

MULTIPLE CHOICE (45%)

1. The purpose of the International Accounting Standards Board is to

- A. Issue enforceable standards which regulate the financial accounting and reporting of multinational corporations.
- B. Develop a uniform currency in which the financial transactions of companies through-out the world would be measured.
- C. Develop a single set of high-quality IFRS.
- D. Arbitrate accounting disputes between auditors and international companies.

2. The two major accounting standard-setting organizations in the world are

- A. Financial Accounting Standards Board (FASB) and the International Organization of Securities Commission (IOSCO).
- B. Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB).
- C. The International Accounting Standards Board (IASB) and International Organization of Securities Commission (IOSCO).
- D. The International Accounting Standards Board (IASB) and the Standards Advisory Council (SAC).

3. Prior years income statements are not restated for

- A. changes in accounting principle.
- B. changes in estimates.
- C. corrections of errors.
- D. All of these answer choices are correct.

4. For the year ended December 31, 2015, Transformers Inc. reported the following:

Net income	\$120,000
Preference dividends declared	20,000
Ordinary share dividends declared	4,000
Unrealized holding loss, net of tax	2,000
Retained earnings, beginning balance	160,000
Share capital – ordinary	80,000
Accumulated other comprehensive income, Beginning balance	10,000

What would Transformers report as total stockholders' equity?

- a. \$344,000
- b. \$336,000
- c. \$256,000
- d. \$240,000

5. Benedict Corporation reports the following information:

Net income	\$500,000
Dividends on ordinary shares	140,000
Dividends on preference shares	60,000
Weighted average ordinary shares outstanding	125,000

Benedict should report earnings per share of

- A. \$2.40.
- B. \$2.88.
- C. \$3.52.
- D. \$4.00

6. Under IFRS, changes in accounting policies are

- A. Permitted if the change will result in a more reliable and more relevant presentation of the financial statements.
- B. Permitted if the entity encounters new transactions, events, or conditions that are substantively different from existing or previous transactions.
- C. Required on material transactions, if the entity had previously accounted for similar, though immaterial, transactions under an unacceptable accounting method.
- D. Required if an alternate accounting policy gives rise to a material change in assets, liabilities, or the current-year net income.

7. Under IFRS, an entity that acquires an intangible asset may use the revaluation model for subsequent measurement only if

- A. The useful life of the intangible asset can be reliably determined.
- B. An active market exists for the intangible asset.
- C. The cost of the intangible asset can be measured reliably.
- D. The intangible asset is a monetary asset

8. Under IFRS, which of the following is a criterion that must be met in order for an item to be recognized as an intangible asset other than goodwill?

- A. The item's fair value can be measured reliably.
- B. The item is part of the entity's activities aimed at gaining new scientific or technical knowledge.
- C. The item is expected to be used in the production or supply of goods or services.
- D. The item is identifiable and lacks physical substance.

9. An entity purchases a trademark and incurs the following related costs :

One-time trademark purchase price	\$100,000
Nonrefundable VAT taxes	5,000
Training sales personnel on the use of the new trademark	7,000
Research expenditures associated with the purchase of the new trademark	24,000
Legal costs incurred to register the trademark	10,500
Salaries of the administrative personnel	12,000

Applying IFRS and assuming that the trademark meets all of the applicable initial asset recognition criteria, the entity should recognize an asset in the amount of

- A. \$100,000
- B. \$115,500
- C. \$146,500
- D. \$158,500

10. Under IFRS, when an entity chooses the revaluation model as its accounting policy for measuring property, plant and equipment, which of the following statements is correct?

- A. When an asset is revalued, the entire class of property, plant and equipment to which that asset belongs must be revalued.
- B. When an asset is revalued, individual assets within a class of property, plant and equipment to which that asset belongs can be revalued.
- C. Revaluations of property, plant and equipment must be made at least every three years.
- D. Increases in an asset's carrying value as a result of the first revaluation must be recognized as a component of profit or loss.

11. On January 1, year 1, an entity acquires for \$100,000 a new piece of machinery with an estimated useful life of 10 years. The machine has a drum that must be replaced every five years and costs \$20,000 to replace. Continued operation of the machine requires an inspection every four years after purchase; the inspection cost is \$8,000. The company uses the straight-line method of depreciation. Under IFRS, what is the depreciation expense for year 1?

- A. \$10,000
- B. \$10,800
- C. \$12,000
- D. \$13,200

12. On July 1, year 2, a company decided to adopt IFRS. The company's first IFRS reporting period is as of and for the year ended December 31, year 2. The company will present one year of comparative information. What is the company's date of transition to IFRS?

- A. January 1, year 1.
- B. January 1, year 2.
- C. July 1, year 2.
- D. December 31, year 2.

13. A company determined the following values for its inventory as of the end of its fiscal year:

Historical cost	\$100,000
Current replacement cost	70,000
Net realizable value	90,000
Net realizable value less a normal profit margin	85,000
Fair value	95,000

Under IFRS, what amount should the company report as inventory on its balance sheet?

