December 2016

MULTIPLE CHOICE (60%)

1- Which of the following is **not** one of the major types of pronouncements issued by the International Accounting Standards Board (IASB)?
a. International financial reporting standard.
b. Memorandum of understanding.
c. Framework for financial reporting.
d. International financial reporting interpretations.

2- Which of the following is an ethical concern of accountants?
a. Earnings manipulation.
b. Conservative accounting.
c. Industry practices.
d. None of the above.

3- The underlying theme of the conceptual framework is
a. decision usefulness.
b. understandability.
c. faithful representation.
d. comparability.

4- Which of the following is **not** a basic assumption underlying the financial accounting structure?
a. Economic entity assumption.
b. Going concern assumption.
c. Periodicity assumption.
d. Historical cost assumption.

5- Preparation of consolidated financial statements when a parent-subsidiary relationship exists is an example of the
a. economic entity assumption.
b. relevance characteristic.
c. comparability characteristic.
d. neutrality characteristic.

6- Garwood Company has the following items: write-down of inventories, $480,000; loss on disposal of part of Sports Division, $740,000; and loss due to an asset impairment, $452,000. Ignoring income taxes, what total amount should Garwood Company report as other income and expense?
a. $1,672,000
b. $740,000
c. $932,000
d. $1,192,000

7- Chase Corp. had the following infrequent transactions during 2015:

A $300,000 gain from selling its automotive division.
A $420,000 gain on the sale of investments.
A $140,000 loss on the write-down of inventories.

In its 2015 income statement, what amount should Chase report as other income and expense?

a. $160,000
b. $280,000
c. $580,000
d. $720,000

8- A change in estimate should

a. result in restatement of prior period statements.
b. be handled in current and future periods.
c. be handled in future periods only.
d. be handled retroactively.

9- Treasury shares should be reported as a(n)

a. current asset.
b. investment.
c. other asset.
d. reduction of equity.

10- Kohler Company owns the following investments:

Trading securities (fair value)	£ 60,000
Non-trading securities (fair value)	45,000
Held-for-collection securities (amortized cost)	57,000

Kohler will report securities in its long-term investments section of

a. exactly £105,000.
b. exactly £117,000.
c. exactly £162,000.
d. £102,000 or an amount less than £102,000, depending on the circumstances.

11- Pedigo Corporation reports the following information:

Net cash provided by operating activities	£225,000
Average current liabilities	150,000
Average non-current liabilities	100,000
Dividends paid	60,000
Capital expenditures	110,000
Payments of debt	35,000

Pedigo's cash debt coverage is

a. 0.90.
b. 1.50.
c. 2.25.
d. 4.09.

12- Caroline, Inc. had the following transactions during 2015:

Exchanged land for a building	£764,000
Purchased treasury shares	160,000
Paid cash dividend	380,000
Purchased equipment	212,000
Issued ordinary shares	588,000

What is Caroline, Inc.'s net cash provided (used) by financing activities?

a. £600,000 provided by financing activities.
b. £48,000 provided by financing activities.
c. £48,000 used by financing activities.
d. £428,000 used by financing activities.

13- How is a significant amount of consignment inventory reported in the statement of financial position?

a. The inventory is reported separately on the consignor's statement of financial position.
b. The inventory is combined with other inventory on the consignor's statement of financial position.
c. The inventory is reported separately on the consignee's statement of financial position.
d. The inventory is combined with other inventory on the consignee's statement of financial position.

14- Which of the following types of interest cost incurred in connection with the purchase or manufacture of inventory should be capitalized as a product cost?

a. Purchase discounts lost
b. Interest incurred during the production of discrete projects such as ships or real estate projects
c. Interest incurred on notes payable to vendors for routine purchases made on a repetitive basis
d. All of these should be capitalized.

15- Muckenthaler Company sells product 2005WSC for $25 per unit. The cost of one unit of 2005WSC 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 2005WSC be reported, applying lower-of-cost-or-net realizable value?

a. $20.
b. $15.
c. $18.
d. $19.

16- The period of time during which interest must be capitalized ends when

a. the asset is substantially complete and ready for its intended use.
b. no further interest cost is being incurred.
c. the asset is abandoned, sold, or fully depreciated.
d. the activities that are necessary to get the asset ready for its intended use have begun.

17- 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.

18- An expenditure made in connection with a machine being used by a company should be

a. expensed immediately if it merely extends the useful life but does not improve the quality.
b. expensed immediately if it merely improves the quality but does not extend the useful life.
c. capitalized if it maintains the machine in normal operating condition.
d. capitalized if it increases the quantity of units produced by the machine.

19- If a company constructs a laboratory building to be used as a research and development facility, the cost of the laboratory building is matched against earnings as

a. research and development expense in the period(s) of construction.
b. depreciation deducted as part of research and development costs.
c. depreciation or immediate write-off depending on company policy.
d. an expense at such time as productive research and development has been obtained from the facility.

