December Exams, 2014

Multiple Choice Questions (20%)

1 - Prior period errors could be caused by:

a. Consequences of Fraud
b. Mistakes in applying accounting policies
c. Mathematical errors
d. Any of the above

2 - The "carrying amount" of an item of property, plant and equipment generally refers to:

a. The cost of the item
b. The replacement cost of the item
c. The depreciable amount of the item
d. The amount at which the item is recognised in the financial statements

3 - If investment property is measured using the fair value model, a gain arising from a change in the fair value of an investment property must be:

a. Recognised in the calculation of profit or loss
b. Recognised as other comprehensive income
c. Credited to a revaluation reserve
d. Ignored

4 - Goodwill does not fall within the IAS38 definition of an intangible asset because:

a. It is a monetary asset
b. It is not separable
c. It may not generate future economic benefits
d. None of the above

5 - The revaluation model cannot be used for the measurement of an intangible asset unless:

a. The asset is revalued every year
b. The fair value of the asset is determined by a professional valuer
c. There is an active market in that type of asset
d. The revaluation model is also used for tangible assets

6 - An asset is expected to generate cash inflows of $20,000 per annum for each of the next three years and then to be scrapped. These cash inflows will occur at the end of each year. The asset will generate no cash outflows. Using a discounting rate of 10% per annum, what is the asset's value in use?

a. $60,000
b. $54,000
c. $49,720
d. $54,540

7 - Which of the following items <u>cannot</u> be included in the cost of inventories?

a. Irrecoverable import duties payable on the acquisition of inventories
b. Fixed production overheads
c. The cost of abnormal wastage of materials and labour
d. Variable production overheads

8 - The stage of completion of a construction contract may be determined by:

a. Comparing the costs incurred for the work performed to date with the estimated total costs
b. Carrying out a survey of the work performed to date
c. Considering the physical proportion of the contract work completed
d. Any of the above

9 - With regard to the definition of revenue given by international standard IAS18, which of the following statements is true?

a. Revenue may arise from either ordinary activities or extraordinary activities
b. Revenue may arise from the sale of goods, the rendering of services or the use by other parties of an entity's assets
c. Revenue includes cash received from borrowings
d. Revenue includes cash received from share issues

10 - The accounting principle applied by standard IAS18 when determining whether or not revenue should be recognised in respect of a sale and repurchase agreement is:

a. Relevance
b. Verifiability
c. Prudence
d. Substance over form

11 - If the selling price of goods includes an amount for after-sales servicing and support, then:

a. This amount should be recognised as revenue as soon as the seller has transferred the risks and rewards of ownership of the goods to the buyer
b. This amount should be deferred and not recognised as revenue until the servicing and support period has come to an end
c. This amount should be deferred and recognised as revenue over the period in which the servicing and support services are provided
d. The amount of revenue associated with servicing and support services is equal to the expected costs of providing these services

12 - Which of the following is <u>not</u> a cash inflow or outflow arising from financing activities?

a. Cash proceeds of a share issue
b. Cash proceeds from issuing debentures
c. Cash payments to acquire equity of other entities
d. Cash repayments of amounts borrowed

13 - Change in accounting policy does not include

a. Change in useful life from 10 years to 7 years
b. Change of method of valuation of inventory from FIFO to weighted –average.
c. Change of method of valuation of inventory from weighted-average to FIFO.
d. Change from the practice (convention) of paying as Christmas bonus one month salary to staff before the end of the year to the new practice of paying one-half month salary only.

14 - An entity purchases a building and the seller accepts payment partly in equity shares and partly in debentures of the entity. This transaction should be treated in the cash flow statement as follows:

a. The purchase of the building should be investing cash outflow and the issuance of shares and the debentures financing cash outflow.
b. The purchase of the building should be investing cash outflow and the issuance of debentures financing cash outflows while the issuance of shares investing cash outflow.
c. This does not belong in a cash flow statement and should be disclosed only in footnotes to the financial statements.
d. Ignore the transaction totally since it is a noncash transaction. No mention is required in either the cash flow statement or anywhere else in the financial statements.

