Section C variants, cases and solutions

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This companion maps the **different decisions** that can be embedded in the four Section C pathways. The twelve full 20-mark examples in section-c-worked-cases.md demonstrate representative combinations. ACCA can vary amounts, dates, entities and end requirements indefinitely; learn the decision routes and show workings rather than memorising one answer. The 2026–27 FR study guide and examiner approach set the assessable boundary.

S1 — Individual-entity preparation

The stem may start with a trial balance, draft statements, extracted balances or management's proposed treatment. It may require complete statements, selected extracts, notes or comments. Solve each adjustment separately, then feed its profit/OCI and asset/liability effects into the statements. Check the accounting equation and retained earnings.

Variant	Recognition cue	Solution route and possible requirement
PPE cost / self-construction	Invoice mixes purchase, installation, testing, training, borrowing	Separate directly attributable/eligible borrowing cost from expense; calculate cost and depreciation from availability-for-use date.
PPE revaluation / component	Fair value change or replacement part	Depreciate to valuation date, recognise revaluation in OCI or P/L according to prior history, derecognise replaced part, revise later depreciation.
Intangible R&D	Project phases and feasibility date	Expense research and pre-criteria development; capitalise qualifying later cost; amortise once available for use.
Impairment	Value in use and fair value less disposal costs	Choose higher recoverable amount; compare carrying value; recognise loss and adjust future depreciation.
Inventory	Cost, selling price, completion/selling costs	Calculate NRV and lower-of-cost/NRV carrying amount; put write-down in profit or loss.
Financial instrument	Discounted issue proceeds, coupon and effective rate	Split compound instrument if needed; effective-interest schedule; show closing liability and finance cost.
Lease	Payments, discount rate, initial direct costs	Calculate liability and ROU asset; unwind finance cost, deduct payments, depreciate ROU asset; check exemptions.
Revenue	Bundled obligations, variable consideration or progress	Apply five-step model, allocate price, constrain uncertain amount, recognise at point or over time and show contract balance.
Provision / event	Warranty, lawsuit, decommissioning or post-year-end event	Test present obligation and year-end condition; measure provision or disclose contingency; adjust only qualifying subsequent events.
Tax / deferred tax	Carrying amount and tax base differ	Compute current tax separately; calculate temporary differences; trace deferred tax to P/L or OCI with underlying item.
Held for sale / discontinued	Committed sale of non-current asset or component	Check classification, lower measurement for assets within scope, cease depreciation, present discontinued results separately where criteria met.

Variant	Recognition cue	Solution route and possible requirement
Foreign currency	Unsettled foreign payable or fair-valued non-monetary item	Initial transaction rate; closing rate for monetary item; correct rate for non-monetary item and gain/loss location.
EPS	Bonus, rights, options or convertible debt	Calculate weighted-average shares; adjust for bonus element; test dilution and present EPS as required.
IFRS 18 statement format	Draft uses old IAS 1 subtotals	Classify income/expense, present operating profit and profit before financing and income taxes; show profit/OCI and equity correctly.
Cash-flow extract	Indirect operating section or investing/financing extract	Single entity **extracts only**; begin indirect operating section with operating profit, adjust included non-cash items and working capital, classify cash flows under amended IAS 7.

G1 — Group preparation

The stem may ask for consolidated financial position, profit or loss/OCI, or extracts. Begin with a timeline, ownership and control map. Use acquisition-date values for goodwill and distinguish pre-acquisition from post-acquisition results. Check both NCI and group equity.

Variant	Recognition cue	Solution route and possible requirement
Control or associate	Voting rights, contractual power or significant influence	Control -> line-by-line consolidation; significant influence without control -> equity method.
Acquisition midyear	Date during reporting year	Include subsidiary income/expense only after control begins; acquisition-date reserves enter net assets, not group post-acquisition retained earnings.
NCI measurement	Fair value or proportionate share given	Use specified choice at acquisition; it changes goodwill and impairment attribution.
Goodwill / bargain purchase	Consideration, FV net assets, NCI	Compute consideration + NCI – identifiable FV net assets; reassess a negative amount then recognise genuine bargain gain.
FV uplift of PPE	Acquisition-date FV exceeds book value	Add uplift to net assets; depreciate post-acquisition uplift over remaining life; reduce group post-acquisition results accordingly.
FV inventory / liabilities / unrecognised item	Acquisition-date measurement differences	Include FV differences in acquisition net assets; reverse them as inventory sells or obligations settle, affecting post-acquisition profit.
Goodwill impairment	Recoverable amount of CGU / stated loss	Reduce goodwill; allocate effect between parent and NCI according to chosen NCI basis and case facts.
Inventory profit	Intragroup sale remains unsold outside group	Eliminate revenue and purchase/cost; remove unrealised profit from inventory and group profit; identify upstream versus downstream seller for NCI effect.
Non-current asset transfer	Intragroup asset sold above group carrying value	Eliminate gain; restore group asset basis and correct excess/shortfall depreciation.
Intragroup balances / cash in transit	Reciprocal receivable and payable mismatch	Reconcile timing first, then eliminate reciprocal balances.
Intragroup dividends	Subsidiary pays parent	Eliminate parent dividend income and adjust NCI for its share; do not treat internal distribution as group income.

Variant	Recognition cue	Solution route and possible requirement
Associate	One associate and post-acquisition profit/dividend	Carry at cost + share of post-acquisition profit – dividends – impairment; present share of profit, without line-by-line consolidation.
Full disposal	Parent sells entire investment in subsidiary	Consolidate only until loss of control; calculate disposal result from proceeds and carrying amounts including goodwill/NCI; test discontinued presentation. FR excludes partial disposals for this outcome.
Multiple entities	Up to two subsidiaries and one associate	Repeat acquisition/adjustment workings per entity, then combine; do not exceed the detailed guide's simple-group limit.

S2 — Individual-entity interpretation

Start with the question's stakeholder and comparison basis. Compute only useful ratios, then explain *causes, consequences and limits*. The ACCA interpretation article cautions that naming ratio movements without case-specific interpretation earns little credit.