20- On June 2, 2015, Olsen Inc. purchased a trademark with a cost €2,360,000. The trademark is classified as an indefinite-life intangible asset. At December 31, 2015 and December 31, 2016, the following is available for impairment testing:

	12/31/2015	12/31/2016
Fair value less costs to sell	€2,280,000	€2,265,000
Value-in-use	€2,340,000	€2,390,000

The 2016 income statement will report

a. no Impairment Loss or Recovery of Impairment.
b. Impairment Loss of €20,000.
c. Recovery of Impairment of €20,000.
d. Recovery of Impairment of €50,000.

21- When a company has an obligation or right to repurchase an asset for an amount greater than or equal to its selling price, the transaction should be treated as a

a. outright sale.
b. financing transaction.
c. repurchase transaction.
d. put option.

22- Share dividends distributable should be classified on the

a. income statement as an expense.
b. statement of financial position as an asset.
c. statement of financial position as a liability.
d. statement of financial position as an item of equity.

23- Which of the following is a characteristic of a current liability but **not** a non-current liability?

a. Unavoidable obligation.
b. Present obligation that entails settlement by probable future transfer or use of cash, goods, or services.
c. Settlement is expected within the normal operating cycle, or within 12 months after the reporting date.
d. Transaction or other event creating the liability has already occurred.

24- Where is debt callable by the creditor reported on the debtor's financial statements?

a. Non-current liability.
b. Current liability if the creditor intends to call the debt within the year, otherwise a non-current liability.
c. Current liability if it is probable that creditor will call the debt within the year, otherwise a non-current liability.
d. Current liability.

25- 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.

26- Provisions are contingent liabilities which are accrued because the likelihood of an unfavorable outcome is

a. virtually certain.
b. greater than 50%.
c. at least 75%.
d. possible.

27- Which dividends do **not** reduce equity?

a. Cash dividends
b. Share dividends
c. Property dividends
d. Liquidating dividends

28- When computing diluted earnings per share, convertible bonds are

a. ignored.
b. assumed converted whether they are dilutive or antidilutive.
c. assumed converted only if they are antidilutive.
d. assumed converted only if they are dilutive.

29- Hill Corp. had 600,000 ordinary shares outstanding on January 1, issued 900,000 shares on July 1, and had income applicable to common stock of $1,050,000 for the year ending December 31, 2016. Earnings per share for 2016 would be

a. $1.75.
b. $٠.83.
c. $1.00.
d. $1.17.

30- An impairment loss is the difference between the recorded investment and the

a. expected cash flows .
b. present value of the expected cash flows.
c. contractual cash flows.
d. present value of the contractual cash flows.

31- Dilutive convertible securities must be used in the computation of

a. basic earnings per share only.
b. diluted earnings per share only.
c. diluted and basic earnings per share.
d. None of these answers are correct

32- Green Construction Co. has consistently used the percentage-of-completion method of recognizing revenue. During 2015, Green entered into a fixed-price contract to construct an office building for $24,000,000. Information relating to the contract is as follows:

	At December 31	
	2015	2016
Percentage of completion	15%	45%
Estimated total cost at completion	$18,000,000	$19,200,000
Gross profit recognized (cumulative)	1,200,000	2,880,000

Contract costs incurred during 2016 were

a. $5,760,000.
b. $5,940,000.
c. $6,300,000.
d. $8,640,000.

33- 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.

34- Wynne Inc. charges an initial franchise fee of $1,840,000, with $400,000 paid when the agreement is signed and the balance in five annual payments. The present value of the future payments, discounted at 10%, is $1,091,744. The franchisee has the option to purchase $240,000 of equipment for $192,000. Wynne has substantially provided all initial services required and collectibility of the payments is reasonably assured. The amount of revenue from franchise fees is

a. $ 400,000.
b. $1,443,744.
c. $1,491,744.
d. $1,840,000.

35- Lindsay Corporation had net income for 2016 of $3,000,000. Additional information is as follows:

Depreciation of plant assets	$1,200,000
Amortization of intangibles	240,000

Increase in accounts receivable	420,000
Increase in accounts payable	540,000

Lindsay's net cash provided by operating activities for 2016 was
a. $4,560,000.
b. $4,440,000.
c. $4,320,000.
d. $1,680,000.

36- During 2016, Orton Company earned net income of $384,000 which included depreciation expense of $78,000. In addition, the company experienced the following changes in the account balances listed below:

Increases		Decreases	
Accounts payable	$45,000	Accounts receivable	$12,000
Inventory	36,000	Accrued liabilities	24,000
		Prepaid insurance	33,000

Based upon this information what amount will be shown for net cash provided by operating activities for 2016?
a. $492,000
b. $465,000
c. $285,000
d. $267,000

37- Minear Company reported net income of $340,000 for the year ended 12/31/16. Included in the computation of net income were: depreciation expense, $60,000; amortization of a patent, $32,000; income from an investment in ordinary shares of Brett Inc., accounted for under the equity method, $48,000; and amortization of a bond discount, $12,000. Minear also paid an $80,000 dividend during the year. The net cash provided by operating activities would be reported at:

a. $396,000.
b. $316,000.
c. $284,000.
d. $204,000.

