Fundamentals of Financial Accounting

Cima BA3

Version Demo

Total Demo Questions: 59

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Topic Break Down

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QUESTION NO: 1

Refer to the exhibit.

A company has the following equity balances at the beginning of the year:

During the year the company issued 100,000 new shares at $1.20 each

What are the equity balances after this issue?

A. A

B. B

C. C

D. D

E. Cannot be determined because the exhibit with the opening equity balances is missing.

ANSWER: E

Explanation:

Cannot be determined from the information provided because the exhibit containing the opening equity balances is absent. The total cash proceeds from the share issue can be calculated as 100,000 shares multiplied by $1.20, giving $120,000. However, calculating the closing balances of the individual equity components requires the opening amounts shown in the missing exhibit. It also requires the shares' nominal or par value if the question expects the proceeds to be split between share capital and share premium. Under IAS 32, an entity recognises the proceeds of issuing its own equity instruments directly in equity. In a conventional share-capital presentation, the nominal value is credited to share capital and any amount paid above nominal value is credited to share premium. Accordingly, the available facts establish only that total equity increases by $120,000 before any directly attributable issue costs; they do not establish the requested post-issue balances. The missing exhibit must be supplied to select a numerical set of equity balances. See IFRS Foundation: IAS 32 Financial Instruments—Presentation and IAS 32 issued standard.

QUESTION NO: 2

The owner of a business takes goods from inventory for his own personal use

Which of the following accounting concepts would be relevant to this transaction?

A. Prudence

B. Going concern

C. Accruals

D. Separate entity

ANSWER: D

Explanation:

Separate entity is the relevant concept because accounting records treat the business as distinct from its owner, even where the business is a sole proprietorship and has no separate legal personality. Goods removed from inventory for the owner's private use are therefore not a business expense or a business sale in the ordinary course of trade. Instead, the withdrawal must be recorded as drawings: inventory is reduced by the cost of the goods and the owner's capital or equity interest is reduced accordingly. This preserves the boundary between resources and transactions belonging to the business and those belonging personally to its owner. Maintaining that distinction enables the financial statements to report the business's inventory, profit and financial position faithfully, without including personal consumption as a cost of operating the business. The reporting-entity principle is reflected in the IASB Conceptual Framework's discussion of a reporting entity and the financial statements prepared for that entity. Further background on the underlying concepts used in financial reporting is available from the IFRS Foundation Conceptual Framework and the Conceptual Framework for Financial Reporting.

QUESTION NO: 3

Which of the following entries would result in the trial balance not agreeing?

(a) An invoice for £200 for electricity has been omitted from the ledgers

(b) A payment received from a customer has been posted to the accounts twice

(c) An invoice for repairs and maintenance has been charged to the non-current assetaccount

(d) A payment made to suppliers had been recorded in the cash book but not recorded inthe supplier's account

A. (a) and (b) only

B. (c) and (d) only

C. (d) only

D. All of the above - (a), (b), (c) and (d)

ANSWER: C

Explanation:

The correct answer is **"(d) only"**. A trial balance is a check that the total debit balances in the ledger equal the total credit balances, reflecting the double-entry principle that every transaction must have matching debit and credit entries. Recording a payment to a supplier in the cash book records the cash element of the transaction, normally as a credit to bank or cash because funds have left the business. The corresponding debit should be posted to the relevant supplier's payable account, reducing the liability owed. If that supplier-account posting is omitted, only one side of the double entry has been recorded. Consequently, the ledger debit and credit totals will differ by the amount of the payment and the trial balance will not agree. This is an error of partial omission: the transaction has entered the accounting records, but its matching entry is missing. The purpose and limitations of trial-balance checking form part of the financial-accounting foundations covered in the CIMA Certificate in Business Accounting; see the CIMA Certificate in Business Accounting overview. For a concise explanation of how the trial balance tests equality of debit and credit balances, see OpenStax's trial balance guidance.

QUESTION NO: 4

Fraud will only be prevented successfully if potential fraudsters perceive the risk of detection as high.

Which THREE of the following are ways to prevent fraud?

A. Sufficient internal control systems

B. Computerized accounting systems

C. Continuous supervision of all employees

D. Regular reconciliations

E. Surprise audit visits

F. Maintaining books of prime entry

ANSWER: A D E

Explanation:

Sufficient internal control systems, regular reconciliations and surprise audit visits are effective fraud-prevention measures because they increase both the likelihood that irregular activity will be detected and the perceived likelihood of detection. A sufficient internal-control system establishes clear authorisation requirements, segregation of duties, reliable documentation, access restrictions and independent checks. These controls make it harder for one individual to initiate, conceal and complete a fraudulent transaction without intervention.

Regular reconciliations compare independent records, such as bank statements, supplier statements, inventory records and control accounts, and require differences to be investigated promptly. This creates a routine detective control that can reveal missing transactions, unauthorised payments or manipulated balances. Surprise audit visits are especially valuable because their timing is unpredictable. Potential fraudsters cannot readily alter records or conceal evidence in advance, strengthening the deterrent effect described in the question.

Together, these measures support a control environment in which transactions are subject to independent review and unusual items are likely to be followed up. The principles are consistent with the COSO Internal Control framework's emphasis on control activities and monitoring, and with the ACFE's fraud-prevention guidance. See COSO Internal Control guidance and ACFE fraud-prevention resources.

QUESTION NO: 5

The IASB's Framework for the Preparation and Presentation of Financial Statements identifies four possible measurement bases for use in financial statements

Which of the following are those bases?

A. historical cost, resale value, realizable value , present value

B. historical cost, current cost, realizable value, present value

C. historical cost, modified historical cost, realizable value, present value

D. historical cost, modified historical cost, realizable value, current cost

ANSWER: B

Explanation:

The correct measurement bases are historical cost, current cost, realisable value and present value. The Framework for the Preparation and Presentation of Financial Statements described these as the alternative bases that may be used, in differing combinations, in preparing financial statements. Historical cost measures an asset at the amount of cash or cash equivalents paid, or the fair value of the consideration given, when it was acquired. Current cost reflects the cash or cash equivalents that would currently be needed to acquire the same or an equivalent asset. Realisable value represents the amount obtainable by selling an asset in an orderly disposal, while present value measures an item using the discounted present value of its expected future net cash inflows or outflows. These bases support financial reporting by allowing amounts to reflect either original transaction prices, current replacement amounts, disposal amounts or discounted future cash flows, depending on the nature of the item and the reporting objective. The IASB's later Conceptual Framework develops and updates measurement concepts, but the four terms in the question are those stated in the earlier Framework. See the IFRS Conceptual Framework resource page and the Deloitte IAS Plus Framework summary.

QUESTION NO: 6

The Finance Director of EFG company has made the following statements regarding the recording of expenditure relating to the entity's property, plant and equipment (PPE) in the nominal ledger.

Which THREE of the following statements are true?

A. The annual depreciation charge reduces EFG's profit for the year.

B. The cost of insurance for the factory is debited to the PPE asset account.

C. The loss on the disposal of PPE reduces EFG's profit for the year

D. The cost of repainting the office is credited to the repairs expense account

E. The loss on the disposal of PPE is recorded in a liability account

F. The annual depreciation charge reduces the carrying value of PPE

ANSWER: A C F

Explanation:

The annual depreciation charge reduces EFG's profit for the year because depreciation is the systematic allocation of an asset's depreciable amount over its useful life. Each period's charge is recognised as an expense in profit or loss (unless it is included in the carrying amount of another asset in the limited circumstances permitted by the accounting standards). This recognises that the economic benefits embodied in PPE are consumed over time.

The annual depreciation charge reduces the carrying value of PPE because accumulated depreciation is deducted from the asset's cost when presenting its carrying amount. Thus, even where the cost ledger account itself is unchanged, recognising depreciation lowers the net amount at which PPE is reported in the statement of financial position.

The loss on the disposal of PPE reduces EFG's profit for the year because the gain or loss on disposal is calculated by comparing the net disposal proceeds with the asset's carrying amount at the disposal date. Where proceeds are lower than carrying amount, the resulting loss is recognised in profit or loss as an expense. IAS 16 requires derecognition of the asset on disposal and recognition of the resulting gain or loss in profit or loss. See IFRS Foundation: IAS 16 Property, Plant and Equipment and IAS 16 text.

QUESTION NO: 7

Accounting records should be kept by all businesses for many reasons.

Which THREE of the following are reasons for keeping accounting records?

A. Aids the efficient running of a business

B. Indicates how successfully managers are performing

C. To aid the application of bank loans

D. To reassure employees

E. Provides information about the resources and activities of a business

F. In case of potential takeovers

ANSWER: A B E

Explanation:

"Aids the efficient running of a business", "Indicates how successfully managers are performing", and "Provides information about the resources and activities of a business" are valid reasons for maintaining accounting records. Complete, orderly records provide the underlying data for routine management decisions, including monitoring cash, debts, costs, income and profitability. This enables a business to plan and control its operations efficiently rather than relying on incomplete or informal information.

Accounting information also supports performance assessment. Comparing actual results with budgets, prior periods or targets allows owners and senior management to assess how effectively managers have used the resources entrusted to them and whether operational objectives are being achieved. In addition, accounting records document the entity's assets, liabilities, income, expenses and transactions. They therefore provide a structured picture of the business's financial position, performance and activities for management and other users of financial statements. This reflects the CIMA BA3 focus on recording transactions and preparing information that is useful for decision-making. See the CIMA Certificate in Business Accounting and the IASB's Conceptual Framework for Financial Reporting.

QUESTION NO: 8

Which TWO of the following are treated as statutory deductions from an employee's gross salary?

A. Employer pension contributions D Income tax

B. Employee social club contributions

C. Employee pension contributions

D. Employer social security contributions

E. Income tax

F. Employee social security contributions

ANSWER: E F

Explanation:

Income tax and employee social security contributions are statutory deductions because legislation requires an employer to calculate and withhold them from an employee's gross pay through the payroll process. Income tax is deducted under the PAYE system, under which employers collect income tax due on employment income before paying the employee's net salary. Employee social security contributions, such as UK National Insurance contributions, are likewise calculated by reference to the employee's earnings and withheld from pay. The employer then pays the amounts deducted to the relevant tax authority, together with any employer liabilities that are due separately.