Variant	Reasoning route
Two-year trend	Calculate comparable margins, liquidity, efficiency and gearing; connect each material change to supplied events and qualify inference.
Competitor / industry comparison	Check reporting policies, business mix, capital intensity, age of assets and dates before treating a benchmark as equivalent.
Profit up, cash down	Reconcile non-cash items and working capital; look for slow collections, inventory build and tax/interest payments.
Gross margin up, operating margin down	Distinguish pricing/product-cost change from operating expense growth; test one-off items and expansion costs.
Debt-funded expansion	Compare returns with financing risk, interest coverage and cash generation; a rising asset base may temporarily depress ROCE.
IFRS 18 ratio numerators	For ROCE and interest cover use profit before financing and income taxes, not operating profit where investing-category income or expense differs. For indirect operating cash flow, use operating profit.
Seasonal balances / year-end acquisition	Explain why closing ratios may misrepresent average activity; use averages where data permit.
Accounting-policy or current-value difference	Adjust or explain non-comparability from revaluation, impairment, depreciation or other policies.
Discontinued operation	Separate recurring continuing performance from disposal/ceased activity; use re-presented comparisons where available.
EPS and investor focus	Check weighted-average shares, one-off profits and EPS limitations before drawing investment conclusions.
Lender / supplier / shareholder	Tailor conclusion to repayment, trade-credit or return/risk concerns; cite missing evidence.

G2 — Group interpretation

A group comparison adds a **reporting-boundary** question before ordinary ratio analysis: which entities and periods are included? Separate true operating movement from acquisition/disposal and consolidation effects wherever data allow. Do not invent a like-for-like result when data are absent.

Variant	Reasoning route
Acquisition expands group	Separate acquired from existing revenue/profit; check acquisition date, synergy, FV depreciation and higher capital employed.
Full disposal shrinks group	Compare continuing operations and distinguish recurring profit from disposal gain; check cash proceeds versus operating cash.
NCI	Distinguish group totals from profit/equity attributable to parent's shareholders; avoid assigning 100% subsidiary performance to them.
Goodwill / impairment	Ask whether returns justify goodwill; impairment can depress profit without current cash outflow and signal weaker expectations.
FV uplift	Extra depreciation and remeasured capital can change margins and ROCE without a matching operating deterioration.
Intragroup sales / unrealised profit	Consolidated revenue/profit exclude internal activity, so parent-only trends are not directly comparable with group trends.
Associate	Equity-accounted profit appears without equivalent revenue consolidation or cash dividend; separate accounting result from cash received.
Cash-flow tension	Group operating cash may differ from profit because of working capital, acquired balances, non-cash charges and period of control.
Competitor groups	Compare ownership mix, acquisition timing, accounting policies and segment composition before ranking ratios.
Public/non-profit context	If such an entity is used for interpretation, consider service outcomes and stakeholder aims alongside financial ratios at the FR learning-outcome depth.

Exam method: Write a clear conclusion linked to the requirement, state important missing information and distinguish an evidenced cause from a plausible explanation. Source: ACCA FR examiner approach and 2026–27 detailed study guide.

Worked 20-mark cases

Original teaching material. Each case below is a self-contained 20-mark constructed-response exercise with a model answer and an illustrative marking guide. These are not ACCA past questions or official marking schemes. The cases cover distinct requirement patterns; figures and combinations in the actual exam are open-ended. ACCA confirms that each exam has one preparation and one interpretation question, and one individual entity and one simple group question. The valid pairings are therefore S1+G2 or G1+S2. ACCA FAQ, examiner approach.

Coverage map

Pathway	Case 1	Case 2	Case 3	Further examinable variations to recognise
S1 Individual preparation	IFRS 18 profit or loss/OCI and financial-position extracts: revenue, PPE, tax	Indirect cash-flow extract and changes in equity	Lease, loan note and EPS	Leases, instruments, EPS, grants, foreign currency, held-for-sale, provisions and combinations of adjustments
G1 Group preparation	Consolidated financial position: goodwill, NCI, fair-value uplift, intra-group inventory	Consolidated profit or loss: midyear acquisition, intra-group sales, associate	Fair-value NCI, impairment and intragroup PPE	Two subsidiaries, fair-value NCI, bargain purchase, intra-group PPE/dividends, full disposal, goodwill impairment
S2 Individual interpretation	Two-year ratio analysis	Profit/cash tension and lender perspective	IFRS 18 ratios, EPS, revaluation and investor view	Competitor and industry comparisons, seasonality, accounting-policy changes, discontinued operations, EPS
G2 Group interpretation	Acquisition-driven growth and NCI	Disposal, associate and comparison limits	Acquisition, impairment and cash	Fair-value adjustments, goodwill impairment, intra-group eliminations, group cash flows, competitor comparisons

The four pathways are the stable *requirement* families; the listed adjustments and combinations are the variable scenarios. The casebook is a set of worked representatives rather than a prediction of all future questions. The 2026–27 detailed study guide defines the full assessable scope.

S1-A — Individual preparation: statement extracts (20 marks)

Scenario and requirements

Lumen Ltd has a 31 December 2026 year-end. Its draft figures before the following corrections are: revenue 600,000; cost of sales 360,000; distribution expense 40,000; administrative expense 60,000; finance expense 12,000. The draft includes a $30,000 cash receipt for a two-year service contract beginning 1 July 2026 entirely in revenue. A machine acquired on 1 January 2026 for $100,000, residual value zero and useful life five years, has not been depreciated. At 31 December it is revalued to $96,000 after depreciation. The revaluation has no previous downward history. Taxable profit for current-tax purposes is $100,000. For this exercise tax rules follow cash receipts and allow no tax depreciation this year; the tax rate is 25%. Assume sufficient probable future taxable profit to support deferred-tax assets and that IAS 12 offset conditions for deferred-tax balances are met. Ignore other temporary differences and tax payments.

Required: (a) Correct revenue and calculate operating profit and profit before financing and income taxes under IFRS 18 (7 marks); (b) calculate machine carrying amount, depreciation, revaluation surplus and related deferred tax (8 marks); (c) show profit or loss, OCI and financial-position extracts for these items, including current tax (5 marks). Assume all stated operating expenses are in the operating category and finance expense in the financing category.