- A. \$70,000
- B. \$85,000
- C. \$90,000
- D. \$95,000

14. Which of the following is not a related party of an entity?

- A. A shareholder of the entity owning 30% of the ordinary share capital
- B. An entity providing banking facilities to the entity

- C. an associate of the entity
- D. Key management personnel of the entity

15. A brand name that was acquired separately should initially be recognized at;

- A. Recoverable amount
- B. Either cost or fair value at the choice of the acquirer
- C. Fair value
- D. Cost

16. Revenue from an artistic performance is recognized once;

- A. The audience register for the event online
- B. The tickets for the concert are sold
- C. Cash has been received from the ticket sales
- D. The event takes place

17. Which of the following should not be considered a "qualifying asset" in relation to capitalization of borrowing cost?

- A. A power generation plant that normally takes two years to construct.
- B. An expensive private jet that can be purchased from a local vendor.
- C. A toll bridge that usually makes more than a year to build.
- D. A ship that normally takes one to two years to complete.

18. The equity method is not required to be applied when the associate has been acquired and held with a view to its disposal within what time period?

- A. Six months
- B. Twelve months
- C. Two years
- D. In the near future

19. Interest revenue earned on specific borrowings for qualifying assets

- A. reduces the cost of the qualifying asset.
- B. reduces interest expense reported on the income statement.
- C. increases equity in the period earned.
- D. None of these answer choices are correct.

20. Which of the following is required by IFRS?

- A. Resources acquired through government grants must be recorded at cost.
- B. Resources acquired through government grants must be recorded at fair value.
- C. Resources acquired through government grants must be accounted for using the capital approach.
- D. Resources acquired through government grants must be accounted for using the income approach.

Use the following information for questions 21–23.

La Bianco Company purchased land for a manufacturing facility for \$1,100,000. The company paid \$70,000 to tear down a building on the land. Salvage was sold for \$10,500. Legal fees of \$6,500 were paid for title investigation and making the purchase. Architect's fees were

\$40,500. Land registration cost \$4,500, and liability insurance during construction cost \$13,500. Excavation cost \$12,000. The contractor was paid \$1,357,000. A one-time assessment made by the city for sidewalks was \$7,500. La Bianca installed lighting and signage at a cost of \$11,000.

21. The cost of the land that should be recorded by La Bianca is

- A. \$1,195,000.
- B. \$1,178,000.
- C. \$1,103,500.
- D. \$1,006,500.

22. The cost of the building that should be recorded by La Bianca is

- A. \$1,505,500.
- B. \$1,432,000.
- C. \$1,423,000.
- D. \$1,357,500.

23. La Bianca should record land improvements of

- A. \$-0-
- B. \$11,000.
- C. \$18,500.
- D. \$23,000.

24. Revenue for sales-based royalty payments should be recognized

- A. when the amount of sales can be determined.
- B. on the date payment is received by the franchisor.
- C. on the date the performance obligation is satisfied.
- D. on the date the contract was signed.

25. Roche Pharmaceuticals entered into a licensing agreement with Zenith Lab for a new drug under development. Roche will receive \$6,750,000 if the new drug receives FDA approval. Based on prior approval, Roche determines that it is 85% likely that the drug will gain approval. The transaction price of this arrangement should be

- A. \$6,750,000.
- B. \$5,737,500.
- C. \$1,012,500.
- D. \$0 until approval is received.

26. Arizona Communications contracted to set up a call center for the City of Beirut. Under the terms of the contract, Arizona Communications will design and set-up a call center with the following costs:

Design of call center	\$10,000
Computers, servers, telephone equipment	\$275,000
Software	\$85,000

Installation and testing of equipment	\$15,000
Selling commission	\$25,000
Annual service contract	\$50,000

In addition, Arizona Communications will maintain and service the equipment and software to ensure smooth operations of the call center for an annual fee of \$90,000. Ownership of equipment installed remains with the City of Beirut. The contract costs that should be capitalized is

- A. \$460,000
- B. \$410,000
- C. \$360,000
- D. \$370,000

27. In a service-type warranty, warranty revenue is

- A. recognized in the year of sale.
- B. not recognized.
- C. recognized only in the last year of the warranty period.
- D. recognized equally over the warranty period.

28. A contingent liability

- A. always exists as a liability but its amount and due date are indeterminable.
- B. is accrued even though not probable.
- C. is always the result of a loss contingency.
- D. is not reported as a liability if not probable.

29. Which of the following is the proper way to report a contingent asset, considered probable?

- A. As an asset.
- B. As deferred revenue.
- C. As a disclosure only.
- D. No disclosure or accrual required.

30. Which of the following is the proper way to report a contingent asset, receipt of which is virtually certain?

- A. As an asset.
- B. As unearned revenue.
- C. As a disclosure only.
- D. No disclosure or accrual required.