These items are distinguished from deductions that arise from an employee's personal choices or workplace arrangements. Statutory deductions are mandatory payroll withholdings: they reduce the amount paid to the employee but are not employment expenses borne by the employer. HMRC's PAYE guidance confirms that employers deduct tax and National Insurance from employees' pay, while its National Insurance guidance explains the separate employee contribution liability. See HMRC: PAYE for employers and HMRC: National Insurance rates and categories.

QUESTION NO: 9

Company X is a private limited oil company. Which of the following are relevant for

Company X's integrated report?

A. Risk of oil prices falling

B. Risk of share prices falling

C. Risk posed by competing oil companies and sustainable energy sources

D. Need for report to be concise

ANSWER: A C D

Explanation:

An integrated report explains how an organisation's strategy, governance, performance and prospects create, preserve or erode value over the short, medium and long term. For an oil company, the risk of oil prices falling is material because lower commodity prices can directly reduce revenue, margins, cash generation, asset values and the ability to fund future operations. It is therefore relevant to the company's business model, risks, outlook and financial capital.

The risk posed by competing oil companies and sustainable energy sources is also relevant. Competition may affect sales volumes and pricing, while the transition toward renewable and lower-carbon energy can influence demand for oil, regulation, capital expenditure requirements and the long-term resilience of the business model. These matters help users understand the company's strategic position and future prospects.

The need for report to be concise is relevant because conciseness is a guiding principle of integrated reporting. The report should communicate material information clearly and avoid unnecessary detail, while still showing meaningful links between matters such as risks, strategy, performance and outlook. The International Integrated Reporting Framework describes both the value-creation focus and the guiding principles, including conciseness: International Integrated Reporting Framework. Further integrated reporting resources are available from the IFRS Foundation.

QUESTION NO: 10

A company is preparing its accounts to 30 November. The latest gas bill received by the company was dated 30 September and included usage charges for the quarter 1 June to

31 August of $5,700 and a service charge of $1,200 for the quarter 1 October to 31

December. It is estimated that the gas bill for the following quarter will be a similar amount.

What will be the amount of the accrual shown in the accounts at 30 November 2006?

A. $5,300

B. $3,400

C. $3,800

D. $4,900

ANSWER: A

Explanation:

The accrual shown at 30 November is **$5,300**. The quarterly usage charge of $5,700 for 1 June to 31 August represents three months' gas consumption, or $1,900 per month. At 30 November, the company has used gas for September, October and November for which no usage bill has yet been received. The estimated usage cost accrued is therefore $1,900 × 3 months, giving $5,700.

The service charge is billed in advance: $1,200 covers 1 October to 31 December. By 30 November, two months of that charge, $800, relate to the current accounting period, while the remaining one month, $400, relates to December and is a prepayment. The $400 prepaid balance offsets the $5,700 outstanding usage cost when determining the net accrual balance presented for this gas account: $5,700 − $400 = $5,300.

This applies the accruals concept: expenses are recognised in the accounting period in which the related services or benefits are consumed, irrespective of when cash is paid or invoices are received. Amounts paid for a future period are carried forward as prepayments. See the IFRS Conceptual Framework's discussion of recognising expenses and liabilities at IFRS Foundation: Conceptual Framework for Financial Reporting and the CIMA Professional Qualification overview.

QUESTION NO: 11 - (SIMULATION)

Refer to the Exhibit.

The following information is available relating to the non-current assets of Company X:

Non-current assets that had originally cost $225,000 and had a carrying value of $105,000 were sold during the year.

The figure for purchases of non-current assets to be shown in the statement of cash flows will be, to the nearest $1,000:

ANSWER: See the explanation for the answer

Explanation:

A numerical purchases figure cannot be calculated from the information provided because the referenced Exhibit is not included.

The calculation required for the cash-flow-statement purchases of non-current assets is:

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Purchases = closing carrying amount - opening carrying amount + depreciation charge + carrying amount of assets sold
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As the assets sold had a carrying amount of **$105,000**:

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Purchases = closing carrying amount - opening carrying amount + depreciation charge + $105,000
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The Exhibit's opening and closing non-current-asset balances and depreciation expense are needed to produce the requested answer to the nearest $1,000.

QUESTION NO: 12

Which TWO of the following are characteristics of financial accounts?

A. They are produced from historic information

B. They include forecasted information.

C. They are used for internal decision making

D. They are produced monthly or quarterly.

E. They meet legal requirements

ANSWER: A E

Explanation:

"They are produced from historic information" is correct because financial accounts report the financial performance, financial position and cash flows of an entity for an accounting period that has already occurred. They are therefore based principally on recorded transactions and events, such as sales made, costs incurred, assets held and liabilities owed up to the reporting date. This historical reporting role enables external users to assess stewardship and evaluate the entity's past financial results. The IFRS Conceptual Framework explains that general-purpose financial reports provide information about an entity's economic resources, claims and changes in them, based on recognised accounting information: IFRS Conceptual Framework.

"They meet legal requirements" is also correct. Financial accounts are commonly prepared as statutory financial statements to comply with applicable company law and financial-reporting requirements. For example, companies within the UK legal framework must prepare annual accounts that give a true and fair view and comply with prescribed content and filing obligations. These requirements support accountability to shareholders, lenders, regulators and other external stakeholders. The relevant statutory framework is set out in the Companies Act 2006, Part 15. Consequently, historic information and legal compliance are key characteristics of financial accounts.

QUESTION NO: 13

Refer to the Exhibit.

Date:	Movement	Quantity
8 January	Purchases	300 units @ £2.90 each
20 January	Sales	250 units
7 February	Sales	200 units
26 February	Purchases	300 units @ £2.75 each
5 March	Sales	220 units

A company operates a FIFO system of inventory valuation. Opening inventory at the beginning of the period was 200 units @ £2.80 each. During the period the following movements of inventory were recorded.

The value of the closing inventory at the end of the period and amount charged to the income statement were:

A. Closing inventory £360.00 Income statement £2255.00

B. Closing inventory £360.00 Income statement £1895.00

C. Closing inventory £357.50 Income statement £1897.50

D. Closing inventory £360.00 Income statement £1695.00

ANSWER: C

Explanation:

Under the first-in, first-out method, inventory issued or sold is costed using the oldest units available first. Consequently, the units remaining at the period end are drawn from the most recent inventory purchases. Applying this sequence to the inventory movements in the exhibit gives a closing inventory valuation of £357.50. The total cost of inventory available for use during the period is £2,255.00. Deducting the FIFO closing-inventory value from this total gives the inventory expense charged to the income statement: £2,255.00 − £357.50 = £1,897.50.

This treatment reflects the normal cost-of-sales calculation: opening inventory plus purchases, less closing inventory. FIFO is an accepted cost formula for interchangeable inventories under IAS 2, which requires inventories to be measured using either FIFO or weighted average cost where appropriate. The calculation also ensures that the closing balance reported in the statement of financial position represents the cost of the unsold, most recently acquired units, while £1,897.50 represents the cost of inventory consumed or sold during the period. See IFRS: IAS 2 Inventories and AICPA & CIMA qualification resources.

QUESTION NO: 14

LMN's totals for its sales day book and its cash receipts book for the month ended 31 January 20X6 are as follows

Sales day book	Total	Sales tax	Net
January	$24,000	$4,000	$20,000

Cash book - receipts	Total	Sales ledger	Sales	Sales tax
January	$27,000	$15,000	$10,000	$2,000

What is the total value for sales that LMN will post to the sales account in the nominal ledger for January 20X6?

A. $51,000

B. $45,000

C. $36,000

D. $30,000

ANSWER: A

Explanation:

$51,000 is the value posted to the sales account because the nominal-ledger sales account must include all sales revenue for the period, whether customers bought on credit or paid immediately in cash. The sales day book provides the total credit sales of $36,000. The cash receipts book also records cash sales of $15,000, alongside receipts from credit customers; cash sales are revenue and therefore require a credit posting to the sales account. Adding the credit-sales total to the cash-sales total gives $36,000 + $15,000 = $51,000. Amounts received from credit customers settle outstanding receivables and are posted to the receivables control account rather than creating new sales revenue. This distinction is fundamental to double-entry bookkeeping: the books of prime entry summarise transactions before their relevant totals are posted to nominal-ledger accounts. The sales account consequently records the complete sales revenue generated during January, irrespective of the method by which the customer paid. See the overview of books of prime entry and ledger posting in OpenLearn’s accounting materials and the sales-revenue recognition principles in IFRS 15.

QUESTION NO: 15

Refer to the Exhibit.

	Debit		Credit	
A	Telephone expenses	$320	Accruals	$320
B	Accruals	$320	Telephone expenses	$320
C	Accruals	$720	Telephone expenses	$720
D	Telephone expenses	$640	Accruals	$640

A company is preparing its accounts to 30 April 2006. The latest telephone bill received by the company was dated 31 March and included call charges for the quarter 1 December to 28 February. The amount of the bill for call charges (excluding VAT) was $960. Most of the company's telephone bills are for similar amounts.

Which of the following journal entries should be made to the company's accounts at 30

April 2006?

The journal entries which should be made to the company's accounts at 30 April 2006 is

A. A

B. B

C. C

D. Debit telephone expenses $640; credit accrued expenses $640.

ANSWER: D

Explanation:

The correct year-end adjustment is to debit telephone expenses with $640 and credit accrued expenses (or telephone accruals) with $640. The latest bill covers three months, from 1 December to 28 February, and therefore indicates a regular monthly call-charge cost of $320 ($960 ÷ 3). Although no invoice has yet been received for the two months after 28 February, the company has used telephone services during March and April. Those costs total $640 and relate to the accounting period ending on 30 April.

Under accrual accounting, expenses are recognised in the period in which the related service is consumed, rather than only when a supplier invoice is received or paid. Recording telephone expense ensures that the statement of profit or loss includes the cost of calls made up to the reporting date. Crediting an accrual recognises the corresponding present obligation for services already received but not yet billed. The amount excludes VAT because recoverable input VAT is not part of the telephone expense. This treatment is consistent with the accrual basis described in the IFRS Conceptual

Framework and IAS 1's requirement to prepare financial statements using accrual accounting, except for cash-flow information. See the [IFRS Conceptual Framework] and [IAS 1].

QUESTION NO: 16

A company uses the straight line method of depreciation.

Which TWO of the following are a possible explanation for a profit on disposal?