Worked solution

- Service revenue earned: $30,000 × 6/24 = **$7,500**. Deferred contract liability: **$22,500**. Corrected total revenue: $600,000 – $22,500 = **$577,500**.
- Depreciation before revaluation: $100,000/5 = **$20,000**. Pre-revaluation carrying amount: **$80,000**. Revaluation uplift: $96,000 – $80,000 = **$16,000** in OCI. Closing machine: **$96,000**.
- Operating profit: $577,500 – $360,000 – $40,000 – $60,000 – $20,000 = **$97,500**. No investing-category item is given, so profit before financing and income taxes is also **$97,500**. Profit before income taxes after $12,000 finance expense is **$85,500**.
- Current tax: taxable profit $100,000 × 25% = **$25,000**. Because the $30,000 cash has already been taxed, the $22,500 deferred service revenue has tax base zero and creates a **$5,625 deferred tax asset**. With no tax depreciation, the machine's tax base remains $100,000; its closing carrying amount $96,000 gives a **$1,000 net deferred tax asset** from a $4,000 deductible temporary difference. For clarity, the machine's depreciation creates a $5,000 deferred tax asset in profit or loss and its $16,000 revaluation creates a $4,000 deferred tax liability in OCI; the net machine DTA is $1,000. Gross closing deferred-tax assets are $10,625 and the deferred-tax liability is $4,000. Under the supplied offset assumption, the combined closing net DTA is **$6,625**.
- Profit-or-loss tax expense is current tax $25,000 less deferred-tax credits $5,625 (contract) and $5,000 (depreciation) = **$14,375**. Profit for the year is **$71,125**. OCI revaluation gain $16,000 less related tax $4,000 = **$12,000**. Total comprehensive income is **$83,125**. Financial-position extracts: machine $96,000; contract liability $22,500; current tax payable $25,000 (assuming none paid); net deferred-tax asset $6,625; revaluation surplus increase $12,000.

Illustrative marking guide (20)

Credit	Marks
Service timing, revenue $7,500 and contract liability $22,500	3
Corrected total revenue $577,500 and IFRS 18 operating subtotal $97,500	3
Profit before financing and income taxes $97,500	1
Depreciation $20,000 and pre-revaluation carrying amount $80,000	2
Revaluation $16,000 in OCI and closing machine $96,000	2
Deferred tax on service $5,625 and machine closing net DTA $1,000	3
Tax effects split: $10,625 credit in profit or loss, $4,000 charge in OCI	2
Current tax $25,000 and profit for year $71,125	2
OCI net $12,000 and financial-position presentation/reconciliation	2
Total	**20**

Check: Current tax is based on the supplied taxable profit, not reconstructed from corrected accounting profit. A tax-base assumption is explicitly supplied to avoid ambiguity. IAS 12; ACCA IFRS 18 article.

S1-B — Individual preparation: indirect cash-flow extract and equity (20 marks)

Scenario and requirements

Harbour Ltd's 2026 IFRS 18 statement shows operating profit of $180,000. Included in operating profit are depreciation $35,000, amortisation $8,000, an impairment loss $7,000 and a $4,000 gain on disposal of equipment. During the year, inventories rose from $70,000 to $82,000; trade receivables fell from $95,000 to $88,000; trade payables rose from $60,000 to $69,000. Tax paid was $28,000. Equipment with carrying amount $16,000 was sold for $20,000 cash. New equipment was bought for $50,000 cash. Interest paid was $9,000 and dividends paid $15,000. Assume the entity has no specified main business activity that changes the normal IAS 7 classification of interest. Opening retained earnings were $140,000 and profit for the year was $102,000. There was no OCI.

Required: (a) prepare an extract of cash flows from operating activities by the indirect method (11 marks); (b) classify the stated investing and financing cash flows and calculate each subtotal (5 marks); (c) calculate closing retained earnings and explain why profit differs from operating cash (4 marks).

Worked solution

Operating cash-flow extract	$
Operating profit	180,000
Add depreciation	35,000
Add amortisation	8,000
Add impairment	7,000
Less gain on disposal included in operating profit	(4,000)
Increase in inventories	(12,000)
Decrease in trade receivables	7,000
Increase in trade payables	9,000
Cash from operating activities before income taxes	**230,000**
Income taxes paid	(28,000)
Net cash from operating activities	**202,000**

Investing cash: equipment proceeds $20,000 less acquisition $50,000 = **$30,000 outflow**. Financing cash: interest paid $9,000 and dividends paid $15,000 = **$24,000 outflow** on the stated facts. Closing retained earnings = $140,000 + $102,000 – $15,000 = **$227,000**. Profit and operating cash differ because the former includes non-cash charges and an accrual-based disposal gain while working-capital balances and tax cash payments change cash timing. The $20,000 disposal proceeds belong in investing cash, not a second operating inflow.

Illustrative marking guide (20)

Credit	Marks
Start with operating profit, not profit before tax	2
Add back three non-cash charges correctly	3
Remove disposal gain	1
Three working-capital movements with correct signs	3
Cash before tax $230,000, tax paid and operating net $202,000	2
Investing proceeds/acquisition classified and net $30,000 outflow	2
Interest/dividends financing and net $24,000 outflow	3
Closing retained earnings $227,000	2
Explanation of accruals, non-cash items and disposal cash placement	2
Total	**20**

Check: The starting point and normal interest/dividend classifications follow the IFRS 18 amendments to IAS 7. ACCA IFRS 18 article; IAS 7.

G1-A — Group preparation: consolidated financial position (20 marks)

Scenario and requirements

At 31 December 2026, Parent P reports assets $500,000 (including its investment in S of $150,000 and a $12,000 receivable from S), liabilities $180,000, share capital $200,000 and retained earnings $120,000. Subsidiary S reports assets $260,000, liabilities $80,000, share capital $100,000 and retained earnings $80,000 (its net assets therefore total $180,000). P bought 80% of S on 1 January 2026 for $150,000. At acquisition S's retained earnings were $40,000. Its equipment had a fair value $20,000 above carrying amount, with four years' remaining life and no residual value. There were no other fair-value differences. NCI is measured at its proportionate share of identifiable net assets. P sold goods to S during 2026 at a total profit of $10,000; 40% remain in S's closing inventory. S records a matching $12,000 payable to P. Ignore tax and goodwill impairment.

