Section B questions and solutions

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Status: Original worked teaching examples, aligned to the 2026–27 detailed study guide and FR examinable documents. This atlas groups distinct **decisions** a question can test. ACCA can change figures, wording and combine decisions, so no finite set can enumerate every question. Section B consists of three unique cases, each with five independent two-mark objective tests; the examples below are standalone question types, not predictions or copied ACCA questions. ACCA examiner approach.

How to use: For each type, read the fact pattern and question, decide the rule first, then compare the worked answer. All amounts are $ unless stated otherwise. A single case can draw five independent types from one family or several families. Each example is deliberately small; a case may supply more facts than needed.

A. Conceptual and regulatory framework

B-A1 — Conceptual Framework (A1–A2)

1. **Asset or expense?** An entity pays 30,000 for an advertising campaign expected to increase sales; it cannot control customers' future purchases. **Question:** Is the spending an asset? **Solution:** No identifiable present economic resource is controlled as a result of the campaign; expense the 30,000, subject to any separately identifiable prepaid service at reporting date. Expected benefit alone does not establish an asset.
2. **Present obligation?** The board plans to close a branch next year but has not announced or begun the plan. **Question:** Is there a liability today? **Solution:** A plan alone creates no present obligation to another party; no liability solely from the board decision. Reassess if a legal or constructive obligation arises.
3. **Useful-information qualities.** Management selects a highly favourable valuation unsupported by observable evidence to make a property figure look current. **Question:** Which fundamental quality is most threatened? **Solution:** Faithful representation; a current number is useful only if it represents the economic substance without material bias. Relevance alone is insufficient.
4. **Measurement choice.** A machine has historical cost 100,000 and current replacement cost 130,000. **Question:** What does each measure represent? **Solution:** Historical cost reflects the original transaction basis (subsequently adjusted where required); current cost reflects the amount to acquire an equivalent asset at the measurement date. Neither amount is automatically the correct reported carrying amount; the applicable standard and model decide.
5. **Recognition versus disclosure.** A lawsuit might create an obligation but the facts do not establish the IAS 37 recognition conditions. **Question:** Does the Conceptual Framework alone mandate recognition? **Solution:** Apply the specific IAS 37 requirements. The Framework informs reasoning but does not override an applicable standard; a possible obligation may require contingent-liability disclosure rather than recognition.

B-A3 — Regulatory framework (A3)

1. **Why regulate?** Two companies use different reporting treatments for identical transactions. **Question:** What is a primary reason for common IFRS standards? **Solution:** Comparable, decision-useful reporting and reduced scope for inconsistent or self-serving policies. Standards still require judgement and enforcement.
2. **Principles and rules.** A proposed system contains broad principles but no application guidance. **Question:** Name one strength and one limitation. **Solution:** Principles can reflect economic substance across novel transactions; they can also produce inconsistent judgements without suitable guidance, disclosure and enforcement.
3. **Standards are not the whole framework.** An entity claims IFRS standards alone guarantee reliable reporting. **Question:** What else matters? **Solution:** Corporate law/regulation, governance, audit, enforcement and ethical behaviour affect reporting quality. Merely citing a standard does not ensure faithful application.
4. **Standard-setting process.** A new accounting issue has emerged. **Question:** Which body issues IFRS Accounting Standards, and why is public consultation used? **Solution:** The IASB develops and issues IFRS Accounting Standards; consultation and exposure drafts gather evidence and feedback before finalisation. The IFRS Foundation oversees the boards.

5. **National role.** A national standard setter comments on an IASB proposal. **Question:** Has it thereby changed an IFRS standard? **Solution:** No. National bodies can contribute evidence and feedback or determine local adoption, but only the IASB's due process changes an IFRS Accounting Standard.
6. **Sustainability standard setter.** A candidate confuses the IASB and ISSB. **Question:** Which board develops IFRS Sustainability Disclosure Standards? **Solution:** The ISSB. The IASB develops IFRS Accounting Standards. The FR outcome asks for the ISSB's purpose and role, not detailed climate-standard application.

B-A4 — Group concepts (A4)

1. **Control.** Investor P owns 45% of S but has contractual power to direct S's relevant activities and exposure to variable returns. **Question:** Can S be a subsidiary despite ownership below 50%? **Solution:** Yes, if P can use its power to affect its returns. Voting percentage alone is not decisive; confirm all control elements.
2. **Associate.** P owns 30% of A and participates in financial and operating policy decisions without control. **Question:** How is A treated in consolidated statements? **Solution:** Significant influence indicates an associate; apply the equity method, not full line-by-line consolidation.
3. **Intragroup sale.** P sells inventory to S and S still holds it. **Question:** Why eliminate P's sale and any unrealised profit? **Solution:** The group is one economic unit; a transfer within it is not a sale to an external customer, and profit on unsold inventory is not realised externally.
4. **Accounting policies and dates.** S uses a different inventory policy from P. **Question:** What is required for consolidation? **Solution:** Adjust S's information to uniform group accounting policies for like transactions; align reporting dates or make permitted adjustments to achieve comparable group information.
5. **Exemption.** A subsidiary's parent is itself part of a larger group. **Question:** Is it always exempt from preparing consolidated accounts? **Solution:** No. Apply the specific IFRS 10 exemption conditions; the mere existence of a higher parent is insufficient.