38- An operating segment is a reportable segment if
a. its operating profit is 10% or more of the combined operating profit of profitable segments.
b. its operating loss is 10% or more of the combined operating losses of segments that incurred an operating loss.
c. the absolute amount of its operating profit or loss is 10% or more of the company's combined operating profit or loss.
d. none of these answer choices are correct.

39- IFRS requires that a company report all to the following **except**
a. segment profits and loss and related information.
b. segment assets and liabilities.
c. major customers.
d. liquidity ratios.

40- An example of an inventory accounting policy that should be disclosed in a Summary of Significant Accounting Policies is the
a. composition of inventory into raw materials, work-in-process, and finished goods.
b. major backlogs of inventory orders.
c. method used for pricing inventory.
d. All of these answer choices should be disclosed.

Question I (15%)

Charles 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. Charles 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%

Calculate the transaction price for this transaction?

Question II (25%)

Alpha has owned 80% of the equity shares of Beta since the incorporation of Beta. Therefore Alpha has prepared consolidated financial statements for some years. On 1 June 2005 Alpha purchased 35% of the equity shares of Gamma. The income statements and summarised statements of changes in equity of the three entities for the year ended 30 September 2005 are given below:

Income statements

	Alpha	Beta	Gamma
	$'000	$'000	$'000
Revenue (Note 1)	150,000	100,000	96,000
Cost of sales	(110,000)	(78,000)	(66,000)
Gross profit	40,000	22,000	30,000
Distribution costs	(7,000)	(6,000)	(6,000)
Administrative expenses	(8,000)	(7,000)	(7,200)
Profit from operations	25,000	9,000	16,800
Investment income (Note 2)	6,280	Nil	Nil
Finance cost	(5,000)	(3,000)	(4,200)
Profit before tax	26,280	6,000	12,600
Income tax expense	(7,000)	(1,800)	(3,600)
Net profit for the period	19,280	4,200	9,000

Summarised statements of changes in equity

	$'000	$'000	$'000
Balance at 1 October 2004	122,000	91,000	82,000
Net profit for the period	19,280	4,200	9,000
Dividends paid on 30 June 2005	(6,500)	(2,500)	(4,800)
Balance at 30 September 2005	134,780	92,700	86,200

Notes to the financial statements

Note 1 – Inter-company sales

Alpha sells products to Beta, making a profit of 25% on the cost of the products sold. Details of the purchases of the products by Beta together with the amounts included in opening and closing inventories in respect of the products, are given below:

Purchased in year	Included in opening inventory	Included in closing inventory
$'000	$'000	$'000
20,000	2,000	3,000

There were no other inter-company sales between Alpha, Beta or Gamma during the period.

Note 2 – Investment income

Alpha's investment income includes dividends received from Beta and Gamma and interest receivable from Beta. The dividend received from Gamma has been credited to the income statement of Alpha without time apportionment. The interest receivable is in respect of a loan of $20 million to Beta at a fixed rate of interest of 8% per annum. The loan has been outstanding for the whole of the year ended 30 September 2005.

Note 3 – Details of acquisitions by Alpha

Entity	Date of acquisition	Goodwill on acquisition	Fair Value adjustment at date of acquisition
		$'000	$'000
Beta	1 July 1994	Nil	Nil
Gamma	1 June 2005	8,400	7,200

The goodwill figure for Gamma is after taking account of the fair value adjustment. This goodwill has not suffered impairment since 1 June 2005.

The fair value adjustment has the effect of increasing the fair value of property, plant and equipment above the carrying value in the individual financial statements of Gamma. Group policy is to depreciate property, plant and equipment on a monthly basis over its estimated useful economic life. The estimated life of the property, plant and equipment of Gamma that was subject to the fair value adjustment is five years, with depreciation charged against cost of sales.

Note 4 – other information

– The purchase of shares in Gamma followed a contractual arrangement with two other investors to obtain joint control over Gamma from 1 June 2005. The contract requires that all three investors approve the key policy decisions of Gamma.
– All equity shares in Beta carry one vote at general meetings.
– The policy of Alpha regarding the treatment of equity investments in its consolidated financial statements is as follows:

- Subsidiaries are fully consolidated.
- Joint ventures are proportionally consolidated.
- Associates are equity accounted.
- Other investments are treated as available for sale financial assets.

Required:
(a) Prepare the consolidated income statement and consolidated statement of changes in equity of Alpha for the year ended 30 September 2005. Notes to the consolidated income statement are not required.