Required: Calculate (a) acquisition-date net assets, NCI and goodwill (6 marks); (b) post-acquisition reserves, group retained earnings and closing NCI (6 marks); (c) consolidated assets, liabilities and equity at 31 December 2026, with reconciliation (8 marks).

Worked solution

- Acquisition-date identifiable net assets: share capital $100,000 + retained earnings $40,000 + equipment uplift $20,000 = **$160,000**. NCI at acquisition = 20% × $160,000 = **$32,000**. Goodwill = $150,000 + $32,000 – $160,000 = **$22,000**.
- Extra annual depreciation on uplift = $20,000/4 = **$5,000**; unamortised uplift at reporting date = **$15,000**. Adjusted S post-acquisition reserves = ($80,000 – $40,000) – $5,000 = **$35,000**.
- Unrealised profit from P's downstream sale = 40% × $10,000 = **$4,000**. Group retained earnings = P $120,000 + 80% × S adjusted post-acquisition $35,000 – $4,000 = **$144,000**. Closing NCI = acquisition $32,000 + 20% × $35,000 = **$39,000**. The downstream unrealised profit is borne by the parent, not NCI.
- Assets = P $500,000 + S $260,000 + uplift remaining $15,000 + goodwill $22,000 – investment $150,000 – intercompany receivable $12,000 – unrealised inventory profit $4,000 = **$631,000**.
- Liabilities = P $180,000 + S $80,000 – intercompany payable $12,000 = **$248,000**.
- Equity = P share capital $200,000 + group retained earnings $144,000 + NCI $39,000 = **$383,000**. Check: liabilities + equity = $248,000 + $383,000 = **$631,000**.

Illustrative marking guide (20)

Credit	Marks
Acquisition-date net assets $160,000 and uplift	2
Acquisition NCI $32,000 and goodwill $22,000	4
Extra depreciation and remaining uplift	2
Adjusted post-acquisition reserves $35,000	2
Unrealised profit $4,000 and correct downstream attribution	2
Group retained earnings $144,000 and closing NCI $39,000	2
Consolidated asset workings and total $631,000	3
Liability elimination, equity presentation and balance check	3
Total	**20**

G1-B — Group preparation: consolidated profit or loss (20 marks)

Scenario and requirements

P acquired 80% of S on 1 July 2026. Both have 31 December 2026 year-ends and S's income/expenses accrue evenly through the year. P's annual revenue, cost of sales, operating expenses, finance expense and tax expense are respectively $800,000, $480,000, $140,000, $20,000 and $40,000. S's annual figures are $300,000, $180,000, $60,000, $4,000 and $20,000. After acquisition P sold goods to S for $40,000 (cost to P $30,000); one quarter remain in S's inventory at year-end. The group recognises $5,000 goodwill impairment for S, allocated entirely to the parent on the stated proportionate-NCI basis. P also owns 30% of an associate throughout the year; the associate's post-tax profit is $20,000, and no dividend was paid. Assume goodwill impairment and the unrealised-profit adjustment are operating-category items, the associate share is in the investing category, and finance expenses in the financing category under IFRS 18. Ignore tax on consolidation adjustments.

Required: Prepare a consolidated statement of profit or loss to profit for the year and attribute that profit between owners of P and NCI. Show workings (20 marks).

Worked solution

Only **six months** of S's results are consolidated: revenue $150,000; cost $90,000; operating expenses $30,000; finance $2,000; tax $10,000. Eliminate P-to-S revenue of $40,000 and matching transfer cost of $40,000. Unrealised profit = ($40,000 – $30,000) × 25% = **$2,500**; increase consolidated cost of sales by that amount. Associate share of post-tax profit = 30% × $20,000 = **$6,000**.

Consolidated profit or loss, year ended 31 December 2026	$
Revenue: 800,000 + 150,000 – 40,000	**910,000**
Cost of sales: 480,000 + 90,000 – 40,000 + 2,500	(532,500)
Gross profit (useful additional subtotal)	377,500
Operating expenses: 140,000 + 30,000 + 5,000 goodwill impairment	(175,000)
Operating profit	**202,500**
Share of associate's profit	6,000
Profit before financing and income taxes	**208,500**
Finance expense: 20,000 + 2,000	(22,000)

Consolidated profit or loss, year ended 31 December 2026	$
Profit before income taxes	186,500
Income tax: 40,000 + 10,000	(50,000)
Profit for the year	**136,500**

S's post-acquisition profit after its own finance expense and tax is $150,000 – $90,000 – $30,000 – $2,000 – $10,000 = **$18,000**. NCI receives 20% × $18,000 = **$3,600**. Profit attributable to P owners is **$132,900**. The downstream unrealised profit and goodwill impairment are parent-attributable on these facts.

Illustrative marking guide (20)

Credit	Marks
Six-month apportionment of S revenue, costs, finance and tax	4
Intragroup revenue/cost elimination	2
Unrealised profit $2,500 and cost-of-sales adjustment	2
Revenue $910,000 and cost of sales $532,500	2
Goodwill impairment and operating profit $202,500	2
Associate share $6,000 and IFRS 18 subtotal $208,500	2
Finance, tax and total profit $136,500	2
S post-acquisition profit $18,000 and NCI $3,600	2
Parent attribution $132,900 and clear workings	2
Total	**20**

Check: The 30% associate is equity-accounted, not consolidated line by line. The group does not include S's pre-acquisition results. ACCA group scope; ACCA IFRS 18 article.

S2-A — Individual interpretation: two-year performance and position (20 marks)

Scenario and requirements

Nova Ltd sells all goods on credit. Management expanded into two new regions during 2026 and introduced discounts. Figures ($000) are:

	2025	2026
Revenue	1,000	1,200
Cost of sales	600	780
Operating profit	150	168
Current assets	300	360
Of which inventory	100	150
Of which receivables	120	170
Current liabilities	150	240
Non-current borrowings	200	260

	2025	2026
Total equity	450	500
Net operating cash inflow	140	90

Use closing balances for working-capital days because opening 2025 balances are not supplied; note that limitation. **Required:** Calculate gross margin, operating margin, current ratio, quick ratio, receivable days, inventory days and debt/equity for both years (7 marks). Assess performance, liquidity, financing and cash quality with a balanced conclusion (13 marks). Use 365 days.

