December 2017 Exam

MULTIPLE CHOICE (45 %)

1 The basic assumptions of accounting used by the International Accounting Standards Board (IASB) include all of the following **except**:

a. Going concern.

b. Periodicity.

c. Accrual basis.

d. Materiality

2 At December 31, 2015, Suo's Boutique had 2,000 gift certificates outstanding, which had been sold to customers during 2015 for €50 each. Sue's operates on a gross margin of 60% of its sales. What amount of revenue pertaining to the 2,000 outstanding gift certificates should be deferred at December 31, 2015?

a. €0.

b. €40,000.

c. €60,000.

d. €100,000.

3 The following information is available for Ace Company for 2015:

Disbursements for purchases	$1,150,000
Increase in trade accounts payable	75,000
Decrease in merchandise inventory	30,000

Costs of goods sold for 2015 was

a. $1,255,000.

b. $1,195,000.

c. $1,105,000.

d. $1,045,000.

4 Given the following income statement line items:

Income from operations
Income before income taxes
Income from continuing operations
Income from discontinued operations
Net income

How many earnings per share amounts are required to be disclosed?

a. 5
b. 4
c. 3
d. 2

5 Consignments are a specialized marketing method whereby the

a. Consignee purchases goods for sale and sends payment when goods are sold.

b. Consignee (agent) holds title to the product.

c. Consignee pays for good up front and is paid when merchandise is sold.

d. Consignee takes possession of merchandise but title remains with manufacturer.

6 Given the following:

Net income	$800,000
EPS	4.25
Dividend/ordinary shares	2.00
Weighted average ordinary shares outstanding	160,000

Determine the amount of the preference share dividend.

a. $480,000

b. $320,000

c. $160,000

d. $120,000

7 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	160,000
Share capital – ordinary	80,000
Accumulated other comprehensive income,	
Beginning balance	10,000

What would Transformers report as its ending balance of Accumulated Other Comprehensive Income?

a. $12,000

b. $10,000

c. $8,000

d. $2,000

8 The following information is available for Murphy Company:

Allowance for doubtful accounts at December 31, 2014	$ 8,000
Credit sales during 2015	400,000
Accounts receivable deemed worthless and written off during 2015	9,000

As a result of a review and aging of accounts receivable in early January 2016, however, it has been determined that an allowance for doubtful accounts of $5,500 is needed at December 31, 2015. What amount should Murphy record as "bad debt expense" for the year ended December 31, 2015?

a. $4,500
b. $5,500
c. $6,500
d. $13,500

9 Keck Co. had 450 units of product A on hand at January 1, 2015, costing $42 each. Purchases of product A during January were as follows:

Date	Units	Unit Cost
Jan. 10	600	$44
18	750	46
28	300	48

A physical count on January 31, 2015 shows 600 units of product A on hand. The cost of the inventory at January 31, 2015 under the FIFO method is

a. $25,500.
b. $26,700.
c. $28,200.
d. $24,600.

10 Why are inventories stated at lower-of-cost-or-net realizable value?

a. To report a loss when there is a decrease in the future utility.
b. To be conservative.
c. To report a loss when there is a decrease in the future utility below the original cost.
d. To permit future profits to be recognized.

11 Agricultural produce is

a. Harvested from biological assets.
b. Valued at the time of harvest at its cost to produce.
c. Valued at each reporting period at its fair value less costs to sell.
d. All of the choices are correct regarding agricultural produce.

12 Company sells product WSC for $25 per unit. The cost of one unit of WSC is $18. The estimated cost to

complete a unit is $4, and the estimated cost to sell is $6. At what amount per unit should product WSC be reported, applying lower-of-cost-or-net realizable value?

a. $20.

b. $15.

c. $18.

d. $19.

13 If a corporation purchases a lot and building and subsequently tears down the building and uses the property as a parking lot, the proper accounting treatment of the cost of the building would depend on

a. the significance of the cost allocated to the building in relation to the combined cost of the lot and building.

b. the length of time for which the building was held prior to its demolition.

c. the contemplated future use of the parking lot.

d. the intention of management for the property when the building was acquired.

14 When computing the amount of interest cost to be capitalized, the concept of "avoidable interest" refers to

a. the total interest cost actually incurred.

b. a cost of capital charge for equity.

c. that portion of total interest cost which would not have been incurred if expenditures for asset construction had not been made.

d. that portion of average accumulated expenditures on which no interest cost was incurred.

