable amount. The other options do not represent 'value in use'. The original purchase price is historical cost and does not consider future cash flows. The carrying amount reflects what is currently recorded in the books, which can differ significantly from value in use. Lastly, fair value less costs to sell concerns market conditions and does not capture the specific value generated from the asset's future cash flows. Thus, the definition that accurately represents 'value in use' is directly linked to the

10. What should be the treatment of costs related to advertising and training associated with intangibles?

A. They should be capitalized for future use

B. They should always be expensed

C. They can be deferred to future accounting periods

D. They should only be recognized if successful

The appropriate treatment of costs related to advertising and training associated with intangibles is that they should always be expensed. This principle is grounded in financial accounting standards, which dictate that costs should be recognized in the period in which they are incurred. Advertising and training costs do not meet the criteria for capitalization as they do not generate future economic benefits that can be reliably measured; instead, these costs are typically consumed during the period in which they are incurred. Capitalizing costs suggests that the expenses will provide future revenue, but because advertising is aimed at promoting future sales and training costs are often necessary for operations, they do not create a directly identifiable asset. Consequently, recognizing these costs as expenses immediately reflects a more accurate picture of the company's financial position and performance in accordance with generally accepted accounting principles.

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!