Worked solution

Measure	2025	2026
Gross margin = (revenue – cost of sales)/revenue	40.0%	35.0%
Operating margin = operating profit/revenue	15.0%	14.0%
Current ratio = current assets/current liabilities	2.00	1.50
Quick ratio = (current assets – inventory)/current liabilities	1.33	0.88
Receivable days = receivables/revenue × 365	43.8	51.7
Inventory days = inventory/cost of sales × 365	60.8	70.2
Debt/equity = non-current borrowings/equity	44.4%	52.0%

Interpretation: Revenue rose 20%, but gross margin fell five points. Discounts are a plausible contributor; the new regions may also have different costs or product mix, which needs evidence. Operating profit rose 12%, below revenue growth, and operating margin slipped one point, suggesting expansion costs or weaker underlying margins. Liquidity weakened: current ratio fell to 1.50 and quick ratio below 1. Receivable days lengthened by about eight days while inventory days lengthened by about nine; growth may absorb cash and increase collection/obsolescence risk. Operating cash inflow declined from 140 to 90 despite higher operating profit, so investigate credit control, inventory and the detailed cash-flow reconciliation. Debt/equity rose, increasing financing exposure, although the figures alone do not prove distress. Conclude that expansion drove sales but margins, liquidity and cash conversion deteriorated; ask for region-level margins, ageing of receivables, inventory analysis and average balances before recommending further expansion. Closing balances and possibly seasonal trading limit precision.

Illustrative marking guide (20)

Credit	Marks
Seven correctly calculated and labelled measures (1 each)	7
Revenue growth and gross-margin analysis tied to discounts	2
Operating-profit/margin analysis tied to expansion	2
Liquidity analysis using both current and quick ratios	2
Receivables/inventory days interpreted with cash consequences	2
Operating cash versus profit and borrowing trend	2
Balanced conclusion and relevant additional evidence	2
Closing-balance/seasonality limitation	1
Total	**20**

A ratio movement alone is not an explanation. ACCA interpretation guidance.

S2-B — Individual interpretation: lender and cash-flow perspective (20 marks)

Scenario and requirements

Delta Ltd seeks a new loan. For 2026 ($000): revenue 1,000; operating profit 70; profit for the year 50; depreciation included in operating profit 20; trade receivables increased 60; inventories increased 40; trade payables increased 10; income tax paid 10. There are no other operating adjustments. Net investing cash outflow was 80 and financing cash inflow was 100. Current assets are 240, current liabilities 200, and borrowings 300. The prior-year operating cash inflow was 80. A similar competitor has operating margin 15%, current ratio 1.6 and receivable days 45; Delta's closing receivables are 205 and all its revenue is on credit. Management says the higher closing cash balance proves the loan is safe.

Required: (a) reconcile operating profit to net operating cash and net cash change (8 marks); (b) calculate Delta's operating margin, current ratio and closing-balance receivable days (3 marks); (c) advise a lender on the strength and limitations of the evidence (9 marks). Use 365 days.

Worked solution

Operating cash before tax = $70 + $20 – $60 – $40 + $10 = **$0**. Net operating cash after $10 tax paid = **$10 outflow**. Net cash change = operating $(10) – investing $80 + financing $100 = **$10 inflow**. Thus cash rose because of financing, not because operations generated cash. Delta's operating margin is **7.0%** (70/1,000), current ratio **1.20** (240/200), and receivable days **74.8** (205/1,000 × 365). The competitor's 15% margin, 1.6 current ratio and 45 days are stronger on those measures, but accounting policies, business mix and year-end timing may differ.

Advice: The deterioration from prior-year operating cash inflow 80 to a 10 outflow, slow collections and inventory build create repayment risk. Profit is positive but accrual-based; financing inflow can temporarily lift cash while adding obligations. The $80 investing outflow could support future capacity, but its returns are not evidenced. Request debt maturity/interest terms, receivables ageing, inventory quality, forecast operating cash, covenant headroom and reasons for differences from the competitor. Do not infer insolvency from these facts alone; conclude that new lending should depend on credible cash-generation evidence and security/terms, rather than the closing cash increase.

Illustrative marking guide (20)

Credit	Marks
Start from operating profit and add depreciation	2
Three working-capital signs and cash before tax $0	3
Tax cash and net operating outflow $10	1
Net cash change $10 and financing explanation	2
Three ratios/days correctly calculated	3
Comparison to competitor, with comparability limits	2
Collection/inventory and repayment-risk analysis	3
Additional evidence a lender needs	2
Balanced conclusion avoiding unsupported insolvency claim	2
Total	**20**

The statement of cash flows is interpreted alongside profit and position; it is not replaced by a ratio list. ACCA cash-flow interpretation article.

G2-A — Group interpretation: acquisition-driven growth (20 marks)

Scenario and requirements

Orion Group acquired 80% of S on 1 January 2026. S contributed $300,000 revenue and $45,000 operating profit to the 2026 consolidated figures after acquisition-related adjustments; these amounts are already included in the group totals. There is no investing-category income or expense in either year, so operating profit equals profit before financing and income taxes for this example. Other data ($000):

	2025	2026
Group revenue	1,000	1,450
Group operating profit	150	190
Group assets at year-end	800	1,200
Non-current borrowings	200	350
Equity including NCI	400	500
Net operating cash inflow	140	120

S's post-acquisition profit after tax was $30,000; NCI is 20%. Assume 2025 had no S and the supplied S contribution can be deducted for a **rough** like-for-like comparison, though synergies and intra-group effects cannot be separated. **Required:** Calculate reported and adjusted revenue/operating-profit growth, return on capital employed (operating profit divided by closing equity plus non-current borrowings), debt/equity and S's post-tax NCI share (8 marks). Assess the group's performance, comparability, financing and cash flow (12 marks).