15 When funds are borrowed to pay for construction of assets that qualify for capitalization of interest, the excess funds not needed to pay for construction may be temporarily invested in interest-bearing securities. Interest earned on these temporary investments should be

a. offset against interest cost incurred during construction.

b. used to increase the cost of assets being constructed.

c. multiplied by an appropriate interest rate to determine the amount of interest to be capitalized.

d. recognized as revenue of the period.

16 h of the following is the recommended approach to handling interest incurred in financing the construction of property, plant and equipment?

a. Capitalize only the actual interest costs incurred during construction.

b. Charge construction with all costs of funds employed, whether identifiable or not.

c. Capitalize no interest during construction.

d. Capitalize interest costs equal to the prime interest rate times the estimated cost of the asset being constructed.

17	When an asset acquired through government grants is recorded using the capital approach, a. assets and equity increase by the fair value of the asset. b. assets and liabilities increase by the fair value of the asset. c. assets and equity increase by the cost of the asset. d. assets and liabilities increase by the cost of the asset.
18	Depletion expense a. is usually part of cost of goods sold. b. includes tangible equipment costs in the depletion base. c. excludes intangible development costs from the depletion base. d. excludes restoration costs from the depletion base.
19	Which of the following costs should be capitalized in the year incurred? a. Research and development costs. b. Costs to internally generate goodwill. c. Organizational costs. d. Costs to successfully defend a patent.
20	Which of the following situations may give rise to unearned revenue? a. Providing trade credit to customers. b. Selling inventory. c. Selling magazine subscriptions. d. Providing manufacturer warranties.
21	On September 1, Hydra purchased $9,500 of inventory items on credit with the terms 1/15, net 30, FOB destination. Freight charges were $200. Payment for the purchase was made on September 18. Assuming Hydra uses the perpetual inventory system and the net method of accounting for purchase discounts, what amount is recorded on September 1 as accounts payable from this purchase? a. $9,405. b. $9,605. c. $9,700. d. $9,500.
22	Purest owes $1 million that is due on February 28. The company borrows $800,000 on February 25 (5-year note) and uses the proceeds to pay down the $1 million note and uses other cash to pay the balance. How much of the $1 million note is classified as long-term in the December 31 financial

	statements? a. $1,000,000. b. $0. c. $800,000. d. $200,000.
23	Hiro Corp. issues 1,000 €5 par value ordinary shares and 1,000 €20 par value preference shares for a lump sum of €60,000. At the issue date, the ordinary shares were selling for €36 and the preference shares were selling for €28. How much is recorded in Hiro's statement of financial position for the preference shares? a. €31,000 b. €36,000 c. €26,250 d. €28,750
24	Investments in trading debt investments are generally reported at a. amortized cost. b. face value. c. fair value. d. maturity value
25	Under IFRS, the fair value option a. must be applied to all instruments the company holds. b. may be selected as a valuation method by the company at any time during the first 2 years of ownership. c. reports all gains and losses in income. d. All of these answer choices are correct.
26	When a company holds between 20% and 50% of the outstanding ordinary shares of an investee, which of the following statements applies? a. The investor should always use the equity method to account for its investment. b. The investor should use the equity method to account for its investment unless circumstances indicate that it is unable to exercise "significant influence" over the investee. c. The investor must use the fair value method unless it can clearly demonstrate the ability to exercise "significant influence" over the investee. d. The investor should always use the fair value method to account for its investment.

27 Under the equity method of accounting for investments, an investor recognizes its share of the earnings in the period in which the

a. investor sells the investment.

b. investee declares a dividend.

c. investee pays a dividend.

d. earnings are reported by the investee in its financial statements.

28 Kern Company purchased bonds with a face amount of $400,000. Kern purchased the bonds at 102 and paid brokerage costs of $6,000. The amount to record as the cost of this debt investment is

a. $406,000.

b. $414,000.

c. $408,000.

d. $400,000.

29 Marle Construction enters into a contract with a customer to build a warehouse for $850,000 on March 30, 2015 with a performance bonus of $50,000 if the building is completed by July 31, 2015. The bonus is reduced by $10,000 each week that completion is delayed. Marle commonly includes these completion bonuses in its contracts and, based on prior experience, estimates the following completion outcomes:

Completed by	Probability
July 31, 2015	65%
August 7, 2015	25%
August 14, 2015	5%
August 21, 2015	5%

The transaction price for this transaction is

a. $895,000

b. $850,000

c. $552,500

d. $585,000

30 On December 1, 2016, Goetz Corporation leased office space for 10 years at a monthly rental of $90,000. On that date Perez paid the landlord the following amounts:

Rent deposit	$ 90,000
First month's rent	90,000
Last month's rent	90,000
Installation of new walls and offices	495,000
	$765,000

The entire amount of $765,000 was charged to rent expense in 2016. What amount should Goetz have charged to expense for the year ended December 31, 2016?

	a. $90,000 b. $94,125 c. $184,125 d. $495,000

TRUE & FALSE (15%)

1	A change in accounting policy is a change that occurs as the result of new information or additional experience.
2	Errors in financial statements result from mathematical mistakes or oversight or misuse of facts that existed when preparing the financial statements.
3	Comprehensive income includes all changes in equity during a period except those resulting from distributions to owners.
4	Under IFRS, agricultural inventories, such as wheat, oranges, etc., are recorded at their fair value less estimated selling costs at the point of harvest.
5	Application of the lower-of-cost-or-net realizable value rule results in inconsistency because a company may value inventory at cost in one year and at net realizable value in the next year.
6	In late 2015, Daisy Company entered into a noncancelable purchase contract for which the contract price is now greater than the market price, and Daisy expects that losses will occur when the purchase is executed in early 2016. Under IFRS, Daisy should recognize a liability and corresponding loss in 2015.
7	Special assessments for local improvements such as street lights and sewers should be accounted for as land improvements.
8	The fair value of an asset acquired through a government grant can be recorded as deferred revenue and recognized as income over the life of the asset.
9	Intangible development costs and restoration costs are part of the depletion base
10	ew patent is acquired through modification of an existing patent, the remaining book value of the original patent may be amortized over the life of the new patent.
11	t-term debt obligations are classified as current liabilities unless an agreement to refinance is completed before the financial statements are issued.

12	If a company determines that an investment is impaired, it writes down the amortized cost basis of the individual security to reflect this loss in value.
13	A loss in the current period on a profitable contract must be recognized under both the percentage-of-completion and cost-recovery method.
14	A lease that contains a purchase option must be capitalized by the lessee.
15	Under the operating method, the lessor records each rental receipt as part interest revenue and part rental revenue.

I - MATCHING (6.5 %)

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

____ 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.

II - CONSOLIDATION (10 %)

The draft statements of financial position as at 31 December 2016 of three companies are set below:

		Haley $000	Socrates $000	Aristotle $000
Assets				
Non-current assets				
Tangible Assets		300	100	160
Investment at cost	18,000 shares in Socrates	75	-	
	18,000 shares in Aristotle	30	-	
Current Assets		345	160	80
		750	260	240
Equity and Liabilities				
Share Capital ($1 shares)		250	30	60
Retained Earnings		400	180	100
Non-Current Loans		100	50	80
		750	260	240

The reserves of Socrates and Aristotle when the investments were acquired were $70,000 and $30,000 respectively. Goodwill in respect of the acquisition of Socrates has been fully impaired and a write down in the investment in Aristotle of $3,000 is required.

Required:

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

III- EPS (10 %)

a) The Consolidated profit or loss for the year for Lacy Holding is

	2014 $	2015 $
Profit before tax consolidated	80,500	85,400
Taxation	(28,000)	(31,600)
Share of profit of associate	6,500	8,900
	59,000	62,700
Attributable to:		
Equity holders of the parent	55,500	58,800
Non-controlling interest	(3,500)	(3,900)
	59,000	62,700

Capital structure

	$
Ordinary shares of 50 cents	100,000
	100,000

Required:

Calculate earnings per share for the year ended 31 December 2015 (with comparative)

----

b) Bonus issues

The consolidated profit or loss is as in part (a). Capital structure as in part (a), except that a bonus issue was made on 1 February 2015 of one new bonus share for every four shares already held, this issue is not reflected in the capital structure of part (a).

Required:

Calculate earnings per share for the year ended 31 December 2015 (with comparative)

IV. Construction Contracts (13.5 %)

Gerard Inc, a limited liability company that designs and builds racecourses, commenced a four year contract early in 2012. The price was initially agreed at $12,000,000

Revenue is recognised over the term of the contract as the performance obligation is satisfied over time. Gerard recognizes revenue based on the percentage of costs incurred to date compared to total expected costs.

Relevant figures are as follows:

	2012 $000	2013 $000	2014 $000	2015 $000
Costs incurred in year	2,750	3,000	4,200	1,150
Anticipated future Costs	7,750	7,750	1,550	-
Work certified and cash received to date	3,000	5,000	11,000	12,500

Required:

Show how the above would be disclosed in the financial statements of Gerard for each of the four years ended December 31, 2015.

Good Luck!