TRUE & FALSE (12%)

1. A loss in the current period on a profitable contract must be recognized under both the percentage-of-completion and cost-recovery method.
2. When a company sells a product but gives the buyer the right to return it, revenue should not be recognized until the sale is collected.
3. IFRS allows for reduced disclosure of contingent liabilities if the disclosure could increase the company's chance of losing a lawsuit.
4. Tang, Inc. sells collectible jewelry on consignment from various manufacturers and should include this consigned inventory on its statement of financial position.
5. Abnormal freight costs are not included on the statement of financial position as part of the cost of inventory.
6. The declining-balance method does not deduct the residual value in computing the depreciation base.
7. An accelerated depreciation method is appropriate when the asset's economic usefulness is the same each year.
8. The International Accounting Standards Board believes that historical cost for financial instruments provides more relevant and understandable information than fair value.
9. Equity security holdings between 20 and 50 percent indicates that the investor has a controlling interest over the investee.
10. The statement of cash flows provides information to help investors and creditors assess the cash and non-cash investing and financing transactions during the period.
11. The cost of acquiring a customer list from another company is recorded as an intangible asset.
12. Research and development costs are recorded as an intangible asset if it is felt they will provide economic benefits in future years.

PROBLEMS (43%)

Problem 1 (13%)

Listed below are several qualitative characteristics, accounting principles and assumptions. Match the letter of each with the appropriate phrase that states its application. (Items *a* through *k* may be used more than once or not at all.)

- | | |
|----------------------------------|----------------------------------|
| a. Economic entity assumption | g. Expense recognition principle |
| b. Going concern assumption | h. Full disclosure principle |
| c. Monetary unit assumption | i. Relevance |
| d. Periodicity assumption | j. Faithful representation |
| e. Historical cost principle | k. Comparability |
| f. Revenue recognition principle | |

	1 . Stable-dollar assumption (do not use historical cost principle) .
	2 . Key factor is when the performance obligation is satisfied .
	3 . Presentation of error-free information .
	4 . Yearly financial reports .
	5 . Recording annual depreciation .
	6 . Useful standard measuring unit for business transactions .
	7 . Notes as part of necessary information to a fair presentation .
	8 . Affairs of the business distinguished from those of its owners .
	9 . Business enterprise assumed to have a long life .
	10 . Valuing assets at amounts originally paid for them .
	11 . Application of the same accounting principles as in the preceding year .
	12 . Summarizing significant accounting policies .
	13 . Presentation of timely information with predictive and feedback value .

Problem 2 (4%)

During 2014, Vanpelt Co. introduced a new line of machines that carry a three-year warranty against manufacturer’s defects. Based on industry experience, warranty costs are estimated at 2% of sales in the year of sale, 4% in the year after sale, and 6% in the second year after sale. Sales and actual warranty expenditures for the first three-year period were as follows:

	<u>Sales</u>	<u>Actual Warranty</u> <u>Expenditures</u>
2014	\$ 600,000	\$ 9,000
2015	1,500,000	45,000
2016	<u>2,100,000</u>	<u>135,000</u>
	<u>\$4,200,000</u>	<u>\$189,000</u>

What amount should Vanpelt report as a liability at December 31, 2016?

Problem 3 (10 %)

On February 1, 2015, Marsh Contractors agreed to construct a building at a contract price of \$5,800,000. Marsh estimated total construction costs would be \$4,000,000 and the project would be finished in 2017. Information relating to the costs and billings for this contract is as follows:

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total costs incurred to date	\$1,500,000	\$2,640,000	\$4,600,000
Remaining Estimated costs to complete	2,500,000	1,760,000	-0-
Customer billings to date	2,200,000	4,000,000	5,800,000
Collections to date	2,000,000	3,500,000	5,500,000

Instructions

Fill in the correct amounts on the following schedule. For percentage-of-completion accounting and for cost-recovery accounting, show the gross profit that should be recorded for 2015, 2016, and 2017.

	<u>Percentage-of-Completion</u>		<u>Cost-Recovery</u>
	<u>Gross Profit</u>		<u>Gross Profit</u>
2015	_____	2015	_____
2016	_____	2016	_____
2017	_____	2017	_____

Problem 4 (16 %)

On 1 July 2015 Hut acquired 128,000 equity shares (\$1 per share) of Shed. The following statements of financial position have been prepared as at 31 December 2016:

	HUT	Shed
	\$	\$
Land at cost	80,000	72,000
Plant at cost	72,000	57,600
Cost of shares in Shed	203,000	-
Inventory at cost	112,000	74,400
Receivables	104,000	84,000
Bank balance	41,000	8,000
	<u>612,000</u>	<u>296,000</u>

	HUT	Shed
	\$	\$
Equity share capital (\$1 shares)	400,000	160,000
Retained earnings	160,000	112,000
Payables	52,000	24,000
	<u>612,000</u>	<u>296,000</u>

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The following information is available:

- 1) At 1 July 2015 Shed had a debit balance of \$11,000 on retained earnings.
- 2) In fixing the bid price for the shares of Shed, Hut valued the land at \$90,000. All Shed's plant was acquired since 1 July 2015.
- 3) The inventory of Shed includes goods purchased from Hut for \$16,000. Hut invoiced those goods at cost plus 25%.
- 4) The fair value for non-controlling interest on acquisition was \$50,750. On 31 December 2016 goodwill is valued at \$52,050.

Required:

Prepare the consolidated statement of financial position of Hut as at 31 December 2016