A. The actual useful life was less than estimated

B. The actual useful life was more than estimated

C. The estimated residual value was lower than actual

D. The estimated residual value was higher than actual

ANSWER: B C

Explanation:

A profit on disposal arises when an asset's disposal proceeds exceed its carrying amount at the date of sale. Under straight-line depreciation, the depreciable amount is allocated evenly over the asset's estimated useful life, after allowing for its estimated residual value. If the actual useful life is more than estimated, the original depreciation charge will have been calculated over too short a period. This causes accumulated depreciation to be higher, and the carrying amount at disposal to be lower, than would have been appropriate using the actual life. Disposal proceeds can therefore exceed that lower carrying amount.

If the estimated residual value was lower than actual, the company will have expected to recover less at the end of the asset's use than it actually does. The asset may consequently be sold for proceeds greater than its estimated residual value and, provided those proceeds exceed its carrying amount, a profit results. IAS 16 requires depreciation to reflect the asset's useful life and residual value, and requires the gain or loss on derecognition to be calculated as the difference between net disposal proceeds and carrying amount. See [IFRS Foundation: IAS 16 Property, Plant and Equipment] and [IAS 16 standard text].

QUESTION NO: 17

Which of the following represent liabilities of a business?

A. Accruals, bank overdraft & receivables

B. Profit, discount allowed & payables

C. Loan stock(debentures), provisions & accruals

D. Share capital, provisions & discount received

ANSWER: C

Explanation:

Loan stock(debentures), provisions & accruals is correct because each item represents a present obligation of the business that will normally require settlement through an outflow of economic resources. Loan stock, often called debentures, is borrowing from lenders and is reported as a liability until it is repaid. Depending on its repayment terms, it is classified as current or non-current in the statement of financial position.

A provision is recognised when the entity has a present legal or constructive obligation arising from a past event, an outflow of resources is probable, and a reliable estimate can be made. Although the precise amount or timing may be uncertain, the obligation still meets the definition of a liability. Accruals arise where goods or services have been received by the reporting date but the related expense has not yet been paid or invoiced. The business has incurred an obligation to pay, so an accrued expense is a liability.

This treatment is consistent with the IFRS Conceptual Framework definition of a liability as a present obligation to transfer an economic resource as a result of past events. See the IFRS Conceptual Framework and IAS 37 guidance on provisions.

QUESTION NO: 18

An entity decides to revalue its freehold property during the current period creating a revaluation surplus.

Where in the current period financial statements would the revaluation surplus appear?

A. Statement of financial position and statement of changes in equity

B. Statement of changes in equity and statement of cash flow

C. Statement of financial position and income statement

D. Statement of changes in equity and income statement

ANSWER: A

Explanation:

Statement of financial position and statement of changes in equity is correct. Under IAS 16, when an item of property, plant and equipment is revalued upwards, the increase is normally recognised in other comprehensive income and accumulated in equity under the heading of a revaluation surplus. The surplus is therefore a component of the entity's equity at the reporting date, so it appears in the statement of financial position within the equity section. It is not a liability or income generated from ordinary trading activities.

The current-period movement in that equity reserve must also be presented in the statement of changes in equity. This statement reconciles each class of equity from the opening balance to the closing balance and shows changes arising from items recognised in other comprehensive income, including a revaluation gain. Accordingly, users can see both the closing revaluation-surplus balance in the statement of financial position and how that balance arose or changed during the period in the statement of changes in equity. IAS 16 sets out the treatment of revaluation increases, while IAS 1 requires presentation of changes in each component of equity. See IAS 16—Property, Plant and Equipment and IAS 1—Presentation of Financial Statements.

QUESTION NO: 19

A business has come to you for advice. There are about to start trading and want to ensure that they keep appropriate accounting records that will grow with their business, save time and produce useful information. They have already established books of prime entry.

Which of the following would you also suggest they use?

A. Accounting codes

B. Same staff for all books of prime entry

C. Letterhead stationary

D. Cash transactions only

ANSWER: A

Explanation:

Accounting codes are correct because they provide a consistent structure for recording, classifying and retrieving accounting transactions as the business expands. Books of prime entry capture transactions initially, such as sales, purchases, cash receipts and cash payments. A coding system then helps ensure that these entries are posted to the appropriate ledger accounts and grouped into meaningful categories, for example by income type, expense type, asset, liability, customer or supplier.

Using codes saves time because staff do not have to rely on inconsistent narrative descriptions when processing recurring transactions. It also improves the usefulness of accounting information: management can analyse balances and reports by category, compare performance over time, identify trends, and prepare financial statements more efficiently. A well-designed chart of accounts can be expanded by adding further codes when new products, departments, locations or transaction types arise, without changing the underlying record-keeping process. This supports the business's stated need for records that are scalable as well as practical from the start. The importance of keeping adequate accounting records is reflected in UK statutory requirements; see Companies Act 2006, section 386. For an overview of the role of ledgers and a chart of accounts in the accounting system, see AccountingCoach: Chart of Accounts.

QUESTION NO: 20

Which of the following is an error of principle?

A. Using the wrong amount when recording a transaction

B. Recording a transaction in the wrong type of account

C. A transaction recorded twice in the ledger accounts

D. Recording a transaction in the wrong ledger account

ANSWER: B

Explanation:

Recording a transaction in the wrong type of account is an error of principle because it breaches the fundamental accounting distinction between classes of expenditure, income, assets, liabilities, and equity. This error occurs when the transaction is entered using an inappropriate accounting treatment, rather than merely being posted to an incorrect individual account within the appropriate class. A typical example is treating capital expenditure, such as the cost of acquiring a non-current asset, as revenue expenditure in an expense account; the entry may still contain equal debit and credit totals, but the financial statements will classify and measure the item incorrectly.

This distinction matters because financial statements must present transactions according to their economic nature. The IFRS Conceptual Framework explains that information is useful when it faithfully represents the economic phenomena it purports to represent, including appropriate classification. Correctly identifying the type of account is therefore central to applying accounting principles and preparing reliable financial information. Errors of principle can also leave the trial balance in agreement, since double-entry bookkeeping may have been applied correctly in numerical terms despite the incorrect accounting classification. See the IFRS Conceptual Framework for Financial Reporting and CIMA's Professional Qualification overview.

QUESTION NO: 21

Non-current assets can be divided between intangible and tangible assets.

Which THREE of the following are intangible assets?

A. Research and development

B. Buildings

C. Plant

D. Goodwill

E. Patent

F. Land

ANSWER: A D E

Explanation:

Research and development, goodwill and a patent are intangible assets because their value arises from identifiable rights, knowledge, commercial advantages or expected future economic benefits rather than from physical substance. For financial-reporting purposes, development expenditure may be recognised as an intangible asset when the relevant recognition criteria are met, including technical feasibility, an intention and ability to complete and use or sell the asset, and probable future economic benefits. Research expenditure itself is normally charged as an expense when incurred; however, in introductory classifications, “research and development” commonly denotes the intangible category containing capitalised qualifying development costs.

Goodwill represents the future economic benefits arising from assets acquired in a business combination that cannot be individually identified and separately recognised. It is therefore an intangible asset, although it is recognised only when purchased through such an acquisition, rather than when internally generated. A patent is an identifiable legal right that gives its holder control over use of an invention and can generate economic benefits over its useful life. IAS 38 describes intangible assets as identifiable non-monetary assets without physical substance and sets the recognition requirements for development costs and patents. See IAS 38 Intangible Assets and IFRS 3 Business Combinations.

QUESTION NO: 22

Which THREE of the following items would be classified as "capital transactions"?

A. Purchase of raw materials

B. Repayment of bank loan

C. Electricity consumed in the period

D. Purchase of a small commercial vehicle

E. Drawings

F. Sales on credit to customers

ANSWER: B D E

Explanation:

Capital transactions are entries that affect the long-term financing of the business, its non-current assets, or the owner’s equity, rather than representing income or expenditure from ordinary trading activities in the current period. **Repayment of bank loan** is a capital transaction because it reduces a long-term liability and changes the business’s financing position. The repayment of the loan principal is not an operating expense; it is a settlement of capital borrowed.

Purchase of a small commercial vehicle is capital expenditure because the vehicle is acquired for ongoing use in the business over more than one accounting period. It is therefore recognised initially as a non-current asset. This follows the general recognition principle that an asset is a present economic resource controlled by the entity as a result of past events.

Drawings are also capital transactions because they reduce the proprietor’s equity in the business. They are distributions or withdrawals by the owner, rather than costs incurred in generating revenue. The accounting equation shows why both drawings and loan repayment affect the financing side of the statement of financial position: assets equal liabilities plus equity. Further conceptual guidance on assets, liabilities and equity is available in the IFRS Conceptual Framework and the ACCA overview of assets and liabilities.

QUESTION NO: 23

FY owns bakery T. Which of the following are examples of FY's liabilities?

A. Standing order with flour supplier

B. Mortgage on bakery shop

C. Regular bread order fulfilled for local school

D. Shop building itself

E. Business loan

F. Ovens

ANSWER: B E

Explanation:

A liability is a present obligation of the business to transfer an economic resource because of a past event. A mortgage on the bakery shop is a liability because it represents an outstanding obligation to the lender, normally repaid over an agreed period with interest. The bakery property may secure the borrowing, but the obligation to repay the finance is the liability reported by the business.

A business loan is likewise a liability because FY has received finance and has a present obligation to repay the lender under the loan terms. Depending on when repayments fall due, amounts may be presented as current liabilities or non-current liabilities, but both remain liabilities until settled, discharged, or otherwise extinguished. These borrowings are recorded separately from the assets acquired or pledged in connection with them, ensuring that the statement of financial position shows both resources controlled and obligations owed.

This treatment follows the IFRS Conceptual Framework's definition of a liability as a present obligation to transfer an economic resource arising from past events. See the IFRS Conceptual Framework and the IFRS guidance on financial instruments.

QUESTION NO: 24

Which THREE of the following are examples of source documents used in an accounting system?

A. Sales invoice

B. Goods received note

C. Sales ledger

D. Bank statement

E. Trial balance

ANSWER: A B D

Explanation:

A sales invoice, a goods received note and a bank statement are source documents. A sales invoice provides evidence of a sale made to a customer. A goods received note confirms the quantity and nature of goods received from a supplier. A bank statement provides independent evidence of payments and receipts processed through the bank account.

