# ACA ICAEW FINANCIAL ACCOUNTING AND REPORTING PRACTICE EXAM (SAMPLE)

## STUDY GUIDE



## SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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# Introduction

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

This guide was designed to help you do exactly that.

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

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

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

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

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

Let's begin.

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# How to Use This Guide

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

### 1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

### 2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

### 3. Learn from the Explanations

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

### 4. Track Your Progress

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

### 5. Simulate the Real Exam

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

### 6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

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

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# Questions

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**1. What does IAS 16 stipulate about the depreciation of revalued assets?**

A. It must be based on the original cost of the asset

B. It should be based on the revalued amount minus the residual value

C. It is not depreciated

D. It can only be transferred to the income statement

**2. What is included in the net cash flows for discontinued operations?**

A. Only operating activities

B. Only investing activities

C. Only financing activities

D. All of operating, investing, and financing activities

**3. How is equity displayed in a consolidated SFP?**

A. It only includes non-controlling interests

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

C. Only the reserves of the subsidiaries

D. All shareholders' investments in the subsidiaries

**4. When should an impairment be charged against other comprehensive income for an asset under IAS 16?**

A. When the carrying amount exceeds the recoverable amount

B. When the asset is sold

C. When depreciation is recorded

D. When the revaluation surplus is recognized

**5. In the context of lease accounting, what type of costs are included in measuring the right of use asset?**

A. Only the deposit

B. Only maintenance costs

C. Present value of future lease payments and additional costs

D. Only legal fees

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**6. In the context of IFRS 15, how is revenue recognized when acting as an agent?**

A. By reflecting the gross value of goods/services

B. By recognizing only the commission earned

C. By recognizing the total transaction value

D. By deferring revenue until service completion

**7. In the case of mid-year acquisitions, how are reserves typically calculated at the acquisition date?**

A. Based on data from the previous year

B. As evenly accrued profits over time

C. By assuming no profits were generated

D. Using estimated future profits

**8. Which characteristic describes the requirement for information to be complete, neutral, and free from error?**

A. Relevance

B. Faithful representation

C. Comparability

D. Timeliness

**9. How is cash consideration valued at the date of acquisition?**

A. At its historical cost

B. At the present value of future payments

C. At fair value assumed to equal cash paid

D. At the market price of cash equivalents

**10. What is the criterion regarding exchange gains or losses in financial statements?**

A. They are always unrealised until disposed

B. They are realised for the translation of monetary assets/liabilities

C. They do not affect net profits

D. They affect only the subsidiary's statement of profit and loss

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# Answers

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

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# Explanations

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## 1. What does IAS 16 stipulate about the depreciation of revalued assets?

A. It must be based on the original cost of the asset

B. It should be based on the revalued amount minus the residual value

C. It is not depreciated

D. It can only be transferred to the income statement

*The correct choice regarding the depreciation of revalued assets under IAS 16 is that it should be based on the revalued amount minus the residual value. This means that when an asset undergoes revaluation and its carrying amount is adjusted to reflect its fair value, the depreciation is subsequently calculated using this new revalued figure, rather than the original cost. This approach aligns with the standard's intent to ensure that the financial statements reflect a more accurate representation of the asset's current value over its useful life. By using the revalued amount for calculating depreciation, the carrying amount reflects both the current value of the asset and its expected usage, ensuring that expenses associated with the asset are recognized in a manner that aligns with its revenue-generating potential. The requirement to base depreciation on the revalued amount minus the residual value also helps to prevent distortions in financial statements that could arise from sticking to an outdated cost figure, thus enhancing the relevance of income reporting. The basis of depreciation should always be updated to reflect significant changes in the asset's value due to revaluation.*

## 2. What is included in the net cash flows for discontinued operations?

A. Only operating activities

B. Only investing activities

C. Only financing activities

D. All of operating, investing, and financing activities

*Net cash flows for discontinued operations encompass all cash flows from operating, investing, and financing activities. This comprehensive approach aligns with financial reporting standards, which require the presentation of all relevant cash flows that arise from a discontinued segment. Operating activities involve the core business operations of the discontinued unit and include cash receipts from customers and cash payments to suppliers and employees. Investing activities pertain to cash flows associated with the acquisition and disposal of long-term assets related to the discontinued operations, such as the sale of equipment or property. Financing activities reflect the cash flows related to transactions with the owners and creditors specifically linked to the discontinued operations, like repayment of borrowings or payment of dividends. Including all three categories in the net cash flows provides a complete picture of the financial impact of the discontinued operation on the overall cash flows of the organization, ensuring transparent and useful financial information for stakeholders.*

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## 3. How is equity displayed in a consolidated SFP?