Worked solution

- Reported revenue growth = (1,450 – 1,000)/1,000 = **45.0%**. Adjusted revenue excluding S contribution = 1,450 – 300 = **1,150**; rough like-for-like growth = **15.0%**.
- Reported operating-profit growth = (190 – 150)/150 = **26.7%**. Adjusted operating profit = 190 – 45 = **145**; rough like-for-like change = (145 – 150)/150 = **3.3% decline**.
- ROCE using profit before financing and income taxes (equal here to operating profit) and stated closing capital = 150/(400 + 200) = **25.0%** in 2025 and 190/(500 + 350) = **22.4%** in 2026. Debt/equity = 200/400 = **50.0%**, then 350/500 = **70.0%**. S post-tax NCI share = 20% × 30 = **$6,000**.

Interpretation: Acquisition accounts for much of reported revenue growth; the supplied deduction suggests the pre-existing activities grew sales but lost some operating profit. The latter is only indicative: synergies, eliminations and changed cost allocation may affect a true like-for-like comparison. ROCE fell despite higher reported profit, partly because the acquisition expanded the capital base; closing rather than average capital can distort the comparison. Borrowing relative to equity increased, raising finance risk. Operating cash inflow fell while profit rose; investigate acquisition-related working capital, non-cash adjustments and interest commitments. NCI means not all group profit belongs to P shareholders; do not attribute the whole subsidiary result to them. The group has expanded, but evidence of organic profitability and cash conversion is mixed. Request segment results, acquisition financing terms, purchase-price allocation and group cash-flow detail.

Illustrative marking guide (20)

Credit	Marks
Reported and adjusted revenue growth	2
Reported and adjusted operating-profit growth	2
Two ROCE calculations	2
Debt/equity and NCI share	2
Acquisition versus organic-growth interpretation	3
ROCE/capital-base and closing-balance limitations	2
Debt and operating-cash implications	2
NCI attribution and group comparison limits	2
Balanced conclusion and targeted further information	3
Total	**20**

G2-B — Group interpretation: full disposal and associate (20 marks)

Scenario and requirements

P Group owned 80% of loss-making S throughout 2025 and sold its entire interest on 30 June 2026, losing control. S contributed 2025 revenue $250,000 and operating loss $20,000, and pre-disposal 2026 revenue $100,000 and operating loss $10,000. The group also holds an associate; its 2026 share of the associate's post-tax profit was $10,000, while cash dividend received was $3,000. Summary data ($000) are:

	2025	2026
Reported revenue including S while controlled	1,200	1,100
Reported operating profit including S while controlled, excluding disposal gain	120	150
Current assets at year-end	400	350
Current liabilities at year-end	300	250
Net operating cash inflow	100	130

A $40,000 gain on selling S is separately reported within the results of a discontinued operation because S is a separate major line of business. The figures for 2025 above are **unrestated management totals** supplied solely for analysis; a published IFRS 5 comparative presentation would re-present discontinued operations. Assume simple subtraction of S's contributions is useful for an indicative continuing-activities comparison and ignore unquantified consolidation effects.

Required: Calculate reported and indicative continuing-activities revenue and operating-profit growth, current ratios, and difference between associate profit share and dividend (8 marks). Explain the effect of disposal, discontinued presentation, NCI, cash flow and comparability for an investor (12 marks).

Worked solution

- Reported revenue change = (1,100 – 1,200)/1,200 = **8.3% decline**. Excluding S from both periods gives indicative continuing revenue 2025 **950** (1,200 – 250), 2026 **1,000** (1,100 – 100), an **increase of 5.3%**.
- Reported operating-profit growth = (150 – 120)/120 = **25.0%**. Excluding S's losses gives indicative continuing operating profit 2025 **140** (120 – (–20)) and 2026 **160** (150 – (–10)), an **increase of 14.3%**. The $40 disposal gain is not included in these

operating-profit figures.

- Current ratio: 2025 **1.33** (400/300), 2026 **1.40** (350/250). Associate share of profit exceeds cash dividend by **$7,000**; equity-accounted profit is not the same as cash received.

Interpretation: Reported sales fall partly because S is no longer consolidated after 30 June, so simple group totals obscure modest underlying growth. Removing S's operating losses explains part of reported profit improvement; the $40,000 disposal gain is non-recurring and separately presented as a discontinued operation. P's owners were entitled to only 80% of S's results before disposal; the remaining 20% belonged to NCI. The current ratio improved slightly, but both current assets and liabilities fell after the disposal, so the change is not conclusive evidence of better liquidity. Operating cash improved, yet the supplied figures cannot isolate S's cash contribution; sale proceeds belong to investing cash and are not recurring operating cash. The associate adds $10,000 accounting profit but only $3,000 dividend cash. An investor should ask for re-presented IFRS 5 comparatives, continuing-operations cash flows and recurring earnings before concluding that the group is stronger.

Illustrative marking guide (20)

Credit	Marks
Reported revenue movement and indicative continuing revenue growth	2
Reported operating-profit movement and indicative continuing growth	3
Both current ratios and associate profit/dividend difference	3
Disposal's effect on consolidated perimeter and comparison	2
Discontinued-operation gain and recurring-earnings distinction	2
NCI attribution and associate accounting/cash distinction	2
Liquidity/cash-flow analysis and investing cash treatment	3
Comparative-data limitations and balanced investor conclusion	3
Total	**20**

Check: These are analytical restatements from supplied management data, not an IFRS-compliant comparative statement. The accounting for full disposal, discontinued operations, associate equity method and group interpretation is within the FR detailed study guide.

S1-C — Individual preparation: lease, loan note and EPS (20 marks)

Scenario and requirements

Mira Ltd's draft 2026 operating profit before the following adjustments is $140,000. On 1 January 2026 it began a three-year equipment lease with three $20,000 payments at each year-end. The discount rate is 10% and supplied present-value factors are 0.909, 0.826 and 0.751. There are no initial direct costs, incentives, residual guarantees or transfer of ownership; the equipment's useful life is five years. On the same date Mira issued a non-convertible loan note for net cash proceeds of $46,000. Its annual cash coupon is $4,000, paid at year-end, and its effective interest rate is 10%. No accounting entry for the lease or 2026 loan finance cost has been made; the $46,000 proceeds were correctly recorded as a liability. There is no investing-category income or expense. Current tax expense for the year is $25,000 with no deferred tax effect from these items. Mira had 50,000 ordinary shares until 30 June and issued 10,000 more for full market value on 1 July. No preference shares or potential ordinary shares exist.