B. Transactions — assets and impairment

B-B1a — PPE initial cost (B1)

1. **Capitalise or expense.** A machine costs 200,000; delivery 8,000, installation 12,000 and staff training 5,000. **Question:** Initial PPE cost? **Solution:** 220,000 (200,000 + 8,000 + 12,000). Training is not a directly attributable cost of getting the machine into the condition necessary to operate as intended; expense it.
2. **Self-construction.** Direct materials 90,000, direct labour 40,000 and abnormal wastage 6,000. **Question:** Cost before other eligible items? **Solution:** 130,000; abnormal wastage is expensed, not capitalised.
3. **Borrowing costs.** A qualifying building is being constructed using specific borrowings; 12,000 eligible interest accrues while construction is active. **Question:** Treatment? **Solution:** Capitalise borrowing costs attributable to the qualifying asset during the eligible construction period; do not capitalise interest after the asset is substantially ready for use.
4. **Depreciation start.** A machine is ready for intended use on 1 October but first used on 1 December. **Question:** When does depreciation begin? **Solution:** 1 October, when available for use, not the first day of actual production.

B-B1b — PPE subsequent measurement (B1)

1. **Component replacement.** An aircraft engine component with carrying amount 18,000 is replaced by a new 60,000 component meeting recognition criteria. **Question:** Entries? **Solution:** Derecognise the old component (18,000 loss before proceeds, if none) and recognise the new 60,000 component; do not leave both in PPE.
2. **Revaluation surplus.** PPE carrying amount 80,000 rises to fair value 100,000 with no prior loss. **Question:** Where is the 20,000 increase? **Solution:** Other comprehensive income and revaluation surplus in equity, subject to the rule for reversing a previous revaluation decrease in profit or loss.
3. **Depreciation after revaluation.** Asset revalued to 120,000, residual value zero, remaining useful life six years. **Question:** Annual straight-line depreciation? **Solution:** 20,000 per year from the revalued carrying amount, assuming no later changes.
4. **Disposal.** Carrying amount 45,000, sale proceeds 52,000 and selling costs 2,000. **Question:** Gain or loss? **Solution:** 5,000 gain: net proceeds 50,000 less carrying amount 45,000.

B-B1c — Investment property (B1)

1. **Classification.** A building is held solely to earn rentals. **Question:** PPE or investment property? **Solution:** Investment property under IAS 40, because the purpose is rental income rather than owner occupation.
2. **Fair-value model.** Opening fair value 300,000; closing fair value 324,000. **Question:** Treatment? **Solution:** Carry at 324,000 and recognise the 24,000 gain in profit or loss. Do not depreciate while using the fair-value model.
3. **Cost model.** Cost 300,000, residual zero, 30-year life. **Question:** Is depreciation ignored because it is investment property? **Solution:** No. Under the cost model, apply relevant depreciation and impairment requirements; straight-line depreciation is 10,000 annually on these facts.

B-B2 — Intangible assets (B2)

1. **Research/development cut-off.** Project research costs 20,000; 40,000 of development expenditure is incurred before all recognition criteria are demonstrated and 30,000 after. **Question:** Maximum amount capitalised from these costs? **Solution:** 30,000, assuming the post-criteria spending is directly attributable. The earlier 60,000 is expensed and cannot later be reinstated as an asset.
2. **Purchased versus internal brand.** P buys a separable trademark for 50,000; it also estimates its internally built brand at 200,000. **Question:** Which asset is recognised? **Solution:** Recognise the purchased trademark at cost, subject to the relevant requirements; do not recognise the internally generated brand simply from management's valuation.
3. **Finite useful life.** A licence costs 80,000, has an eight-year useful life and zero residual value. **Question:** Annual straight-line amortisation? **Solution:** 10,000 from when the licence is available for use, unless the consumption pattern requires another method.
4. **Indefinite life.** An intangible has no foreseeable limit to useful life. **Question:** Amortise? **Solution:** Do not amortise while life is indefinite; test for impairment annually and reassess the indefinite-life conclusion each reporting period.

B-B3 — Impairment (B3)

1. **Recoverable amount.** Carrying amount 120,000; fair value less costs of disposal 95,000; value in use 102,000. **Question:** Impairment? **Solution:** Recoverable amount is the higher figure, 102,000; impairment loss is 18,000.
2. **CGU allocation.** A CGU loss is 30,000 and includes goodwill of 12,000. **Question:** First allocation? **Solution:** Reduce goodwill by 12,000 first; allocate the remaining 18,000 to other CGU assets pro rata, subject to individual floors and other restrictions.
3. **Reversal cap.** An impaired asset has carrying amount 70,000; revised recoverable amount 95,000; without prior impairment its carrying amount would be 88,000. **Question:** Maximum reversal? **Solution:** 18,000, raising carrying amount only to 88,000. A goodwill impairment is never reversed.