15 - What is the basis for choosing depreciation methods for fixed assets under IAS 16 (Property, Plant, & Equipment)?

a. Tax minimization
b. Profit maximization
c. Useful life of the fixed asset
d. Pattern of economic benefits to be derived from the asset

16 - IFRSs are determined by the

a. Internal Accounting Standards Body
b. International Accounting Studies Board
c. International Accounting Standards Board
d. International Auditors` Standards Body

17 - Convergence refers to

a. using the same accounting principles from one period to the next
b. use of the same accounting principles by all companies
c. the elimination of all accounting standard-setting bodies except the International Accounting Standards Board
d. the process of reducing the differences between IFRS and GAAP

18 – According to IAS 16 (Property, Plant & Equipment), what is the term used to indicate the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction?

a. Replacement cost
b. Net realizable value

c. Fair market value
d. Historical cost

19 - The common characteristic possessed by all assets is
a. long life.
b. great monetary value.
c. tangible nature.
d. future economic benefit.

20 - IFRS 16 stipulates the recording of revaluation surplus resulting from the initial revaluation of Property, Plant & Equipment (PPE) according to the below mentioned alternatives. Which one is correct (according to IFRS 16):
a. Recording the revaluation surplus under the retained earnings as Unrealized Profits.
b. Recording of the amount in the Profit and Loss which is equivalent to the depreciation calculated according to the historical cost basis and the revaluation amount.
c. Deduction from the current assets and adding it to PPE.
d. Recording it as such: debit the PPE and credit the comprehensive income and equity under revaluation reserve.

TRUE & FALSE (10%)

1 - The use of estimates always undermines the reliability of financial statements
a. True
b. False

2 - Negative goodwill arising on a business combination should be shown as a negative asset in the statement of financial position
a. True
b. False

3 - The definition of "construction contract" given by international standard IAS11 includes contracts for the destruction of assets
a. True
b. False

4 - In the case of a sale of goods, the risks and rewards of ownership always pass from the seller to the buyer when legal title to the goods is transferred
a. True
b. False

5 - Revenue consisting of dividends from other companies is not recognised until actually received

a. True
b. False

6 - Bank overdrafts are generally regarded as a component of an entity's cash and cash equivalents

a. True
b. False

7 - The fact that an entity has related parties cannot have any effect on the entity's financial performance unless there are transactions between the entity and those parties

a. True
b. False

8 - An entity's functional currency is defined by international standard IAS21 as the currency in which the entity's financial statements are presented

a. True
b. False

9 - When translating from an entity's functional currency to a presentation currency, any resulting exchange differences are recognised in other comprehensive income

a. True
b. False

10 - Bookkeeping and accounting are one and the same because the bookkeeping function includes the accounting process.

a. True
b. False

EXERCISES (30%)

Exercise 1:

A recently established company generally incurs the following costs:

1- Pre-opening costs
2- Confidential formulas, templates, and designs
3- Internally generated accounting software
4- Goodwill acquired in cases of merger
5- Operating and broadcast rights
6- Patented medicine produced by a company and approved for medical use.
7- Cost of quality management training sessions for the management.
8- Legal costs incurred for the acquisition of copyright.

Required:
Which of the above mentioned costs are qualified for capitalization according to the International Accounting Standard 38.

Exercise 2:
The data below is related to the inventory items of company F for the year N.
Stock at the beginning of the period 150 items unit price 504$

Purchases of the period:

January 14	50 units	509$
March 28	80 units	512$
May 11	40 units	515$
June 2	100 units	500$
September 16	60 units	503$
December 30	70 units	506$

Number of units sold during the period: 400 units
On December 31, the physical inventory indicated the existence of 150 units of this item, and the inventory cost is determined using the First In First Out method (FIFO).
Required: According to Standard IAS2
1- Determine the inventory cost at the end of the period using the FIFO method.
2- Determine the net realizable inventory value at the end of the period, given that the unit selling price at the physical inventory date was 506$, that the estimated sales and distribution costs are 5% of the selling price, and that the general and administrative expenses are 7% of the selling price.