Required: (a) calculate the lease liability, right-of-use asset, 2026 lease interest, payment, depreciation and closing balances (8 marks); (b) calculate loan finance cost and closing loan liability (4 marks); (c) prepare IFRS 18 profit subtotals to profit for the year and basic EPS (8 marks). Round whole-dollar statement figures at the end.

Worked solution

Lease liability and ROU asset at commencement = $20,000 × (0.909 + 0.826 + 0.751) = **$49,720**. Lease interest = $49,720 × 10% = **$4,972**; after $20,000 cash payment, closing lease liability = **$34,692**. ROU depreciation = $49,720/3 years = **$16,573.33**; closing ROU asset ≈ **$33,146.67**. The three-year lease term is used because no ownership transfer or reasonably certain purchase is given. Loan effective finance cost = $46,000 × 10% = **$4,600**; closing loan liability = $46,000 + $4,600 – $4,000 coupon = **$46,600**.

Profit or loss, year ended 31 December 2026	$
Draft operating profit	140,000
ROU depreciation	(16,573)
Operating profit	**123,427**
Profit before financing and income taxes	**123,427**
Lease interest	(4,972)
Loan effective interest	(4,600)
Profit before income taxes	113,855
Current tax expense	(25,000)
Profit for the year	**88,855**

Weighted-average ordinary shares = 50,000 × 12/12 + 10,000 × 6/12 = **55,000**. Basic EPS = unrounded profit $88,854.67 ÷ 55,000 = **$1.62 per share** to two decimals. The full-market issue has no bonus restatement.

Illustrative marking guide (20)

Credit	Marks
Lease present value and initial ROU asset $49,720	3
Lease interest, payment and closing liability $34,692	2
ROU depreciation and closing asset	3
Loan effective interest $4,600	2
Loan closing liability $46,600	2
Operating and profit-before-financing/tax subtotals	2
Finance costs, profit before tax and profit after tax	3
Weighted shares 55,000 and EPS $1.62	3
Total	**20**

G1-C — Group preparation: fair-value NCI and intragroup PPE (20 marks)

Scenario and requirements

At 31 December 2026, P reports assets $600,000 (including investment in S $180,000), liabilities $250,000, share capital $200,000 and retained earnings $150,000. S reports assets $300,000, liabilities $100,000, share capital $100,000 and retained earnings $100,000. P acquired 75% of S on 1 January 2026 for $180,000; S's retained earnings were then $60,000. NCI fair value at acquisition was $55,000. At acquisition S's equipment fair value exceeded book value by $40,000; it had five years' remaining life and no residual value. Ignore tax. At 31 December 2026 goodwill is impaired by $10,000; allocate this full-goodwill impairment 75% to P owners and 25% to NCI. On 1 July 2026, S sold PPE to P and recorded a $20,000 gain. The PPE remains in the group and had four years' remaining life at transfer. P depreciated it using the transfer price. There are no other consolidation adjustments.

Required: (a) calculate acquisition goodwill and closing goodwill (5 marks); (b) calculate adjusted post-acquisition profit, group retained earnings and NCI (8 marks); (c) prepare consolidated assets, liabilities and equity totals with a balance check (7 marks).

Worked solution

Acquisition-date identifiable net assets = $100,000 share capital + $60,000 retained earnings + $40,000 FV uplift = **$200,000**. Full goodwill = $180,000 consideration + $55,000 fair-value NCI – $200,000 net assets = **$35,000**. Closing goodwill after $10,000 impairment = **$25,000**.

Extra depreciation on acquisition uplift = $40,000/5 = **$8,000**, leaving $32,000 uplift in group assets. S reported post-acquisition retained-earnings increase of $40,000; after FV depreciation this is **$32,000**. The upstream PPE gain of $20,000 is not realised by the group and is removed from S's result. Excess depreciation recorded by P for six months = $20,000/4 × 6/12 = **$2,500**; reverse it in P's result. Remaining asset overstatement is **$17,500**. Adjusted S post-acquisition result for NCI attribution = $32,000 – $20,000 = **$12,000**.

Group retained earnings = P $150,000 + 75% × S adjusted $12,000 + $2,500 reversal of P's excess depreciation – 75% × goodwill impairment $10,000 = **$154,000**. Closing NCI = acquisition $55,000 + 25% × S adjusted $12,000 – 25% × $10,000 impairment = **$55,500**. Assets = P $600,000 + S $300,000 – investment $180,000 + remaining FV uplift $32,000 + closing goodwill $25,000 – remaining intragroup PPE profit $17,500 = **$759,500**. Liabilities = $250,000 + $100,000 = **$350,000**. Equity = P share capital $200,000 + group retained earnings $154,000 + NCI $55,500 = **$409,500**. Liabilities plus equity = **$759,500**.

Illustrative marking guide (20)

Credit	Marks
Acquisition net assets $200,000 and full goodwill $35,000	3
Impairment and closing goodwill $25,000	2
FV depreciation $8,000 and remaining uplift $32,000	2
Upstream gain elimination and excess depreciation, net $17,500	3
Adjusted S post-acquisition result $12,000	3
Group retained earnings $154,000	2
Closing NCI $55,500	2
Asset/liability/equity totals and balance check	3
Total	**20**

Check: The sale was **upstream** (S to P), so the $20,000 seller gain reduces S's profit for NCI allocation. The $2,500 excess depreciation was recorded by P as buyer and its reversal belongs to P owners. The net group asset reduction remains $17,500. NCI is at fair value, so goodwill impairment is shared under the stated allocation.