B-B4 — Inventories and agriculture (B4)

1. **Inventory NRV.** Inventory cost 50,000; expected sale proceeds 54,000, completion costs 5,000 and selling costs 2,000. **Question:** Carrying amount? **Solution:** NRV is 47,000; carry at lower of cost and NRV, 47,000, with a 3,000 write-down.
2. **Biological asset.** Livestock fair value 90,000 and costs to sell 4,000 at year-end. **Question:** Measurement? **Solution:** 86,000 fair value less costs to sell, with the relevant movement in profit or loss; apply the narrow IAS 41 reliability exception only if its conditions are met.
3. **Harvest.** Produce is harvested when fair value less costs to sell is 20,000. **Question:** What is its cost for subsequent IAS 2 accounting? **Solution:** 20,000 becomes deemed cost at harvest; subsequent inventory accounting follows IAS 2.
4. **Bearer plant.** A fruit tree produces crops over multiple periods. **Question:** Is the tree itself measured under IAS 41 fair value less costs to sell? **Solution:** A bearer plant is accounted for under IAS 16; produce growing on it remains within IAS 41.

Sources for this block: IAS 16, IAS 36, IAS 40, IAS 41, plus the ACCA detailed study guide above.

B. Transactions — instruments, liabilities and performance

B-B5a — Financial assets (B5)

1. **Factoring with recourse.** Receivables of 100,000 are transferred for 95,000 but the seller must reimburse the factor for customer defaults. **Question:** May the seller simply remove the receivables? **Solution:** No automatic derecognition. Assess whether substantially all risks and rewards were transferred; continuing significant credit risk points to retaining the receivables and recognising financing for cash received. The precise facts determine the outcome.
2. **Amortised cost.** A debt asset is held to collect contractual cash flows solely of principal and interest. **Question:** Likely classification? **Solution:** Amortised cost, if the relevant IFRS 9 conditions are met; use the effective interest method and assess impairment.
3. **FVOCI debt.** A qualifying debt asset is held both to collect and to sell; fair value increases by 6,000. **Question:** Where does the fair-value movement go? **Solution:** Other comprehensive income for a qualifying FVOCI debt asset, while interest and impairment effects follow IFRS 9 profit-or-loss rules.
4. **FVOCI equity election.** A non-trading equity investment has a valid irrevocable FVOCI election. **Question:** Is a fair-value increase reported in profit or loss? **Solution:** No; it goes to OCI. The election is available for qualifying equity instruments not held for trading and is made at initial recognition.
5. **FVTPL.** An investment does not qualify for, or is designated to, an alternative measurement category. Fair value rises 8,000. **Question:** Effect? **Solution:** Recognise the 8,000 fair-value gain in profit or loss for an FVTPL asset.

B-B5b — Financial liabilities and equity (B5)

1. **Substance of preference shares.** An issuer must redeem preference shares for cash on a fixed date. **Question:** Equity or liability? **Solution:** The unavoidable contractual cash obligation makes the instrument a financial liability in substance, regardless of its share name.
2. **Effective interest.** Liability opening carrying amount 95,000, effective rate 10%, cash coupon 6,000. **Question:** Closing carrying amount? **Solution:** Finance cost 9,500; closing liability 98,500 (95,000 + 9,500 – 6,000).
3. **Convertible debt split.** Proceeds of a qualifying compound instrument are 100,000 and the present value of equivalent non-convertible debt is 91,000. **Question:** Initial equity component? **Solution:** 9,000 residual equity component; liability component 91,000, before transaction-cost allocation.
4. **Ordinary shares.** An entity issues ordinary shares for 120,000 with no obligation to repay. **Question:** Finance cost on the proceeds? **Solution:** No effective-interest finance cost from the ordinary share issue; recognise equity, subject to share capital/premium classification and eligible issue costs.

B-B6a — Lessee leases (B6)

1. **Initial liability.** Three annual end-of-year payments of 10,000 have supplied present-value factors 0.91, 0.83 and 0.75. **Question:** Initial lease liability? **Solution:** 24,900 (9,100 + 8,300 + 7,500), assuming those are the only included payments.
2. **Subsequent liability.** Opening lease liability 24,900, interest rate 10% and end-year cash payment 10,000. **Question:** Closing liability? **Solution:** 17,390 (24,900 + 2,490 interest – 10,000 payment).
3. **Right-of-use depreciation.** ROU asset cost 24,900, no ownership transfer, three-year lease term and five-year underlying useful life. **Question:** Annual straight-line depreciation? **Solution:** 8,300 over the three-year lease term, assuming no purchase option reasonably certain to be exercised and no other changes.
4. **Recognition exemption.** A 10-month lease has no purchase option. **Question:** Can the lessee elect a recognition exemption? **Solution:** It can elect the short-term exemption if the IFRS 16 conditions are met; payments are generally expensed systematically. Also assess low-value exemption where relevant.

B-B6b — Sale and leaseback (B6)

1. **Is there a sale?** Seller-lessee transfers an asset but retains control under a repurchase arrangement. **Question:** Recognise a sale gain? **Solution:** First test IFRS 15 transfer-of-control requirements. If the transfer is not a sale, retain the asset and account for proceeds as a financial liability; no sale gain.
2. **Rights transferred.** Asset carrying amount 80,000, fair value and proceeds 100,000; the seller-lessee retains a right of use equal to 40% of fair value. **Question:** Gain recognised at transfer if it qualifies as a sale? **Solution:** Total gain is 20,000;

recognise only the 60% relating to rights transferred, 12,000. The remaining 8,000 relates to retained use and is not an immediate gain. This is a simplified fair-value fact pattern within FR scope.