A. It only includes non-controlling interests

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

C. Only the reserves of the subsidiaries

D. All shareholders' investments in the subsidiaries

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

## 4. When should an impairment be charged against other comprehensive income for an asset under IAS 16?

A. When the carrying amount exceeds the recoverable amount

B. When the asset is sold

C. When depreciation is recorded

D. When the revaluation surplus is recognized

*An impairment must be charged against other comprehensive income for an asset under IAS 16 when the carrying amount of the asset exceeds its recoverable amount. This is significant as it reflects a decrease in the asset's value that has been identified through an assessment of its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Recognizing an impairment loss means that the asset must be written down to its recoverable amount, and given that this impairment affects the asset's valuation significantly, it is essential for presenting an accurate picture of the entity's financial status. Such reductions in asset value are important for ensuring that the financial statements provide a true and fair view of the entity's assets and overall financial position. By charging the impairment to other comprehensive income, the loss does not affect profit or loss for the period, thus separating the operational performance from changes in asset valuations. In other circumstances, such as when an asset is sold, depreciation is recorded, or when a revaluation surplus is recognized, these actions have different accounting treatments and implications that don't directly relate to the impairment recognition process established by IAS 16.*

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## 5. In the context of lease accounting, what type of costs are included in measuring the right of use asset?

A. Only the deposit

B. Only maintenance costs

C. Present value of future lease payments and additional costs

D. Only legal fees

*In lease accounting, the measurement of the right-of-use (ROU) asset includes certain financial components that reflect the economic reality of the lease agreement. The correct choice highlights that the right-of-use asset comprises the present value of future lease payments along with any additional costs necessary to bring the asset to the condition for its intended use. The inclusion of the present value of future lease payments is crucial because it captures the total commitment of the lessee to make payments over the life of the lease, reflecting the value of the right to use the asset over that period. Additionally, any further costs directly attributable to the acquisition of the lease, such as initial direct costs, are also factored in, as they are necessary to prepare the asset for its intended use. This approach adheres to the principles outlined in accounting standards, such as IFRS 16, which aim to provide a clear picture of the lessee's obligations and the value of their rights under the lease. Other choices focus on single elements that do not represent the comprehensive picture required for the ROU asset's measurement. Deposits, maintenance costs, or legal fees would not encapsulate the full economic cost associated with the lease. Therefore, these elements alone lack the necessary scope to define the*

## 6. In the context of IFRS 15, how is revenue recognized when acting as an agent?

A. By reflecting the gross value of goods/services

B. By recognizing only the commission earned

C. By recognizing the total transaction value

D. By deferring revenue until service completion

*In the context of IFRS 15, when an entity acts as an agent in a transaction, it recognizes revenue by acknowledging only the commission earned. This is because the agent does not control the goods or services provided to the customer; rather, it merely facilitates the sale between the principal (the entity that owns the goods/services) and the customer. The agent's role is to arrange for the transfer of goods or services from the principal to the customer, and, as such, the agent recognizes revenue that corresponds to the commission or fee it earns for this service. This treatment reflects the underlying economic reality of the transaction, where the agent's performance obligation is to facilitate the sale rather than to provide the goods or services itself. This approach aligns with the principle of revenue recognition under IFRS 15 that emphasizes the transfer of control over goods or services. In scenarios where the agent merely acts on behalf of the principal, recognizing only the commission earned provides a clearer picture of the agent's contributions to the revenue process.*

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## 7. In the case of mid-year acquisitions, how are reserves typically calculated at the acquisition date?