S2-C — Individual interpretation: IFRS 18 ratios, shares and valuation (20 marks)

Scenario and requirements

Aster Ltd revalued its PPE upward by $80,000 near the end of 2026, with the net increase included in equity and capital employed. It issued 20,000 ordinary shares for full market value on 1 July 2026, having 40,000 shares before that date. The industry average 2026 operating margin is 15% and ROCE is 30%, but industry entities have different asset ages. Aster's figures ($000 except shares) are:

	2025	2026
Revenue	800	900
Operating profit	90	105
Investing-category income	10	5
Profit before financing and income taxes	100	110
Finance expense	20	30
Profit attributable to ordinary shareholders	60	64
Closing capital employed	400	500
Net operating cash inflow	90	70
Weighted-average ordinary shares	40,000	calculate

Required: Calculate operating margin, ROCE using the IFRS 18 numerator, interest cover, basic EPS for both years and 2026 weighted shares (9 marks). Assess performance from a shareholder's perspective, including revaluation, cash and benchmark limits (11 marks).

Worked solution

Measure	2025	2026
Operating margin = operating profit/revenue	11.25%	11.67%
ROCE = profit before financing and income taxes/closing capital employed	25.0%	22.0%
Interest cover = profit before financing and income taxes/finance expense	5.00	3.67
Basic EPS = ordinary profit/weighted-average shares	$1.50	$1.28

2026 weighted shares = 40,000 × 12/12 + 20,000 × 6/12 = **50,000**; EPS = $64,000/50,000 = **$1.28**. The full-market issue does not require a bonus adjustment. Do not use operating profit as ROCE or interest-cover numerator here: investing income makes profit before financing and income taxes different.

Interpretation: Revenue and operating profit increased and operating margin improved slightly, but both operating margins are well below the stated industry benchmark. ROCE fell from 25% to 22%, partly because revaluation enlarged the closing capital denominator late in the year; a rough 2026 figure excluding the $80,000 increase is 110/(500–80) = **26.2%**, but this is not a fully comparable restatement because valuation and depreciation effects need further adjustment. Interest cover worsened as finance expense rose. Total ordinary profit increased from $60,000 to $64,000, yet EPS fell because the weighted share count increased by 25%; this matters to existing shareholders. Operating cash declined despite higher profit, so investigate working capital and whether the new capital produced returns. Differences in asset age limit industry ROCE comparison. Conclude that operating growth is modest and per-share returns and cash weakened; seek share-issue use of proceeds, average capital, debt terms and cash-flow detail before deciding whether shareholder value improved.

Illustrative marking guide (20)

Credit	Marks
Both operating margins	2
Both ROCE calculations with correct IFRS 18 numerator	2
Both interest-cover calculations	2
Weighted shares 50,000 and both EPS figures	3
Margin and industry comparison	2
Revaluation effect and cautious adjusted ROCE	2
Finance cost/interest-cover risk	2
EPS/share-count interpretation	2
Cash versus profit, limitations and balanced conclusion	3
Total	**20**

G2-C — Group interpretation: acquisition, impairment and cash (20 marks)

Scenario and requirements

Cedar Group acquired 75% of S at the start of 2026. S contributed $200,000 revenue and $25,000 operating profit to 2026 group totals after acquisition-date fair-value depreciation; its post-tax profit was $16,000. The group recognised a $20,000 goodwill impairment in 2026 operating profit. An associate contributed $8,000 share of post-tax profit in 2026, classified in the investing category. The impairment and associate profit are included in the stated group results. Other figures ($000) are:

	2025	2026
Group revenue	1,000	1,250
Operating profit	160	155
Profit before financing and income taxes	160	163
Finance expense	20	30
Non-current borrowings	200	350
Equity including NCI	500	580
Net operating cash inflow	150	130

Assume no acquisition in 2025, no other material changes in group structure, and that the S contribution can be deducted only for an indicative comparison; synergies and eliminations cannot be identified. **Required:** Calculate reported and indicative pre-existing-activity revenue growth, operating-profit movement before/after the impairment, interest cover, debt/equity and S's NCI post-tax share (9 marks). Assess performance, risk, cash and comparison limits for a prospective investor (11 marks).

Worked solution

Reported revenue growth = (1,250–1,000)/1,000 = **25.0%**. Excluding S's $200,000 contribution gives indicative pre-existing revenue $1,050,000 and **5.0%** growth. Reported operating profit fell $5,000, or **3.1%**. Before goodwill impairment, 2026 group operating profit would be $175,000; after excluding S's $25,000 contribution, indicative pre-existing operating profit is **$150,000**, **6.25% below** 2025's $160,000. This is an analytic bridge, not an IFRS restatement. Interest cover = profit before financing and income taxes/finance expense: **8.00** in 2025 and **5.43** in 2026. Debt/equity = **40.0%** then **60.3%**. NCI share of S's post-tax profit = 25% × $16,000 = **$4,000**.

Interpretation: The acquisition explains most reported sales growth; the existing activities may have weakened on the supplied simplified comparison. Impairment is non-cash in 2026 but signals lower expected recoverable value of acquired goodwill; it should not be ignored when judging acquisition quality. Associate profit raises the IFRS 18 subtotal but does not mean equivalent cash dividends were received. Borrowings rose markedly and interest cover fell, while operating cash inflow declined despite higher revenue. NCI means not all subsidiary profit accrues to parent shareholders. Fair-value depreciation is already in S's contribution, but synergies and eliminations cannot be isolated, so the adjusted comparison is indicative only. Request acquisition purchase-price data, cash-flow detail, segment results and debt maturities; the reported growth alone is not enough to conclude the investment improved returns.

Illustrative marking guide (20)

Credit	Marks
Reported and indicative revenue growth	2
Operating-profit movement and impairment bridge	2
Indicative existing-activity operating profit and movement	2
Both interest-cover ratios using IFRS 18 subtotal	1
Debt/equity and NCI share	2
Acquisition versus existing-business interpretation	2
Impairment and associate-profit/cash distinction	2
Debt, cover and operating-cash risk	2
NCI and consolidation-comparison limits	2
Investor conclusion and relevant further information	3
Total	**20**

Review boundary for this casebook

These twelve worked cases exercise four distinct Section C requirement pathways and selected adjustment families. They do **not** exhaust the combinatorial space of exam facts. Each question has a separate original marking allocation summing to 20; actual ACCA markers use their own keys and may award appropriate credit for alternative workings. The main arithmetic and statement reconciliations were independently checked as recorded in the accompanying validation record. Any future case or revised fact pattern requires its own check.