A sales ledger and a trial balance are accounting records produced after transactions have been entered into the system; they are not original evidence of individual transactions. Source documents support the audit trail by enabling entries in the books of prime entry and ledgers to be checked against underlying transaction evidence. See UK government guidance on digital record keeping and audit trails.

QUESTION NO: 25

Refer to the Exhibit.

Bank			
	$		$
Bank interest received	28	Electricity	120
Cash sales banked	1,050	Rent	500
		Wages	400
		Purchases	700
c/d	163		

Which of the following would be shown in the trial balance for the bank ledger account?

A. $20 Debit

B. $1,070 Debit

C. $20 Credit

D. $1,070 Credit

ANSWER: A

Explanation:

$20 Debit is the balance to include in the trial balance. A trial balance reports the closing balance of each ledger account, rather than the total of all debit entries or the total of all credit entries recorded during the period. For the bank ledger account in the exhibit, the debit side exceeds the credit side by $20 after the entries have been totalled. The balancing figure is therefore a debit balance of $20. This reflects the normal accounting treatment for a positive bank balance: cash held at the bank is an asset, and assets normally carry debit balances. The account is balanced off at the period end using the difference between its two sides; that difference is then brought down as the opening balance for the next period and is listed in the debit column of the trial balance. Preparing and extracting balances from ledger accounts is a core part of recording transactions using double-entry bookkeeping and checking the arithmetical agreement of ledger postings. See CIMA's qualification resources at AICPA & CIMA qualification information and the IFRS Foundation's Conceptual Framework for the definition and recognition context of assets.

QUESTION NO: 26 - (HOTSPOT)

HOTSPOT

In which section of the statement of cash flow would cash from share issues be included?

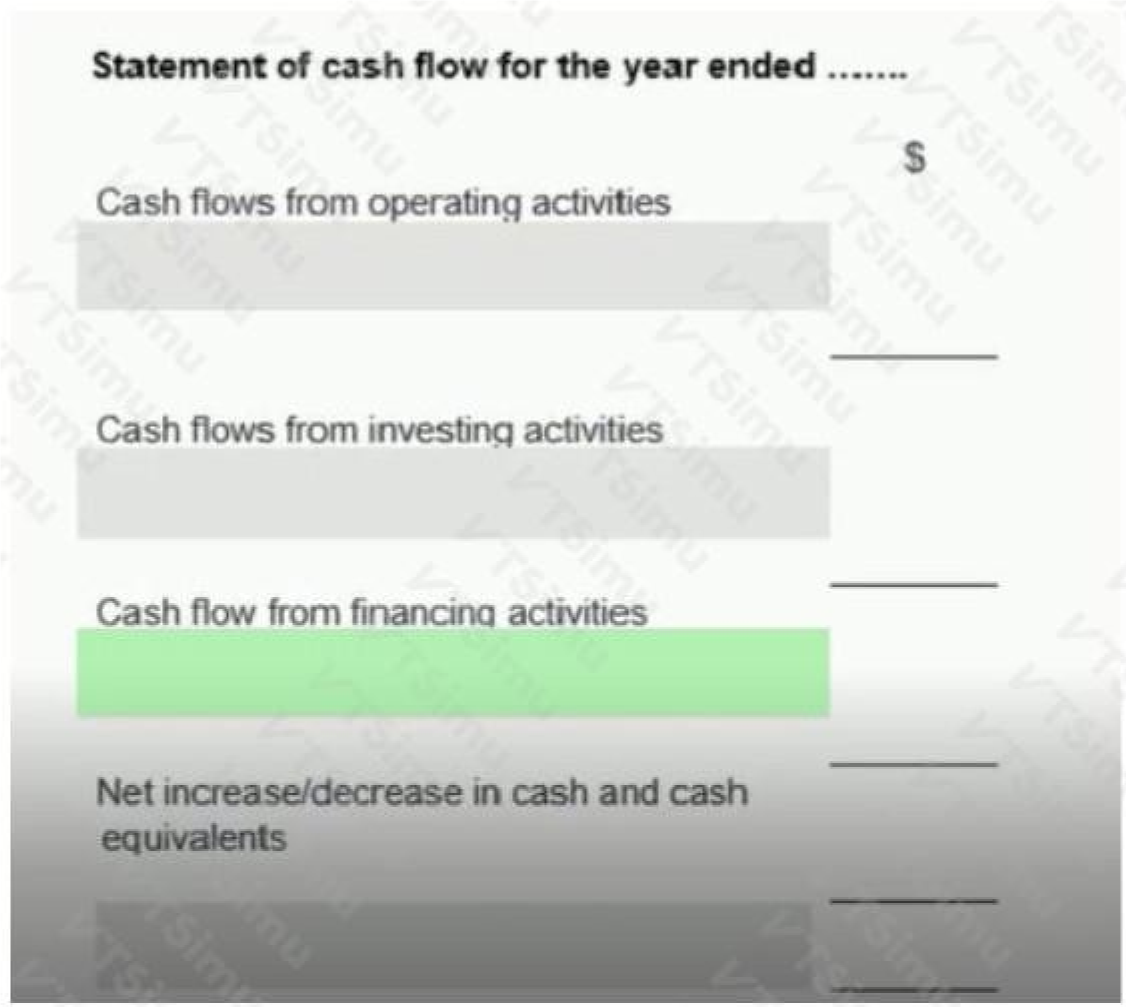
Select one of the following

Statement of cash How for the year ended.......

Statement of cash flow for the year ended ....

	$
Cash flows from operating activities	
	______
Cash flows from investing activities	
	______
Cash flow from financing activities	
	______
Net increase/decrease in cash and cash equivalents	
	______
	______

ANSWER:



Explanation:

Cash received from issuing shares belongs in the cash flows from financing activities section. A share issue brings new funds into the business from its owners or investors in exchange for an ownership interest. This changes the company's equity financing and is therefore classified as a financing cash flow in the statement of cash flows. The classification focuses on the nature of the transaction: the business is obtaining capital from providers of equity, rather than generating cash through its ordinary trading activities or from buying and selling long-term resources.

Under IAS 7, financing activities are activities that result in changes in the size and composition of contributed equity and borrowings. The proceeds received on issuing ordinary shares, preference shares that are classified as equity, or other equity instruments meet this definition because they increase contributed equity. Consequently, the full cash receipt from the issue is reported in the financing section for the period in which the cash is received. This presentation helps users identify how the entity has funded itself and distinguish owner-provided capital from cash generated internally. IAS 7's treatment of financing activities can be viewed in the IFRS Foundation's IAS 7 overview. Therefore, the correct hotspot is the entry area immediately beneath "Cash flow from financing activities."

QUESTION NO: 27

Which THREE of the following internal controls are procedures to help detect errors?

A. Spot checks

B. Segregation of duties

C. Authorization procedures

D. Safeguarding assets

E. Comparison of records with external evidence

F. Reconciliations

ANSWER: A E F

Explanation:

Spot checks, comparison of records with external evidence, and reconciliations are detective controls because they identify errors after transactions have been processed or recorded. Spot checks involve independently examining a sample of transactions, documents, or assets to uncover discrepancies or departures from required procedures. Comparison of records with external evidence tests internally maintained accounting information against independent evidence, such as supplier statements, bank documentation, or customer confirmations; this can reveal omissions, inaccurate amounts, and recording errors. Reconciliations compare two related but independently prepared records, such as a bank statement and the cash book, and require differences to be investigated and resolved. Together, these procedures provide evidence that accounting records are complete and accurate, while highlighting items that need correction. This reflects the internal-control principle that ongoing and separate evaluations should be used to identify and communicate control deficiencies. The COSO Internal Control—Integrated Framework describes monitoring activities as evaluations used to determine whether internal controls are present and functioning, while the CIMA BA3 subject covers accounting systems and the controls supporting reliable financial information. See COSO guidance on internal control and CIMA Certificate BA3 course information.

QUESTION NO: 28

After calculating your company's profit for the year, you discover that:

(a) A non-current asset costing £2,000 has been included in the purchases account; the asset has not been included in the closing inventory figure; nor has it been depreciated by the normal 25% per annum

(b) Closing inventory of raw materials, costing £500, have been treated as closing inventory of stationery.

These two errors have had the effect of.

A. Understating gross profit by £2,500 and understating net profit by £1,500

B. Understating both gross profit and net profit by £2,500

C. Understating gross profit by £2,000 and understating net profit by £2,500

D. Understating both gross profit and net profit by £1,500

ANSWER: A

Explanation:

Understating gross profit by £2,500 and understating net profit by £1,500 is correct. Recording the £2,000 non-current asset in purchases makes cost of sales £2,000 too high. This directly understates gross profit by £2,000. The asset should instead have been capitalised and depreciated at 25%, producing a £500 depreciation charge for the year. Since no depreciation was recorded, expenses after gross profit are £500 too low. Therefore, the net-profit effect of this error is an understatement of £2,000 less the omitted £500 depreciation, or £1,500.

The £500 raw-material inventory has been recognised as stationery inventory. It is therefore excluded from the closing raw-material inventory used in calculating cost of sales, causing cost of sales to be £500 too high and gross profit to be £500 too low. However, treating the same amount as closing stationery inventory correspondingly reduces stationery expense by £500. The effects below gross profit offset each other, so this classification error has no overall effect on net profit. Combining the errors gives a £2,500 understatement of gross profit (£2,000 + £500) and a £1,500 understatement of net profit. IAS 2 explains that inventories are measured and recognised in determining expense when sold or consumed; IAS 16 requires depreciation of depreciable assets over their useful lives. See IAS 2 Inventories and IAS 16 Property, Plant and Equipment.

QUESTION NO: 29

Which TWO of the following statements are correct?

A. Ordinary shares carry compulsory dividends

B. Ordinary shares carry voting rights

C. Preference shares carry voting rights

D. Preference shares are the lowest priority when winding up

E. Preference shares usually carry a fixed dividend

ANSWER: B E

Explanation:

“Ordinary shares carry voting rights” is correct because ordinary shareholders are the residual owners of a company and normally participate in decisions reserved for members, such as appointing directors or approving significant resolutions. In UK company law, voting rights attach to shares according to the rights set out in the company’s constitution, and ordinary shares conventionally provide their holders with votes at general meetings. The statutory framework for members’ voting rights is set out in the Companies Act 2006, section 284.