B-B7a — Provisions and contingencies (B7)

1. **Warranty expected value.** 1,000 products sold: 80% no claim, 15% minor repair at 20, 5% major repair at 100. **Question:** Provision? **Solution:** 8,000: 1,000 × [(0.15 × 20) + (0.05 × 100)]. A sale with warranty obligation occurred; expected value suits a population of similar claims.
2. **Onerous contract.** Unavoidable cost of meeting a contract is 70,000; benefits are 50,000; compensation to exit is 12,000. **Question:** Provision for unavoidable loss? **Solution:** 12,000, the lower cost of fulfilling (20,000 net loss) and exiting (12,000), after considering any impairment of assets used in the contract first.
3. **Restructuring.** Management approves a plan internally but has not communicated it or begun implementation. **Question:** Provision? **Solution:** No constructive obligation yet merely from board approval. A detailed formal plan plus a valid expectation in affected parties is needed.
4. **Contingent asset.** An entity has a probable but not virtually certain legal recovery. **Question:** Recognise an asset? **Solution:** No. Disclose a contingent asset where inflow is probable; recognise only when realisation is virtually certain.
5. **Decommissioning.** A legal obligation to restore a site exists when equipment is installed. **Question:** Initial treatment? **Solution:** Recognise a provision at present value if material and include the corresponding eligible cost in the asset; subsequently unwind discount as finance cost and depreciate the asset component.

B-B7b — Events after reporting period (B7)

1. **Adjusting event.** A customer owing 30,000 at year-end enters bankruptcy after year-end; evidence shows severe financial difficulty already existed at year-end. **Question:** Adjust receivables? **Solution:** Yes. The later bankruptcy confirms a pre-existing condition; adjust the year-end carrying amount for expected loss.
2. **Non-adjusting event.** A fire destroys a factory two months after year-end with no pre-existing condition. **Question:** Adjust year-end PPE? **Solution:** No. Disclose nature and estimated financial effect if material, or state inability to estimate.
3. **Dividend declared later.** Directors declare a dividend after reporting date. **Question:** Year-end liability? **Solution:** No liability at the reporting date merely because it was declared later; disclose if material as appropriate.

B-B8 — Taxation (B8)

1. **Current tax.** Taxable profit 200,000 and tax rate 25%; 8,000 of current tax has already been paid. **Question:** Current tax charge and closing payable? **Solution:** Charge 50,000; payable 42,000, assuming no opening balance or other tax adjustments.
2. **Taxable temporary difference.** PPE carrying amount 100,000 and tax base 70,000; tax rate 25%. **Question:** Deferred tax liability? **Solution:** 7,500 (30,000 taxable temporary difference × 25%), subject to any relevant exceptions.
3. **Deductible temporary difference.** Provision carrying amount 20,000; tax deduction arises only on payment; tax rate 25%. **Question:** Potential deferred tax asset? **Solution:** 5,000, recognised only to the extent that future taxable profit is probable and any relevant exception is satisfied.
4. **Revaluation tax.** PPE revaluation gain 40,000 is in OCI and gives rise to a 25% taxable temporary difference. **Question:** Where is the related 10,000 deferred tax charge? **Solution:** OCI, following the underlying revaluation, with a corresponding deferred tax liability.

B-B9a — Held for sale and discontinued operations (B9)

1. **Classification.** An asset is available for immediate sale and its sale is highly probable. **Question:** Held for sale? **Solution:** Yes if all IFRS 5 criteria are met; a management intention without a committed, highly probable sale is insufficient.
2. **Measurement.** Eligible non-current asset carrying amount 90,000; fair value less costs to sell 84,000. **Question:** New amount and depreciation? **Solution:** Carry at 84,000, recognise a 6,000 loss and cease depreciation while classified held for sale. Apply exceptions to assets excluded from IFRS 5 measurement where relevant.
3. **Discontinued operation.** A component is disposed of and represents a separate major line of business. **Question:** Presentation? **Solution:** Present a single post-tax discontinued-operation amount separately in profit or loss, with required analysis; a disposal of an immaterial ordinary asset does not necessarily qualify.

B-B9b — Policy, estimate and error (B9)

1. **Estimate.** Remaining useful life of a machine changes from five to three years after new information. **Question:** Restate past depreciation? **Solution:** No. Account prospectively by allocating the current carrying amount over the revised remaining life.
2. **Policy change.** Entity voluntarily changes an accounting policy and the new policy gives reliable, more relevant information. **Question:** Prospective or retrospective? **Solution:** Apply retrospectively unless impracticable, restating comparatives and opening equity as required, subject to transition provisions.
3. **Prior-period error.** A material expense was omitted last year. **Question:** Charge this year's profit? **Solution:** Correct retrospectively by restating last year's comparative amounts (or earliest practicable opening balance), rather than treating it as this year's expense.