3- Determine the inventory value that will be indicated in the balance sheet on 31/12/n
4- Determine the cost of goods sold in the income statement.

Exercise 3:
Khouzama Co. bought an equipment for $120,000 which has:
- useful life of 5 years
- salvage value at the end of the 5 years amounts to $12,500.

The sale expenses are estimated at $1,500.
The following schedule shows each of the fair value and the used value at the end of each year.

	End of year		
	n	n + 1	n + 2
	$	$	$
Fair value	92,000	65,000	42,000
Used Value	106,000	64,000	27,000

Required : According to IAS 36

a. Determine the replacement value at the end of each year (n, n+1, n+2)
b. Determine the depreciation amount at the end of each year (n, n+1, n+2) and the amount that is to be recognized as impairment (if applicable).

c. Determine the net value that is to be recorded in the financial position statement at the end of each year December 31, (n, n+1, n+2).

CASES

Solve the following problem (Obligatory) (20%)

CASE 1 - Consolidated statement of financial position

Company A holds investments in two other entities, Company B and Company C. The statements of financial position of the three entities at 30 September 2013 were as follows:

	Company A	Company B	Company C
	$000	$000	$000
Assets			
Non-current assets:			
Property,plant and equipment (notes 1 & 2)	132,000	100,000	90,000
Investments (note 1)	139,000	0	0
	271,000	**100,000**	**90,000**
Current assets:			
Inventories (note3)	40,000	34,000	32,000
Trade receivables (note 4)	40,000	32,000	30,000
Financial assets (note 5)	10,000	0	0
Cash and cash equivalents	9,000	11,000	8,000
	99,000	**77,000**	**70,000**
Total assets	**370,000**	**177,000**	**160,000**
Equity and liabilities			
Equity			
Share capital ($1 shares)	100,000	60,000	70,000
Retained earnings	138,000	48,000	29,000
Total equity	**238,000**	**108,000**	**99,000**
Non-current liabilities:			
Long-term borrowings	60,000	30,000	25,000
Deferred tax	30,000	12,000	10,000
Total non-current liabilities	90,000	42,000	35,000
Current liabilities:			
Trade and other payables (note 4)	35,000	20,000	20,000
Short-term borrowings	7,000	7,000	6,000
Total current liabilities	42,000	27,000	26,000
Total equity and liabilities	**370,000**	**177,000**	**160,000**

Note 1 – Investments

Investment in Company B: Company A subscribed for 48 million shares in Company B at par on the date of Company B incorporation on 1 October 2005. The investment is shown at original cost of $48 million.

Investment in Company C: On 1 April 2013 Company A purchased 49 million shares in Company C for a cash payment of $91 million. This investment is also shown at original cost.

The profit of Company C for the year ended 30 September 2013 was $8 million. Company C did not pay or declare any dividends in the period.

The directors of Company A carried out a fair value exercise to measure the identifiable assets and liabilities of Company C at 1 April 2013. The following matters emerged:

A property having a carrying value of $20 million had an estimated market value of $30 million (including non-depreciable land of $15 million). The estimated future economic life of the depreciable element at 1 April 2013 was 30 years. In the year ended 30 September 2013 Company C charged depreciation of $320,000 on this property.

Plant and equipment having a carrying value of $60 million had an estimated market value of $65 million. The estimated future economic life of the plant at 1 April 2013 was five years.

Inventory having a carrying value of $10 million had an estimated fair value of $12 million. This entire inventory was sold prior to 30 September 2013.

The fair value adjustments will be regarded as temporary differences for the purposes of computing deferred tax.

Note 2 – Sale of plant to Company B

On 1 October 2012 Company A purchased an item of plant for $4 million and immediately sold it to Company B for $4.4 million. The estimated useful economic life of the plant is four years from 1 October 2012.