“Preference shares usually carry a fixed dividend” is also correct. Preference shares are a class of share designed to give their holders preferential economic rights, commonly a stated dividend calculated at a fixed percentage of the share’s nominal value. This preference generally applies before any dividend is distributed to ordinary shareholders, subject to the company having distributable profits and to the specific terms attached to that share class. The exact rights, including whether the dividend is cumulative and the circumstances in which voting rights arise, are determined by the company’s articles of association or the share issue terms. GOV.UK notes that companies can create different share classes with different rights, including dividend rights, in its guidance on company shares.

QUESTION NO: 30

Refer to the Exhibit.

(i)	Cash book
(ii)	Journal
(iii)	Sales ledger
(iv)	Sales day book
(v)	Purchase ledger
(vi)	Nominal Ledger

Which of the following are books of prime entry?

A. (ii), (iii) and (iv)

B. (i), (ii), (iv) and (v)

C. (ii), (v) and (vi)

D. (i), (ii), (iv) and (vi)

ANSWER: D

Explanation:

(i), (ii), (iv) and (vi) is correct. Books of prime entry, also called books of original entry, are the accounting records in which transactions are initially recorded from source documents before the information is posted to the relevant ledger accounts. Their purpose is to capture transactions in chronological order and provide an organised audit trail from documents such as invoices, credit notes and receipts into the double-entry accounting system.

The items identified as (i), (ii), (iv) and (vi) in the exhibit are the records used at this initial recording stage. They therefore meet the defining feature of a book of prime entry: they are not simply accounts that hold accumulated balances, but records that first classify and summarise transactions for later posting. In practice, prime-entry records commonly include day books for credit transactions, the cash book, and the journal, depending on the type of transaction being recorded.

This distinction is central to the financial-accounting skills covered in CIMA's BA3 syllabus, including recording transactions and using books of prime entry before ledger posting. See the CIMA BA3 Fundamentals of Financial Accounting syllabus and the ACCA overview of books of prime entry.

QUESTION NO: 31

A trial balance should be extracted from the ledger accounts prior to preparing the final accounts because:

A. It confirms the arithmetical accuracy of the entries made in the ledger accounts

B. It proves that the entries made in the ledger accounts are all correct

C. It provides a summary of assets and liabilities

D. It shows where errors have been made

ANSWER: A

Explanation:

"It confirms the arithmetical accuracy of the entries made in the ledger accounts" is correct because a trial balance is a list of the closing debit and credit balances taken from every ledger account. Under double-entry bookkeeping, the total value posted as debits must equal the total value posted as credits. Adding the debit-column balances and credit-column balances in the trial balance therefore provides an arithmetical check that the ledger has been balanced and that the double-entry totals agree before the final accounts are prepared.

This check is important at the end of an accounting period because the balances in the trial balance are the starting point for preparing the statement of profit or loss and statement of financial position, after making any required adjustments. The trial balance is consequently a control step: agreement of its two totals gives reasonable confirmation of the numerical casting and balancing of the ledger records. This is the standard purpose described in introductory financial-accounting materials, including OpenStax's explanation of double-entry accounting and the AccountingCoach overview of accounting basics.

QUESTION NO: 32

Which THREE of the following are subsidiary bodies of the IFRS Foundation?

A. International Accounting Standards Board

B. IFRS Advisory Council

C. International Advisory Committee

D. IFRS Interpretations Committee

E. International Advisory Standards Board

F. Advisory Interpretations Committee

ANSWER: A B D

Explanation:

The IFRS Foundation is the not-for-profit organisation responsible for developing a single set of high-quality global accounting standards. Its formal standard-setting and advisory structure includes the International Accounting Standards Board, the IFRS Advisory Council, and the IFRS Interpretations Committee. The International Accounting Standards Board develops and issues IFRS Accounting Standards. It also publishes exposure drafts and undertakes technical projects through an open due-process framework. The IFRS Advisory Council provides strategic advice and a broad range of perspectives to the IFRS Foundation Trustees and the International Accounting Standards Board, including advice on agenda priorities. The IFRS Interpretations Committee supports consistent application of IFRS Accounting Standards internationally. It responds to application questions by issuing agenda decisions and, where necessary, recommending narrow-scope standard-setting amendments to the International Accounting Standards Board. These bodies each have defined roles within the Foundation's governance and standard-setting framework, helping ensure that IFRS requirements are developed transparently, informed by stakeholder input, and applied consistently across jurisdictions. The IFRS Foundation's official description of its structure is available at https://www.ifrs.org/about-us/. Further information about the standard-setting process and the roles of these bodies is available at https://www.ifrs.org/content/dam/ifrs/about-us/who-we-are/ifrs-foundation-constitution.pdf.

QUESTION NO: 33

If the royalty cost falls on items used in the manufacturing process, which TWO of the following would be true?

A. Prime cost increases

B. Factory cost of production reduces.

C. Factory cost of goods completed remains the same

D. Factory cost of production increases

E. Prime cost reduces

ANSWER: A D

Explanation:

"Prime cost increases" and "Factory cost of production increases" are correct because a royalty that is incurred in relation to materials or items used in manufacturing is a production-related direct expense. Prime cost comprises direct material, direct labour and direct expenses. Where the royalty can be specifically associated with the units or materials used to make the product, it is treated as a direct expense and is therefore added to direct material and direct labour in calculating prime cost.

Factory cost of production includes all costs incurred in making goods: prime cost plus production overheads. Since the royalty is included within the manufacturing cost of the items being produced, it also increases the factory cost of production. This is consistent with the cost-accounting principle that directly attributable costs of converting materials into finished goods form part of inventory/manufacturing cost. The IAS 2 inventory-cost principle similarly includes costs of purchase, conversion and other costs incurred in bringing inventory to its present location and condition; see IFRS IAS 2—Inventories. For a practical discussion of the distinction between direct costs and overheads in product costing, see OpenStax: Product costs under job-order costing.

QUESTION NO: 34

Which THREE of the following are intrinsic elements of intangible assets?

A. Without physical substance

B. A resource controlled by an entity

C. Is having its cost depreciated

D. Has future economic benefits

E. Has been in the entity's possession for at least one year

ANSWER: A B D

Explanation:

An intangible asset is an identifiable non-monetary asset that has no physical substance. Its lack of physical form is therefore a defining characteristic: examples can include software, patents, licences and brands. For an item to qualify as an asset in financial reporting, the entity must control the underlying resource. Control means that the entity can obtain the economic benefits arising from it and can restrict other parties' access to those benefits, normally through legal rights or other enforceable means. The resource must also have the potential to generate future economic benefits, such as revenue from sales, cost savings, or income from licensing its use.

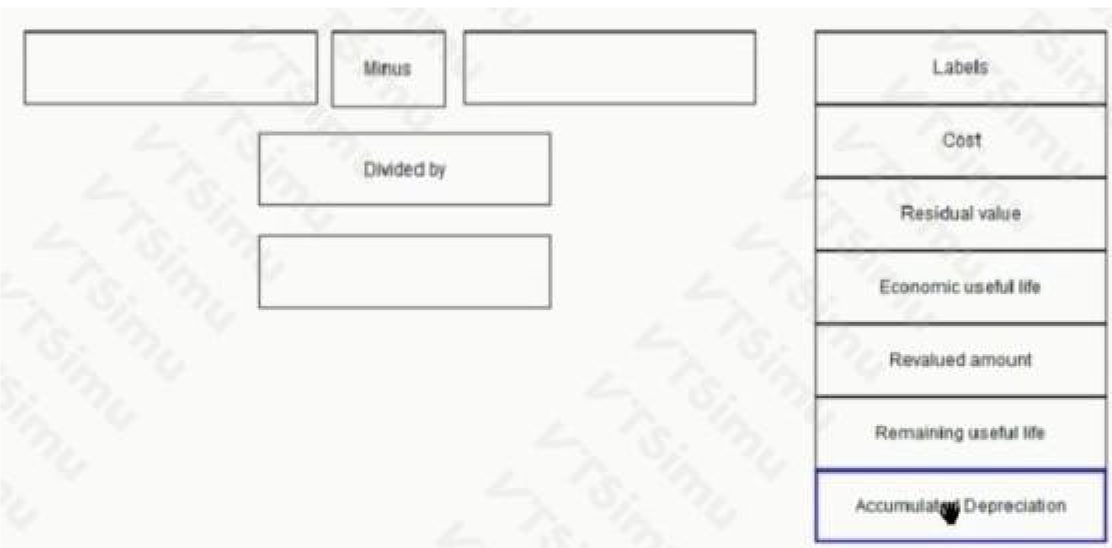
Accordingly, "Without physical substance", "A resource controlled by an entity", and "Has future economic benefits" express the core features needed when considering whether an item is an intangible asset. These features are consistent with the definition and recognition approach in IAS 38 and with the IFRS Conceptual Framework's definition of an asset. Recognition in the statement of financial position additionally depends on applicable recognition and measurement requirements, including whether cost can be measured reliably. See the IFRS IAS 38 Intangible Assets standard page and the IFRS Conceptual Framework page.

QUESTION NO: 35 - (DRAG DROP)

DRAG DROP

Complete the formula for depreciation of a revalued asset.

Place the relevant labels in the correct positions below.



ANSWER:

Explanation:

Depreciation is the systematic allocation of the depreciable amount of an asset over the period during which the entity expects to use it. For an asset that has been revalued, the starting point for subsequent depreciation is the revalued amount rather than its original historical cost. The revaluation updates the asset's carrying amount to reflect its value at the revaluation date, so that updated amount is the figure from which the residual value is deducted.

The residual value remains relevant because it represents the estimated amount the entity expects to obtain from disposal at the end of the asset's useful life, after allowing for expected disposal costs. Depreciation should only allocate the amount expected to be consumed through use, which is the revalued amount less residual value. This produces the depreciable amount after revaluation.

The resulting depreciable amount must then be spread over the remaining useful life, not the original economic useful life. At the date of revaluation, part of the asset's useful life may already have been used. Depreciation after that date is therefore calculated over the period the asset is still expected to be available for use. This treatment reflects the requirements of IAS 16, which states that depreciation is recognised over an asset's useful life and that, following revaluation, depreciation is based on the revalued amount. See IAS 16 Property, Plant and Equipment.

QUESTION NO: 36

A company purchases a piece of machinery for $180,000. It is estimated that the machinery will produce 450,000 units over its useful life of 10 years. The residual value at the end of 10 years is nil. After eight years, the machine has produced 340,000 units and is sold for $30,000.