B-B9c — Earnings per share (B9)

1. **Basic EPS.** Profit attributable to ordinary shareholders 120,000; weighted-average ordinary shares 60,000. **Question:** Basic EPS? **Solution:** $2.00 per share.
2. **Bonus issue.** A one-for-four bonus issue occurs during the year. **Question:** What happens to comparative EPS? **Solution:** Restate the comparative weighted-average share number for the bonus element as though it had always existed; profit numerator is unchanged.
3. **Rights issue.** Shares are issued below market value. **Question:** Why adjust earlier-period shares? **Solution:** A rights issue has a bonus element; calculate the theoretical ex-rights price and bonus factor, then restate pre-issue and comparative share numbers.
4. **Diluted EPS.** Convertible debt would add 10,000 after-tax interest to earnings and 20,000 shares. **Question:** Include it automatically? **Solution:** Test whether the resulting EPS is lower than basic EPS. Include only if dilutive; use adjusted earnings and shares consistently.
5. **Options.** 10,000 options have exercise price below average market price. **Question:** Are all 10,000 added to denominator? **Solution:** No. Use the treasury-stock method: add only shares issued for no consideration after assuming proceeds buy shares at the average market price.

B-B9d — IFRS S1 overview (B9)

1. **Objective.** An entity asks why IFRS S1 disclosures exist. **Question:** What is the high-level aim? **Solution:** To disclose sustainability-related risks and opportunities useful to primary users in decisions about providing resources to the entity, where they could reasonably affect prospects.
2. **Core content.** A report contains only emissions figures. **Question:** What broad areas does IFRS S1 organise disclosures around? **Solution:** Governance, strategy, risk management, and metrics and targets. FR asks for the overview, not full SBR-level application.

B-D1p — IFRS 18 presentation (D1 cross-cutting)

1. **Mandatory subtotals.** A draft statement shows gross profit and profit before tax but no operating profit. **Question:** Is it complete under IFRS 18? **Solution:** No. Operating profit and profit before financing and income taxes are mandatory defined subtotals, along with profit or loss; gross profit and profit before tax may be shown but are not the mandatory substitutes.
2. **Operating category.** Management labels every income item as operating. **Question:** Correct? **Solution:** Not necessarily. Classify income and expenses in the IFRS 18 operating, investing, financing, income taxes and discontinued-operations categories according to the facts and relevant requirements.
3. **Indirect cash flow.** An older template begins with profit before tax. **Question:** What starting subtotal is required by IAS 7 as amended by IFRS 18? **Solution:** Operating profit or loss. Adjust only relevant non-cash items included in that starting subtotal and working-capital movements.

B-B10 — Revenue: general model (B10)

1. **Separate obligations.** A device and a separately usable two-year service are sold together for 1,200. Stand-alone prices are 1,000 and 500. **Question:** Allocate transaction price? **Solution:** Device 800 (1,200 × 1,000/1,500); service 400 (1,200 × 500/1,500). Recognise each as its performance obligation is satisfied.
2. **Variable consideration.** Contract promises a 10,000 bonus if delivery is early, but the outcome is highly uncertain and inclusion would risk a significant revenue reversal. **Question:** Include bonus now? **Solution:** Constrain the estimate; do not

include the uncertain amount in transaction price until the IFRS 15 constraint is met.

3. **Over-time criterion.** A customer controls a building as it is constructed. **Question:** Point-in-time or over-time? **Solution:** Over time if the customer controls the asset as created; measure progress using a method that faithfully depicts performance.
4. **Contract balance.** Revenue earned to date 60,000; amounts billed 45,000. **Question:** Contract asset or liability, ignoring receivable distinctions? **Solution:** A 15,000 contract asset if the right to consideration remains conditional on more than passage of time; an unconditional right is a receivable.
5. **Contract costs.** An incremental sales commission is payable only if a contract is won and is expected to be recovered. **Question:** Expense immediately? **Solution:** Recognise a contract-cost asset under IFRS 15 unless a permitted practical expedient applies, then amortise consistently with transfer of related goods or services.

B-B10b — Revenue: special arrangements (B10)

1. **Principal or agent.** A platform arranges a third party's service and never controls it before transfer. **Question:** Gross or net revenue? **Solution:** Agent revenue is its fee/commission, not the gross customer payment; assess control before transfer.
2. **Repurchase.** Seller must repurchase an asset at a specified price. **Question:** Is ordinary revenue necessarily recognised? **Solution:** No. Assess the repurchase terms and IFRS 15 guidance; a forward or call option generally prevents the customer obtaining control and may produce a lease or financing arrangement.
3. **Bill-and-hold.** Customer is billed but goods remain at seller's premises. **Question:** Is billing alone sufficient? **Solution:** No. Assess whether the arrangement has a substantive reason, goods are separately identified and ready for transfer, and the seller cannot redirect them, alongside control criteria.
4. **Consignment.** Dealer can return unsold goods and supplier retains control until sale to end customer. **Question:** When does supplier recognise revenue? **Solution:** When control transfers to the end customer, not when goods are delivered to dealer.

B-B11 — Government grants (B11)

1. **Recognition threshold.** Government offers a grant subject to conditions that the entity cannot yet demonstrate it will satisfy. **Question:** Recognise income? **Solution:** No, until there is reasonable assurance that the conditions will be met and the grant received.
2. **Expense grant.** 30,000 grant compensates three years of eligible training costs, evenly incurred. **Question:** Annual income? **Solution:** 10,000 each year to match the related costs, assuming the grant conditions are met.
3. **Asset grant.** 50,000 grant relates to an asset with a five-year life. **Question:** Is all 50,000 immediate profit? **Solution:** No. IAS 20 permits deferred-income or deduction-from-asset presentation; recognise the benefit systematically over the asset's useful life. Under deferred income, 10,000 is released annually on these facts.