Note 3 – Intra-group sale of inventories

The inventories of Company B and Company C at 30 September 2013 included components purchased from Company A during the year at a cost of $25 million to Company B and $15 million to Company C. Company A supplied these components at cost plus a mark-up of 25%. All the supplies were made after 1 April 2013.

Note 4 – Trade receivables and payables

The trade receivables of Company A included $6 million receivable from Company B and $5 million receivable from Company C in respect of the purchase of components (see note 3). The trade payables of Company B and Company C include an equivalent amount payable to Company A.

Note 5 – Financial assets

During the period Company A made a temporary investment of $10 million in listed securities and designated the investments as fair value through profit or loss. The market value of the portfolio (none of which was sold before the year-end) was $9.5 million.

Note 6 – Other information

The non-controlling interests of the two subsidiaries are valued at the proportionate share of the respective identifiable net assets, and therefore they are not credited with any amount in respect of goodwill. The goodwill arising on acquisition of Company C has not suffered any impairment since 1 April 2012.

The rate of tax to apply to temporary differences is 25%. You can ignore the temporary differences caused by any adjustments for unrealized profits and the financial assets.

Required:

Prepare the consolidated statement of financial position of Company A at 30 September 2013.

CHOOSE EITHER CASE 2 OR CASE 3 (20%)

CASE 2 - Construction Contract

Sandy is a contractor which is currently working on two contracts:

(Using IAS 11, cumulative method)

	Deep Sea Contract	Blue Mountain
	000$	000$
Contract Price (Fixed)	3,000	5,000
Date work commenced	1 Jan 2011	1 Jan 2012
Proportion of work completed during the year ended December 31, 2011	30%	—
Invoiced to customer during year ended December 31, 2011	900	—
Cash received from customer during year ended December 31,2011	800	—
Costs Incurred during year ended December 31, 2011	650	—
Estimated Cost to complete at December 31, 2011	1300	—
Proportion of work completed during the year ended December 31,2012	25%	45%
	000LL	000LL
Invoiced to customer during year ended December 31, 2012	750	2,250
Cash received from customer during year ended December 31,2012	700	2,250
Costs Incurred during year ended December 31,2012	580	1,900
Estimated Cost to complete at December 31,2012	790	3,400

Note:

Sandy recognized revenue and profit on long term contracts in relation to the proportion of work completed.

Required:

(a) Calculate the figures that will appear in Sandy income statement for the year ended December 31, 2012 and the balance sheet at that date in respect of each of these contracts.

Case 3 - Property, plant and Equipment

XYZ Company had the following tangible non-current assets at 31 December 2011:

	Cost	Depreciation	Carrying amount
	$000	$000	$000
Land	500	0	500
Buildings	400	80	320
Plant and machinery	1,613	458	1,155
Fixtures and fittings	390	140	250
Assets under construction	91	0	91
	2,994	678	2,316

In the year ended 31 December 2012 the following transactions occur:

1) Further costs of $53,000 are incurred on buildings being constructed by the company. A building costing $100,000 is completed during the year.
2) A deposit of $20,000 is paid for a new computer system which is undelivered at the year end. Additions to plant are $154,000.
3) Additions to fixtures, excluding the deposit on the new computer system are $40,000.
4) The following assets are sold:

	Cost	Depreciation brought forward	Proceeds
	$000	$000	$000
Plant	277	195	86
Fixtures	41	31	2

5) Land and buildings were revalued at 1 January 2012 to $1,500,000, of which land is worth $900,000. The revaluation was performed by a consulting company on the basis of their fair value.

6) The useful life of the buildings is unchanged. The buildings were purchased ten years before the revaluation.

7) Depreciation is provided on all assets in use at the year-end at the following rates:

Buildings	2% per annum straight line
Plant	20% per annum straight line
Fixtures	25% per annum reducing balance

Required:

Show the disclosures under IAS 16 "Property, plant and Equipment" that are required in the notes to XYZ's published financial statements for the year ended 31 December 2012.