The profit/loss arising on disposal of the asset is

A. $6,000 loss

B. $14,000 loss

C. $14,000 profit

D. $6,000 profit

ANSWER: B

Explanation:

$14,000 loss is correct because depreciation is calculated using the units-of-production basis. This method allocates the depreciable amount according to actual output rather than simply according to the number of years the machine has been owned. The depreciable amount is $180,000 because the machinery cost is $180,000 and its estimated residual value is nil. With expected lifetime production of 450,000 units, depreciation is $0.40 per unit ($180,000 ÷ 450,000 units).

By the date of sale, actual production is 340,000 units. Accumulated depreciation is therefore $136,000 (340,000 × $0.40). The carrying amount immediately before disposal is $44,000, calculated as original cost of $180,000 less accumulated depreciation of $136,000. Disposal proceeds are $30,000, so the company receives $14,000 less than the asset's carrying amount. The resulting disposal loss is $14,000 ($44,000 − $30,000).

This follows the IAS 16 principle that an item of property, plant and equipment is derecognised on disposal and that the resulting gain or loss is determined by comparing net disposal proceeds with its carrying amount. See IFRS Foundation: IAS 16 Property, Plant and Equipment and UK-adopted IAS 16 text.

QUESTION NO: 37

Refer to the Exhibit.

	Income	Liability
a)	Increase	Increase
b)	Decrease	Decrease
c)	Increase	Decrease
d)	Decrease	Increase

A business banks its takings for the week. The bank account at the start of the week shows an overdraft

Which of the following is the dual effect?

A. A

B. B

C. C

D. D

ANSWER: C

Explanation:

Banking the week's takings transfers value from cash held by the business to its bank account. The cash account is credited because the physical cash balance decreases. Although a bank account would normally be an asset, the stated opening overdraft means that the bank account has a credit balance and represents a liability at that point. Entering the banking therefore debits the bank account, reducing the overdraft liability. The dual effect is consequently a debit to bank and a credit to cash. This preserves double-entry equality: both the cash asset and the overdraft liability decrease by the same amount, so net assets remain unchanged. This treatment follows the CIMA BA3 focus on recording transactions through debit and credit entries and recognising the substance of balances rather than simply relying on an account's name. The CIMA Certificate in Business Accounting syllabus includes the financial-accounting principles assessed in BA3; see AICPA & CIMA's Certificate in Business Accounting information. For a concise explanation of how debits and credits operate in double-entry bookkeeping, see OpenStax's accounting-equation guidance.

QUESTION NO: 38

At the end of the year, the non-current asset register showed assets with a net book value of £170,300. The non-current asset accounts in the nominal ledger showed a net book value of £150,300.

The difference could be due to a disposed asset not having been removed from the non-current asset register, which had.

A. Disposal proceeds of £25,000 and a profit on disposal of £5,000

B. Disposal proceeds of £25,000 and a net book value of £5,000

C. Disposal proceeds of £25,000 and a loss on disposal of £5,000

D. Disposal proceeds of £10,000 and a net book value of £10,000

ANSWER: A

Explanation:

"Disposal proceeds of £25,000 and a profit on disposal of £5,000" is correct because the non-current asset register exceeds the nominal-ledger balance by £20,000 (£170,300 − £150,300). Where an asset has been disposed of and correctly removed from the ledger but remains in the register, the excess in the register represents that asset's net book value at disposal.

The profit on disposal is calculated as disposal proceeds less the asset's net book value. Therefore, the net book value can be derived as £25,000 proceeds less a £5,000 profit, giving £20,000. This exactly reconciles the difference between the two records. The register would still include the disposed asset at its £20,000 carrying amount, while the nominal ledger would have removed that amount through the disposal accounting entries.

Maintaining agreement between the fixed-asset register and general ledger is an important control: disposal records should ensure the asset's cost and accumulated depreciation are removed and that the resulting carrying amount is used to calculate the gain or loss. This treatment follows the principle that an asset is derecognised on disposal, with any resulting gain or loss recognised in profit or loss. See [IAS 16—Property, Plant and Equipment] and [UK accounting standards guidance].

QUESTION NO: 39

Refer to the Exhibit.

Option	Asset 1	Asset 2	Asset 3
A	Straight line	Mileage travelled	Reducing balance
B	Quantity produced	Reducing balance	Straight line
C	Quantity produced	Mileage travelled	Straight line
D	Quantity produced	Mileage travelled	Reducing balance

A business has three non-current assets.

(i) Asset 1 will be used to manufacture components over a 4 year period, after which it will be scrapped; the total contract is for 1 million components, to be produced in different quantities each year.

(ii) Asset 2 is a motor car for a director; it is expected to be kept for 3 years, and will travel 20,000 miles each year.

(iii) Asset 3 is a mobile truck used for transporting goods around the factory; it is expected to be kept for 20 years.

Which one of the following combinations of depreciation methods, would be most reasonable for the above three assets?

The answer is:

A. Option A

B. Option B

C. Option C

D. Option D

E. Asset 1: units-of-production method; Asset 2: mileage (usage) method; Asset 3: straight-line method.

ANSWER: E

Explanation:

The appropriate combination is "Asset 1: units-of-production method; Asset 2: mileage (usage) method; Asset 3: straight-line method." Depreciation should reflect the pattern in which an asset's future economic benefits are expected to be consumed. Asset 1's benefit is directly linked to the number of components made, and production varies between years. A units-of-production basis therefore allocates its depreciable amount according to actual output, using the expected total output of one million components over the contract term. For the director's car, mileage is an objective measure of use and consumption. Applying a charge per mile reflects the economic benefit obtained from the vehicle as it travels; because expected annual mileage is constant, the resulting annual charge will also be consistent. The mobile truck is expected to be retained for a long, defined period and is used continuously for internal transport. Where no evidence suggests that its benefit is consumed more heavily in particular years, a straight-line charge is a reasonable systematic allocation over its useful life. IAS 16 requires the depreciation method to reflect the expected pattern of consumption and to be reviewed at least annually. See [IFRS IAS 16 overview] and [UK-adopted IAS 16].

QUESTION NO: 40

Office equipment store Officework Ltd has made the following purchase from supplier GX:

50 printers costing £3,500 £6,400

worth ofA4 paper £101,500

worth of general stationary

This purchase has been made on credit. Which TWO of the following show how the transaction should be recorded in Officework Ltd's documents?

A. £111,400 debit to payables

B. £111,400 debit to purchases

C. £111,400 credit to purchases

D. £111,400 credit to payables

E. £111,400 credit to stock

F. £111,400 debit to stock

G. £111,400 credit to receivables

ANSWER: B D

Explanation:

The total credit purchase is £111,400, calculated as £3,500 + £6,400 + £101,500. As Officework Ltd is an office-equipment store, the printers, paper and stationery are goods acquired for resale. In the bookkeeping approach tested in BA3, the total is therefore recorded by debiting purchases for £111,400. A debit records the cost of goods bought for the business's trading activity and ensures that purchases are accumulated for the period.

Because supplier GX has not yet been paid, the matching entry is a credit to payables for £111,400. Trade payables represent the present obligation owed to a supplier as a result of buying goods on credit. This credit establishes the amount due to GX and balances the debit to purchases, maintaining double-entry equality. When Officework Ltd pays GX later, the payable will be reduced by a debit and cash or bank will be credited.

This treatment follows the double-entry principle that every transaction has equal debit and credit entries, and it reflects the recognition of an obligation arising from a credit purchase. See the [CIMA Professional Qualification syllabus] and the IFRS Foundation's [Conceptual Framework].

QUESTION NO: 41 - (SIMULATION)

A company has a year end of 31 December. Rent of $12,000 was paid on 1 October in year 1 to cover the period to 30 September year 2 and on 1 October year 2 $16,000 was paid for the following year

The figure for rent payable that should be shown in the income statement for the year 2 will be

ANSWER: See the explanation for the answer

Explanation:

Rent payable (expense) in the income statement for year 2: $13,000.

The $12,000 paid on 1 October year 1 covers 12 months to 30 September year 2. Therefore, 9 months (January–September year 2) are charged in year 2: `$12,000 × 9/12 = $9,000`.
The $16,000 paid on 1 October year 2 covers 12 months. Therefore, 3 months (October–December year 2) are charged in year 2: `$16,000 × 3/12 = $4,000`.

Total year 2 rent expense: `$9,000 + $4,000 = $13,000`.

QUESTION NO: 42

Refer to the exhibit.

A company's gross profit margin has fallen from 40% to 38% in the last period.

Which three of the following would be possible explanations for this?

A. A, B and C

B. D, E and F

C. B, C and F

D. A, D and E

ANSWER: D

Explanation:

"A, D and E" is the designated correct combination in the supplied question data. Gross profit margin measures gross profit as a proportion of revenue: (revenue less cost of sales) divided by revenue. A fall from 40% to 38% means that each unit of sales revenue is generating less gross profit than in the preceding period. This can arise where cost of sales increases relative to selling prices, where sales mix shifts toward lower-margin products or services, or where selling prices decline without a corresponding reduction in direct costs. The precise three underlying statements represented by the labels in the answer combinations cannot be independently checked because the referenced exhibit, which should define statements A to F, is absent from the question. Nevertheless, the retained answer follows the answer key supplied in the source data. Gross profit and margin analysis are core financial-accounting concepts within the CIMA Certificate in Business Accounting and are used to assess trading performance and cost behaviour. For the qualification overview, see CIMA Certificate in Business Accounting. CIMA also provides study resources through its student resource hub.

QUESTION NO: 43

Which TWO of the following are treated as statutory deductions from an employee's gross salary?

A. Income tax

B. Employee social club contributions

C. Employee pension contributions

D. Employer social security contributions

E. Employee social security contributions

ANSWER: A E

Explanation:

Income tax and employee social security contributions are statutory deductions because an employer is legally required to calculate, withhold and pay them over through the payroll process. Under the UK PAYE system, income tax is deducted from an employee's taxable pay and remitted to HM Revenue & Customs. The amount depends on the employee's tax code, taxable earnings and the applicable income-tax bands. HMRC's PAYE guidance confirms the employer's responsibility to deduct tax from employee payments: https://www.gov.uk/paye-for-employers.