B-B12 — Foreign currency (B12)

1. **Initial transaction.** Goods cost €10,000 when $1 = €0.80. **Question:** Initial $ amount? **Solution:** $12,500 (€10,000 ÷ 0.80), assuming $ is functional currency.
2. **Monetary retranslation.** The €10,000 payable remains unpaid at year-end when $1 = €0.75. **Question:** Closing payable and exchange effect? **Solution:** $13,333.33 (€10,000 ÷ 0.75); exchange loss $833.33 versus initial $12,500, in profit or loss unless a specific exception applies.
3. **Historical-cost non-monetary item.** Inventory bought for €10,000 remains unsold. **Question:** Retranslate its historical cost at closing rate? **Solution:** No. Historical-cost non-monetary items retain the transaction-date translation; other measurement requirements, such as NRV, are assessed separately.
4. **Fair-value non-monetary item.** A non-monetary asset's fair value is measured in foreign currency on 31 December. **Question:** Which exchange rate translates that fair value? **Solution:** The rate at the date fair value was measured; the resulting difference follows the accounting treatment of the underlying gain or loss.

Sources for this block: ACCA IFRS 18 technical article, IFRS Foundation summaries of IAS 7, IFRS 5, IFRS 15 and IFRS 16, plus the detailed study guide.

C–D. Analysis and preparation in Section B

B-C1–C3 — Analysis and limitations (C1–C3)

1. **Ratio calculation.** Revenue 500,000 and gross profit 150,000. **Question:** Gross margin? **Solution:** 30% (150,000/500,000); calculate on comparable figures before explaining the movement.
2. **Trend interpretation.** Revenue rises 20% while operating profit falls 10%, and the entity opened new stores. **Question:** What is a supported conclusion? **Solution:** Sales growth has not translated into operating profit; start-up or operating costs of new stores may explain the decline, but verify with expense and segment data rather than asserting cause as fact.
3. **Cash versus profit.** Profit improves, but operating cash inflow falls while receivables increase sharply. **Question:** What does this suggest? **Solution:** Cash collection/credit quality warrants investigation; profits include accruals. Examine receivable days, ageing and other cash-flow items before concluding customers cannot pay.
4. **Comparability.** One entity revalued its PPE; the comparator uses historical cost. **Question:** Is return on capital employed directly comparable? **Solution:** No. A higher revalued asset denominator can depress the ratio without poorer operations; adjust or explain the policy/value difference.
5. **Year-end snapshot.** A retailer has low inventory on its year-end date after peak holiday trading. **Question:** Can closing inventory alone represent average stock? **Solution:** Not reliably; seasonality can distort efficiency and liquidity measures. Use average balances if suitable data exist and explain the limitation.
6. **EPS limitation.** Profit rises due to one-off disposal gain while EPS rises. **Question:** Does EPS prove sustainable improvement? **Solution:** No. Explain the one-off item, changes in share count and the limits of EPS before assessing underlying performance.

B-C4 — Not-for-profit/public sector interpretation (C4)

1. **Objective.** A charity reports a surplus but fewer clients served. **Question:** Has performance necessarily improved? **Solution:** No. Assess service outcomes, reach, quality and resources against its mission; a surplus is not the sole goal.
2. **Stakeholder measure.** A public clinic's cost per patient rises as it treats more complex cases. **Question:** Is the rise automatically inefficiency? **Solution:** No. Case mix and quality affect cost; compare service outcomes and complexity before drawing a conclusion.

B-D1 — Single-entity preparation (D1)

1. **Adjustment routing.** Trial balance includes unrecorded depreciation 10,000. **Question:** What statements change? **Solution:** Depreciation expense lowers profit/retained earnings by 10,000 and accumulated depreciation lowers PPE carrying amount by 10,000.
2. **Equity reconciliation.** Opening retained earnings 100,000, profit 30,000 and dividends paid 8,000. **Question:** Closing retained earnings? **Solution:** 122,000 (100,000 + 30,000 – 8,000), ignoring other adjustments.
3. **Statement of changes in equity.** A 20,000 revaluation surplus arises and no transfer is made. **Question:** Where is it shown? **Solution:** OCI and the revaluation-surplus column in the statement of changes in equity, subject to related tax and previous revaluation losses.
4. **Cash-flow extract.** Operating profit 100,000 includes depreciation 15,000; receivables increase 8,000, inventories decrease 3,000, payables increase 4,000. **Question:** Cash from operating activities before income taxes, ignoring other items? **Solution:** 114,000 = 100,000 + 15,000 – 8,000 + 3,000 + 4,000. Start with operating profit under IFRS 18.
5. **Presentation.** Draft profit or loss puts all interest, tax and discontinued-operation results into operating profit. **Question:** Is that acceptable? **Solution:** No. Apply IFRS 18 category and subtotal requirements to each item using the facts; reconcile profit or loss and OCI with equity.