A. Based on data from the previous year

B. As evenly accrued profits over time

C. By assuming no profits were generated

D. Using estimated future profits

*In the context of mid-year acquisitions, the calculation of reserves at the acquisition date is typically approached by reflecting profits accrual over time. This method ensures that the acquired entity's reserves accurately represent its performance to that point in the financial year. When a company acquires another entity partway through its financial year, it is essential to consider how profits have been generated over that period. Instead of taking a snapshot view based on previous year data or assuming no profits were generated, the correct approach aligns with revenue recognition principles, averaging out profits accrued from the commencement of the financial year up until the acquisition date. This approach allows for a more accurate representation of the financial position of the acquired entity, considering that it has likely generated some profits during the current year before the acquisition date. By calculating reserves based on evenly accrued profits, stakeholders can better assess the value and performance of the acquired business at the time of acquisition, ensuring a more informed decision-making process.*

## 8. Which characteristic describes the requirement for information to be complete, neutral, and free from error?

A. Relevance

B. Faithful representation

C. Comparability

D. Timeliness

*The requirement for information to be complete, neutral, and free from error is described by the concept of faithful representation. In financial reporting, faithful representation means that the financial statements accurately reflect the economic events and conditions of the entity. This concept emphasizes that the information presented should not only depict the reality of the financial situation but also be comprehensive and devoid of bias or significant inaccuracies. When financial information fulfills the criteria of completeness, it ensures that all necessary details are included for users to understand the entire context and implications of the reported amounts. Neutrality ensures that the information is free from bias, providing an impartial depiction that does not favor any party. Additionally, being free from error reinforces the accuracy of the data, meaning that there should be no significant omissions or misstatements that could affect users' decision-making. The other options, while important characteristics of financial information, do not specifically encapsulate the combination of completeness, neutrality, and freedom from error that defines faithful representation. While relevance pertains to the information's usefulness in decision-making, comparability concerns the ability to compare financial information across different entities and time periods, and timeliness relates to the provision of information in a timeframe that is useful for users. However, none of these directly define the requirement for information*

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## 9. How is cash consideration valued at the date of acquisition?

A. At its historical cost

B. At the present value of future payments

C. At fair value assumed to equal cash paid

D. At the market price of cash equivalents

*Cash consideration is valued at its fair value at the date of acquisition. Fair value is generally understood to reflect the amount of cash that would be transferred between knowledgeable, willing parties in an arm's length transaction. In the context of an acquisition, this typically means the exact amount of cash that is paid by the acquirer as part of the transaction. Therefore, when considering cash consideration, it is reflected at the cash amount actually paid, as it represents the real economic resource exchange occurring at the time of the acquisition. This ensures that the financial statements accurately represent the resources and obligations that are transferred in the business combination. Other methods of valuation, such as historical cost, present value of future payments, or market prices of cash equivalents, do not apply because they do not represent the immediate economic reality of the cash transaction occurring at the date of acquisition. Historical cost would look at the price paid in the past, potentially leading to irrelevant figures, while present value calculations and market prices pertain to different contexts not directly applicable to the cash consideration transferred in a business acquisition.*

## 10. What is the criterion regarding exchange gains or losses in financial statements?

A. They are always unrealised until disposed

B. They are realised for the translation of monetary assets/liabilities

C. They do not affect net profits

D. They affect only the subsidiary's statement of profit and loss

*The criterion regarding exchange gains or losses in financial statements is based on the treatment of foreign currency transactions, particularly with monetary assets and liabilities. When entities hold monetary assets and liabilities that are denominated in foreign currencies, they are required to translate these amounts into their functional currency at the exchange rates that are applicable at the reporting date. Option B is correct because gains or losses arise from the changes in exchange rates between the date of the transaction and the reporting date. If the currency in which a monetary item is denominated appreciates in value, the entity realizes a gain when it translates that item into its functional currency. Conversely, if the currency depreciates, the entity incurs a loss. These exchange gains or losses are considered realized for the purposes of financial reporting since they impact the financial position of the entity and must be recognized in the profit or loss for the period. In contrast, the other options do not adequately reflect the nature of exchange gains and losses. The notion that they are always unrealized until disposed is inaccurate because they can be realized upon translation. Stating that they do not affect net profits contradicts the requirement to recognize these gains and losses in the income statement, as they do indeed impact the net profit of the entity. Finally, exchange gains*

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# Next Steps

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

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

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

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

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

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