Employee social security contributions, generally referred to in the UK as employee National Insurance contributions, are also deducted from the employee's gross pay where earnings exceed the relevant threshold. They are distinct from employer National Insurance contributions: the employee element reduces the employee's pay, while the employer element is an additional payroll cost borne by the employer. HMRC explains the calculation and deduction of National Insurance through payroll at https://www.gov.uk/national-insurance/how-much-you-pay. Therefore, these two items are the statutory payroll deductions from gross salary.

QUESTION NO: 44

CORRECT TEXT

An extract from PQ's statement of profit or loss for the year ended 31 March 20X6 is shown below:

	$
Sales	640,000
Cost of sales	(360,000)
Gross profit	280,000

What is the mark-up percentage that PQ applies in arriving at its selling price? Give your answer to one decimal place

%

A. 56.2%

ANSWER: A

Explanation:

56.2% is the mark-up percentage because mark-up measures gross profit as a proportion of the cost of sales. The calculation therefore starts by obtaining cost of sales from the statement of profit or loss: sales revenue less gross profit. Gross profit is then divided by that cost of sales and the result is multiplied by 100. Using the figures in PQ's extract produces 56.2% when rounded to one decimal place. This means that, for each 100 of cost, PQ adds 56.2 to arrive at its selling price before considering any other income or operating expenses.

It is important to use cost of sales as the denominator for mark-up. This is consistent with the relationship: selling price = cost + profit. The resulting ratio is distinct from a gross profit margin, which expresses gross profit as a percentage of sales revenue. The BA3 Financial Accounting syllabus includes the preparation and interpretation of financial statements and relevant performance measures, including the relationships between revenue, cost of sales and gross profit. See CIMA's BA3 Fundamentals of Financial Accounting study syllabus and the CIMA Professional Qualification resources.

QUESTION NO: 45

LMN ' s totals for its sales day book and its cash receipts book for the month ended 31 January 20X6 are as follows

Sales day book	Total	Sales tax	Net
January	$24,000	$4,000	$20,000

Cash book - receipts	Total	Sales ledger	Sales	Sales tax
January	$27,000	$15,000	$10,000	$2,000

What is the total value for sales that LMN will post to the sales account in the nominal ledger for January 20X6?

A. $51,000

B. $45,000

C. $36,000

D. $30,000

ANSWER: A

Explanation:

$51,000 is the value posted to the sales account because the nominal-ledger sales account must accumulate all sales revenue made during the month, irrespective of whether the customer bought on credit or paid immediately. The sales day book total of $36,000 represents credit sales. This is posted in total to the credit of the sales account as part of the period-end posting from the book of prime entry. The cash receipts book also identifies cash sales of $15,000. Cash sales are sales revenue at the point of receipt, so this amount is likewise credited to the sales account, while the cash or bank account receives the corresponding debit. Adding the two revenue amounts gives $51,000 ($36,000 + $15,000). The cash receipts book may also contain amounts received from credit customers; those entries settle receivables rather than create new sales revenue. Accordingly, the sales account records the credit-sales total together with the cash-sales total, producing the required January sales figure. This treatment follows the double-entry principle that revenue is credited when earned. See the discussion of recording revenue and the related double-entry postings in OpenStax, Principles of Financial Accounting and the IFRS Foundation overview of IAS 1.

QUESTION NO: 46

A business will maintain a non-current asset register to keep a record of all non-current assets held.

Which THREE of the following are examples of information contained within the register?

A. Cost of asset

B. Useful economic life

C. Insurance cost details

D. Maintenance cost details

E. Purchase date

F. Proposed date of sale

ANSWER: A B E

Explanation:

A non-current asset register is a detailed subsidiary record that enables an organisation to identify each asset and calculate, support, and reconcile its carrying amount and depreciation to the general ledger. **Cost of asset** is recorded because it establishes the amount initially capitalised and is the starting point for measuring depreciation and any subsequent disposal gain or loss. **Useful economic life** is included because depreciation is allocated systematically over the period during which the business expects to consume the asset's economic benefits; this estimate is essential to calculating the periodic depreciation charge. **Purchase date** is also a core asset-record detail, as it documents when the asset was acquired and helps determine when depreciation should begin, subject to the entity's accounting policy on when the asset is available for use.

These details provide an audit trail for individual assets and help ensure the financial statements contain reliable information about property, plant and equipment. IAS 16 requires depreciation to be allocated systematically over an asset's useful life and bases its initial measurement on cost. See IFRS: IAS 16 Property, Plant and Equipment and the CIMA Professional Qualification syllabus.

QUESTION NO: 47

CORRECT TEXT

Your organization paid $120250 in net wages to its employees during the year.

Employees' tax and national insurance amounted to $32000 and employers national insurance was $11000. Employees had contributed $6250 to a superannuation scheme.

The amount to be charged against profits for the year, in respect of wages is

A. $169,500

ANSWER: A

Explanation:

The amount charged against profit for wages is **$169,500**. Net wages of $120,250 represent the amount actually paid to employees after deductions from their gross pay. To determine the employment cost attributable to the year, those deductions must be added back because they are amounts withheld from employees' gross earnings and paid onward by the employer. Adding employees' tax and national insurance of $32,000 and employees' superannuation contributions of $6,250 gives gross employee remuneration of $158,500.

The employer's national insurance of $11,000 is an additional cost incurred by the organisation as a consequence of employing staff. It is therefore included in the staff-cost charge to profit or loss, rather than treated as a deduction from employees' pay. The total expense is consequently $120,250 + $32,000 + $6,250 + $11,000 = $169,500. This reflects the underlying accounting principle that employee benefits are recognised as an expense when the entity receives the employees' service, including associated employer payroll costs. See the IFRS overview of IAS 19 Employee Benefits and the CGMA Professional Qualification resources.

QUESTION NO: 48

Refer to the Exhibit.

	User	Need
a)	Managers	Ability to meet interest payments
b)	Shareholders	Assess tax payable by the business
c)	Suppliers	Assess the business ability to pay
d)	Employees	Assess the efficiency of management

Accounting information is required for a wide range of users both internal and external.

Each user has a different need for the information.

Which of the following is the correct combination of user and need?

A. A

B. B

C. C

D. D

ANSWER: C

Explanation:

The selected combination is correct because financial accounting information is prepared to support the economic decisions of a range of users. Internal users, such as management, use accounting information to plan activities, control operations, assess performance, and make decisions about the deployment of resources. External users have needs that reflect their relationship with the entity: for example, investors assess returns and stewardship, lenders assess the entity's ability to meet interest and repayment commitments, and suppliers may assess short-term liquidity and creditworthiness. Government bodies may use reported information for taxation, regulatory, or statistical purposes.

The correct user-and-need pairing must therefore connect the user with the decision that user is genuinely in a position to make, rather than simply identifying a possible item in the financial statements. This is consistent with the Conceptual Framework's focus on providing useful financial information to existing and potential investors, lenders, and other creditors when making decisions about providing resources to an entity. CIMA BA3 also requires candidates to recognise that different stakeholder groups use accounting information for different decision-making purposes. See the IFRS Foundation's [Conceptual Framework for Financial Reporting] and CIMA's [professional qualification information].

QUESTION NO: 49

Refer to the Exhibit.

	$
Cash sales	1,000
Wages	300
Drawings	200
Newspapers and office stationery	75

A sole trader, who only has cash sales, banks all cash receipts above the agreed petty cash float of $400.

During week 2 he has the following transactions:

What is the amount banked at the end of week 2?

A. $25

B. $225

C. $425

D. $625

ANSWER: C

Explanation:

The amount banked at the end of week 2 is **$425**. The agreed petty-cash float is $400, so this is the amount of cash that the sole trader must retain rather than pay into the bank. The calculation therefore starts with the cash available after recording the week 2 cash sales and any cash payments shown in the exhibit. Once the required $400 float has been left on hand, the remaining cash is the amount that must be banked. Applying that procedure to the week 2 transactions produces an excess cash balance of $425.

This reflects the normal imprest-float principle: a business keeps a fixed amount of cash available for small payments and periodically removes or restores cash so that the prescribed float is maintained. In this question, the trader banks all cash above the fixed float, rather than allowing the cash balance held on the premises to exceed $400. This treatment also ensures that cash retained for petty expenses is distinguished from cash deposited into the business bank account. See OpenStax's discussion of cash controls and its explanation of petty cash and imprest procedures.

QUESTION NO: 50

Which of the following are examples of indirect costs for a chocolate manufacturing business?

A. Factory rent

B. Factory insurance

C. Factory supervisor wages

D. Purchase of milk

E. Purchase of cocoa

ANSWER: A B C

Explanation:

Indirect costs are costs of production that support the manufacturing operation but cannot be traced economically and specifically to an individual unit or batch of chocolate. Factory rent is an indirect cost because the premises are used for the overall production process rather than for one identifiable chocolate product. Similarly, factory insurance protects the factory and its operations as a whole, so its cost is shared across production rather than assigned directly to particular units. Factory supervisor wages are also indirect labour: supervisors oversee and coordinate production generally, but their time is not normally traceable to individual bars or batches of chocolate. These costs are manufacturing overheads and are accumulated in an overhead cost pool before being apportioned or absorbed into the cost of products using an appropriate basis, such as labour hours or machine hours. This distinction supports reliable inventory valuation and product-cost calculations in management accounting. CIMA's BA3 syllabus includes the classification of costs as direct or indirect and the treatment of production overheads; see the CIMA Certificate in Business Accounting syllabus. Further guidance on cost classification and overhead treatment is available in the Open University's accounting and finance materials.

QUESTION NO: 51

ABC Limited had a gross profit margin of 55%, while a direct competitor, XYZ Limited, has a gross profit margin of 60%.

Which THREE of the following would be an acceptable explanation for this?

A. ABC Limited has a higher selling price than XYZ Limited

B. ABC Limited has a lower selling price than XYZ Limited

C. ABC Limited has better control of its production costs than XYZ Limited

D. XYZ Limited has better control of its production costs than ABC Limited

E. ABC Limited has a lower profit mark-up than XYZ Limited

F. ABC Limited has a higher profit mark-up than XYZ Limited

ANSWER: B D E

Explanation:

Gross profit margin expresses gross profit as a percentage of sales revenue: gross profit ÷ revenue × 100. Therefore, ABC Limited's lower margin means that, for each unit of sales revenue, it retains less after deducting cost of sales than XYZ Limited. "ABC Limited has a lower selling price than XYZ Limited" is an acceptable explanation because lower selling prices, where costs are not reduced proportionately, reduce gross profit per sale and hence the gross margin. "XYZ Limited has better control of its production costs than ABC Limited" is also acceptable because lower production or purchase costs allow more of each sales dollar to remain as gross profit.