B-D2 — Simple group preparation (D2)

1. **Goodwill, proportionate NCI.** P buys 80% of S for 120,000; acquisition-date identifiable net assets at fair value are 100,000; NCI is measured as proportionate net assets. **Question:** Goodwill? **Solution:** 40,000 = consideration 120,000 + NCI 20,000 – net assets 100,000.
2. **Goodwill, fair-value NCI.** Same facts, but NCI fair value is 27,000. **Question:** Goodwill? **Solution:** 47,000 = 120,000 + 27,000 – 100,000. The chosen NCI basis changes goodwill.

3. **Post-acquisition reserves.** S retained earnings rise from 40,000 at acquisition to 70,000 at reporting date; P owns 80%. **Question:** P's share of post-acquisition increase before other adjustments? **Solution:** 24,000 = 80% × 30,000; account separately for fair-value depreciation, intra-group profit and impairment where present.
4. **Unrealised inventory profit.** P sells goods to S for 125,000 at cost 100,000; 40% remain unsold externally. **Question:** Unrealised profit? **Solution:** 10,000 = 25,000 profit × 40%; remove it from group inventory and group profit. If the seller is S, allocation between parent and NCI differs.
5. **Intragroup balance.** P records 20,000 receivable from S; S records matching payable. **Question:** Group presentation? **Solution:** Eliminate both balances, subject to reconciling any cash in transit or mismatch.
6. **Associate.** Group buys 30% of A for 50,000; A earns 20,000 after acquisition and pays no dividend. **Question:** Investment carrying amount before other adjustments? **Solution:** 56,000 = 50,000 + 30% × 20,000, subject to impairment and relevant equity-method adjustments.
7. **Midyear acquisition.** P controls S from 1 July; both have 31 December year-ends. **Question:** Include a full year of S's profit in consolidated profit or loss? **Solution:** No; include S's results from acquisition date only, with pre-acquisition profit used in acquisition-date net assets.
8. **Full disposal.** P sells all of S during the year. **Question:** Continue consolidating S to year-end? **Solution:** No; consolidate S only until control is lost, then account for disposal and consider whether it qualifies as a discontinued operation. FR scope restricts this disposal outcome to the parent's entire investment.

Sources for this block: ACCA detailed FR study guide, examiner approach, FR FAQ and IFRS 18 technical article.

Additional decision variants across the same families

These extend the question-type coverage where the detailed study guide calls for a different decision from the primary examples. They can be combined with the cases above.

A1–A4 extensions

1. **A1 enhancing qualities.** Two reports are equally relevant and faithfully represented, but one is published much later. **Question:** Which enhancing characteristic is weaker? **Solution:** Timeliness; delayed information may be less useful for decisions. Comparability, verifiability and understandability are other enhancing qualities.
2. **A2 value in use.** An asset's expected future cash flows are discounted from continued use and ultimate disposal. **Question:** Which measurement basis is being estimated? **Solution:** Value in use, an entity-specific current-value measure; it is not necessarily fair value, which reflects market-participant assumptions.
3. **A2 fulfilment value.** A liability is measured using the present value of resources the entity expects to transfer to fulfil it. **Question:** Which measure? **Solution:** Fulfilment value, an entity-specific current-value measure for a liability.
4. **A4 reporting exemption.** A parent wishes to omit consolidation because it has only one subsidiary. **Question:** Is that reason sufficient? **Solution:** No. Apply the specific IFRS 10 exemption conditions; the number of subsidiaries by itself does not remove the consolidation requirement.

B1–B4 extensions

1. **B1 revaluation decrease.** PPE carrying amount 100,000 falls to 92,000 and has no existing revaluation surplus for that asset. **Question:** Where is the 8,000 decrease? **Solution:** Profit or loss. A decrease can be recognised in OCI only to the extent of an existing surplus for that asset.
2. **B1 subsequent expenditure.** A machine receives routine annual servicing of 6,000. **Question:** Add to PPE? **Solution:** Expense routine maintenance; capitalise only qualifying replacement or enhancement costs, derecognising replaced components where identifiable.
3. **B1 investment-property transfer.** Owner-occupied property starts being leased to an external tenant. **Question:** Is management's intention alone enough to reclassify? **Solution:** Classification changes when actual use changes; identify the transfer date and apply IAS 40 and IAS 16 measurement rules for the chosen models.
4. **B2 goodwill versus separable intangible.** A business combination includes a customer relationship that can be separately identified and reliably measured. **Question:** Leave it all within goodwill? **Solution:** No. Recognise an identifiable intangible separately where IFRS 3/IAS 38 criteria are met; goodwill is residual.

5. **B3 impairment indicator.** A major adverse technological change makes equipment obsolete. **Question:** What action? **Solution:** Assess recoverable amount because an external impairment indicator exists, then recognise a loss if carrying amount exceeds recoverable amount.
6. **B3 goodwill test.** A cash-generating unit contains goodwill but has no visible impairment indicator. **Question:** Can annual testing be skipped? **Solution:** No. Goodwill is tested for impairment annually and when indicators arise.
7. **B4 inventory cost.** An entity chooses the highest purchase price for identical interchangeable units simply to reduce profit. **Question:** Is arbitrary item selection acceptable? **Solution:** No. Use an IAS 2 permitted cost formula such as FIFO or weighted average consistently for interchangeable items; specific identification is for non-interchangeable items.