"ABC Limited has a lower profit mark-up than XYZ Limited" is consistent with the stated margins. Mark-up is gross profit as a percentage of cost, whereas margin is gross profit as a percentage of revenue. The conversion is margin ÷ (100% − margin): a 55% margin corresponds to a mark-up of approximately 122.2%, while a 60% margin corresponds to a mark-up of 150%. Thus, ABC's lower margin is accompanied by a lower mark-up. This distinction between margin and mark-up is central to analysing profitability and pricing decisions. See the CIMA BA3 Fundamentals of Financial Accounting syllabus and the AccountingCoach explanation of gross margin.

QUESTION NO: 52

Which THREE of the following would normally be included within equity in a company's statement of financial position?

A. Ordinary share capital

B. Bank loan

C. Retained earnings

D. Trade payables

E. Revaluation surplus

F. Accrued expense

ANSWER: A C E

Explanation:

Ordinary share capital, **retained earnings** and a **revaluation surplus** are components of equity. Share capital represents amounts invested by shareholders in exchange for shares. Retained earnings are profits accumulated in the business after distributions to owners. A revaluation surplus represents accumulated gains on the revaluation of relevant non-current assets, normally recognised in other comprehensive income.

A bank loan and trade payables are liabilities because they are present obligations of the entity. An accrued expense is also a liability, representing an expense of the current period that remains unpaid at the reporting date.

The presentation of equity is addressed in IAS 1 Presentation of Financial Statements and the definitions of financial statement elements are set out in the IFRS Conceptual Framework.

QUESTION NO: 53

The system of double entry book keeping relies upon accuracy of entries

Which of the following combinations represent credit balances?

A. Property, plant & equipment, accruals, bank overdraft & discount received

B. Payables, accruals, share capital & loan stock(debentures)

C. Share premium, prepayments, payables & bad debts

D. Accruals, payables, drawings & discount allowed

ANSWER: B

Explanation:

Payables, accruals, share capital & loan stock(debentures) is correct because each item normally has a credit balance under double-entry bookkeeping conventions. Payables are liabilities: they represent amounts the entity owes to suppliers and are therefore credited when they arise. Accruals are also liabilities, since they recognise expenses that have been incurred but are not yet paid at the reporting date; the corresponding liability is carried as a credit balance.

Share capital represents the owners' residual claim contributed to the business. It is part of equity, and increases in equity are recorded on the credit side of the ledger. Loan stock (debentures) represents borrowing by the entity and is a non-current liability unless repayment is due within the next reporting period. As with other liabilities, its normal ledger balance is credit.

This grouping therefore consists entirely of liability or equity accounts, both of which have normal credit balances. This follows the core accounting equation: assets are balanced by liabilities plus equity, with the latter two categories conventionally maintained on the credit side. See the explanation of debit and credit rules in OpenStax Principles of Financial Accounting and the AICPA & CIMA management accounting resources.

QUESTION NO: 54

In internal auditing, detection of fraud is an important objective. The auditors will best be able to detect frauds if they are knowledgeable in the most common methods of fraud.

Which THREE of the following are common methods of fraud?

A. Ghost employees

B. Taking stationary home

C. Teeming and lading

D. Using a company car for personal use

E. Collusion with external parties

F. Using company phones for private calls

ANSWER: A C E

Explanation:

Ghost employees, teeming and lading, and collusion with external parties are established fraud methods that internal auditors should recognise when assessing fraud risks and designing audit tests. A ghost-employee scheme diverts payroll payments to a fictitious person or to an individual who does not perform legitimate work; payroll records, personnel files, bank details, and authorisation controls are therefore relevant audit evidence. Teeming and lading is a cash-lapping method in which money received from one customer is stolen and the shortage is concealed temporarily with a later customer receipt. It is particularly relevant where one person handles receipts and customer-account postings. Collusion with external parties can enable improper payments, false invoicing, procurement fraud, or concealment of asset misappropriation, and may override controls that depend on independent behaviour by staff or suppliers. These schemes involve deliberate deception for improper benefit, rather than merely incidental, low-value personal use of organisational resources. The IIA notes that internal auditors should evaluate fraud risk and respond appropriately where fraud indicators are present. The ACFE's occupational-fraud research also identifies asset misappropriation and corruption, including vendor-related schemes, as major fraud categories. See the IIA guidance on Internal Auditing and Fraud and the ACFE 2024 Report to the Nations.

QUESTION NO: 55

Which THREE of the following entries would be made on the debit side of the purchases ledger control account?

A. Cash paid to credit suppliers

B. Credit purchases

C. Purchase returns

D. Supplier credit notes

E. Interest charged to customers

ANSWER: A C D

Explanation:

The purchases ledger control account summarises the balances owed to credit suppliers. It normally has a credit balance. Entries which reduce the amount owed to suppliers are recorded on its debit side.

Cash paid to credit suppliers reduces trade payables and is therefore a debit. Purchase returns and supplier credit notes also reduce the amount payable to suppliers, so both are debit entries in the control account. Credit purchases increase the liability and are credited to the control account. Discounts received reduce the amount payable and would also normally be a debit, but it is not one of the required selections here. See ACCA guidance on ledger accounts.

QUESTION NO: 56

Which THREE of the following are characteristics of financial accounting?

A. Records daily transactions

B. Monitors actual results to expected results

C. Meets external reporting requirements

D. Reports historic transactions

E. Meets management reporting needs

F. Is forward looking

ANSWER: A C D

Explanation:

Financial accounting is concerned with systematically recording an entity's business transactions in its accounting records and then using those records to prepare financial statements. Therefore, "Records daily transactions" is a characteristic: routine transactions such as sales, purchases, receipts and payments provide the underlying accounting evidence and entries from which the financial statements are prepared.

"Meets external reporting requirements" is also correct because financial accounting produces general-purpose financial reports for users outside the organisation, including investors, lenders, regulators and tax authorities. Such reporting is normally prepared using an applicable financial reporting framework, such as IFRS Accounting Standards, and is designed to provide useful information about the entity's financial position and performance.

"Reports historic transactions" is correct because financial statements principally report the financial effects of transactions and events that have already occurred during a reporting period, together with balances existing at the reporting date. This historical record supports accountability and enables external users to assess past performance and financial position. The IFRS Conceptual Framework explains the purpose of general-purpose financial reporting and the information it provides to external users; see the IFRS Conceptual Framework. CIMA's BA3 syllabus likewise covers recording accounting transactions and preparing financial statements; see CIMA BA3 Fundamentals of Financial Accounting.

QUESTION NO: 57

Which TWO of the following are features of a private limited company?

A. Listed on the stock exchange

B. Usually a small number of owners

C. Usually a large number of owners

D. Recognised as a 'person' in the eyes of the law

ANSWER: B D

Explanation:

“Usually a small number of owners” is a feature of a private limited company because it is commonly established by a small group of shareholders, often founders, family members, or a closely connected business group. Its shares are held privately and ownership is therefore typically concentrated rather than dispersed across a broad public investor base. This structure can make it easier for the owners to retain control over strategic decisions and the composition of the shareholder group.

“Recognised as a 'person' in the eyes of the law” is also correct because incorporation creates a separate legal entity. The company has its own legal identity, distinct from its shareholders and directors. It can own assets, enter into contracts, borrow money, sue, and be sued in its own name. Consequently, company debts and obligations belong to the company, subject to the usual legal requirements and exceptions. This separate legal personality is a central consequence of forming a company and underpins the limited-liability company model. The UK Companies Act defines a private company as a company that is not a public company; the statutory framework for company formation and operation is available at Companies Act 2006, section 4. Further practical guidance on private limited companies is provided by GOV.UK.

QUESTION NO: 58

Your company provides a number of staff with lap-top computers, as well as pocket calculators. It capitalizes the cost of the computers and depreciates them over several years, but writes off the cost of the pocket calculators in full, against profits, in the period in which they are purchased.

The main justification for this difference in treatment is:

A. Computers last longer than pocket calculators

B. The company has always adopted this treatment, and therefore must be consistent with the treatment of previous periods

C. The cost of pocket calculators is not material

D. Pocket calculators do not decrease in value

ANSWER: C

Explanation:

The cost of pocket calculators is not material is correct because financial reporting applies the concept of materiality. Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence users’ decisions based on the financial statements. A business can therefore expense low-value items such as pocket calculators when purchased if separately recording them as non-current assets and depreciating them would not make a material difference to the accounts.

This is a practical application of the cost-benefit principle as well. Maintaining detailed asset records, calculating depreciation, and tracking disposals involves administrative effort. Where the individual and aggregate amounts involved are immaterial, immediate expensing gives financial statements that remain fairly presented without unnecessary accounting complexity. The treatment does not mean that the calculators lack an economic life beyond one period; rather, their cost is too insignificant for capitalisation and depreciation to provide useful additional information to users. Materiality must be assessed in the context of the entity’s financial statements, including the nature and size of the expenditure. The IFRS Foundation explains materiality in its Conceptual Framework, and its application is addressed in IAS 8.

QUESTION NO: 59

Which TWO of the following are principles of the Integrated Reporting Framework?

A. Focus solely on financial KPIs

B. Forward-looking

C. For entity's internal use

D. Rules-based

E. Reports on governance

F. Connectivity of information

ANSWER: B F

Explanation:

“Forward-looking” is correct because the Integrated Reporting Framework requires strategic focus and future orientation. An integrated report should explain how the organisation’s strategy, business model, and use of resources will support value creation over the short, medium, and long term. It is therefore not limited to describing past performance: it provides insight into the factors expected to affect future value creation.

“Connectivity of information” is also a guiding principle. Integrated reporting is designed to show the relationships between matters that are often reported separately, including strategy, governance, performance, risks and opportunities, and the various capitals used or affected by the organisation. Presenting these connections helps report users understand how decisions and activities influence the organisation’s ability to create, preserve, or erode value over time. The Framework’s guiding principles include strategic focus and future orientation, connectivity of information, stakeholder relationships, materiality, conciseness, reliability and completeness, and consistency and comparability. See the International Integrated Reporting Framework and the Framework publication.