B5–B9 extensions

1. **B5 factoring without recourse.** All substantive credit risk and rewards are transferred and no control is retained. **Question:** Continue reporting receivables? **Solution:** Generally derecognise them if IFRS 9 derecognition tests are satisfied; assess any retained interest or servicing separately.
2. **B5 FVOCI equity disposal.** A qualifying elected equity investment is sold. **Question:** Recycle accumulated FVOCI gain through profit or loss? **Solution:** No. The accumulated amount may be transferred within equity, but not recycled to profit or loss.
3. **B6 low-value lease.** An individual low-value laptop is leased for three years. **Question:** Is the short-term exemption needed? **Solution:** No; the separate low-value asset exemption may be elected if its conditions are met, even though the lease exceeds 12 months.
4. **B7 contingent liability.** A present obligation has a possible rather than probable outflow. **Question:** Provision? **Solution:** No provision on those facts; disclose a contingent liability unless the possibility of outflow is remote.
5. **B7 material discounting.** A restoration payment of 121,000 is due in two years; discount rate 10%. **Question:** Initial provision? **Solution:** 100,000 = 121,000/1.1^2, if the present-obligation recognition conditions are met. Unwind discount subsequently.
6. **B8 unused tax loss.** A company has tax losses but no credible taxable-profit forecast. **Question:** Automatically recognise a deferred tax asset? **Solution:** No. Recognition requires probable future taxable profit against which the loss can be used.
7. **B9 material expense.** A large restructuring charge is buried in a generic expense line. **Question:** What presentation issue arises? **Solution:** Material items may require separate disclosure of nature and amount so users understand performance; do not label it an extraordinary item.
8. **B9 full-market share issue.** Ordinary shares are issued for full market value partway through the year. **Question:** Restate prior shares like a bonus issue? **Solution:** No bonus element; include the new shares in weighted average from the issue date, without bonus restatement.

B10–B12, C and D extensions

1. **B10 progress measure.** A construction obligation qualifies for over-time recognition and costs incurred faithfully depict progress. **Question:** How calculate progress? **Solution:** A suitable input method can use qualifying costs incurred divided by expected total qualifying costs; exclude costs that do not depict performance and revisit estimates.
2. **B10 point-in-time transfer.** Goods are shipped but the seller still controls them under the contract. **Question:** Recognise revenue merely on dispatch? **Solution:** No. Recognise when the customer obtains control; delivery terms, acceptance and other indicators matter.
3. **B11 grant repayment.** A grant becomes repayable after a condition is breached. **Question:** Ignore it because income was recognised earlier? **Solution:** No. Apply IAS 20 repayment treatment to deferred income or asset carrying amount and recognise any excess appropriately.
4. **B12 functional versus presentation currency.** Entity's primary economic environment uses euros but reports to shareholders in dollars. **Question:** Which is functional? **Solution:** The euro if the primary economic environment indicators support it; dollar may be presentation currency. FR's transaction translation outcome should not be confused with full foreign-subsidiary translation.
5. **C1–C3 stakeholder lens.** A lender and an ordinary shareholder analyse the same gearing increase. **Question:** Must conclusions be identical? **Solution:** No. A lender focuses on debt service and downside protection; shareholders may weigh growth returns against risk. Both must use the same facts and acknowledge limitations.

6. **D1 statement of changes in equity.** A company issues shares at a premium and pays dividends. **Question:** Where are these shown? **Solution:** Show share capital and premium movements separately and deduct distributions from retained earnings within the statement of changes in equity; dividends are not profit-or-loss expenses.
7. **D2 fair-value liability.** A subsidiary has an identifiable contingent liability meeting IFRS 3 acquisition recognition requirements but absent from its own books. **Question:** Ignore it in acquisition net assets? **Solution:** No. Include its acquisition-date fair value where recognition criteria are met; this reduces net assets and affects goodwill and later group results.
8. **D2 intra-group PPE transfer.** Parent sells PPE to subsidiary at a gain while the group still uses it. **Question:** Group adjustment? **Solution:** Remove the intra-group gain, restore the asset to the group's pre-transfer carrying basis and correct subsequent depreciation; allocation depends on which entity sold the asset.
9. **D2 intra-group dividend.** S pays P a dividend recorded as income by P. **Question:** Group profit? **Solution:** Eliminate P's intra-group dividend income on consolidation and adjust NCI for its share of S's distribution; a group's receipt from itself is not external income.
10. **D2 bargain purchase.** Consideration plus NCI is 90,000 but acquisition-date net identifiable assets are 100,000. **Question:** Immediate goodwill of negative 10,000? **Solution:** Reassess all measurements first. If a genuine bargain remains, recognise the 10,000 gain in profit or loss, not negative goodwill as an asset.
11. **D2 two subsidiaries.** Parent controls two subsidiaries and has one associate. **Question:** Must all three be added line by line? **Solution:** Consolidate each subsidiary line by line for periods of control; equity-account the associate as a single investment and share of result, within the simple-group syllabus limit.

These extensions target decisions otherwise easily hidden inside a broad family. The complete set remains an outcome-led study atlas rather than a claim that ACCA can ask only these formulations.