PART I - MULTIPLE CHOICE QUESTIONS (30%)

1. **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.

2. **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.

3. **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

4. **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.

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. **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.

7. **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.

8. **Alonzo Co. acquires 3 patents from Shaq Corp. for a total of $300,000. The patents were carried on Shaq's books as follows: Patent AA: $5,000; Patent BB: $2,000; and Patent CC: $3,000. When Alonzo acquired the patents their fair values were: Patent AA: $20,000; Patent BB: $240,000; and Patent CC: $60,000. At what amount should Alonzo record Patent BB?**

a. $100,000
b. $240,000
c. $2,000
d. $225,000

9. 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

10. 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.

11. IAS 1 - Presentation of Financial Statements sets out its requirements for a complete set of financial statements.
Which one of the following is NOT one of these requirements?

a. The Statement of Profit or Loss and Other Comprehensive Income
b. The Statement of Changes in Equity
c. Notes to the financial statements
d. The directors' report.

12. Margertate plc produces financial statements for the year ended 31 March 2013 which are expected to be approved for publication on 30 April 2013.
According to IAS 10 Events After the Reporting Period, which of the following would normally be treated as an adjusting event in the financial statements for the year ended 31 March 2013?

(i) Communication from a customer (owing an amount of €22,000 to Margertate) received on 15 April 2013 that they have been placed into liquidation.
(ii) The directors declare a dividend of 8 cents per ordinary share on 24 April 2013 in respect of the year ended 31 March 2013.
(iii) An insurance claim is agreed in April 2013 relating to a fire in February 2013.
(iv) Investments held by the company at 31 March 2013 had fallen by 8% by 30 April 2013.

a. (i), (ii) and (iii)
b. (i) and (iii)
c. (ii) and (iv)
d. (i) and (iv)

13. A company has 2 lines of goods in its inventory at 31 March 2013. Details are as follows:

	A	**B**
Cost	**€500**	**€800**
Net realizable value	**€460**	**€960**

What figure should appear as closing inventory in the financial statements drawn up to 31 March 2013?

a. €1,260
b. €1,300
c. €1,420
d. €1,460

14. According to IAS 37 Provisions, Contingent Liabilities and Contingent Assets, which one of the following should be recognised as a provision in the accounts for the year ended 31 March 2013?

a. The board decided to close down a division in January 2013, agreed a detailed closure plan on 15 March 2013 and details were given to customers and employees immediately afterwards. Redundancy and other relevant costs were expected to be €2 million.
b. Under new legislation, smoke filters must be fitted in its operating plants by 30 July 2013. The expected cost of complying with this law is €1 million. No action has yet been taken to implement it.
c. The directors have received a letter from a former employee claiming unfair dismissal. Legal advice received is of the opinion that the employee would not be successful in the claim.
d. Inventory with a cost value of €340,000 is expected to sell for €400,000.

15. Mike plc purchased a piece of equipment for €930,000 on 1 April 2008. Depreciation was charged at 12.50% per annum on a straight-line basis from the date of purchase until 1 April 2012. The equipment was revalued under IAS 16 Property, Plant and Equipment on 1 April 2012 to its fair value of €415,000 and the remaining useful life is assessed at four years from that date. The residual value is estimated to be zero.
What is the amount charged to profit or loss in respect of the above transactions for the year ended 31 March 2013?

a. Expense €50,000
b. Expense €103,750
c. Expense €153,750
d. None of the above

16. A company's research & development department incurred the following items of expenditure during the year to 30 June 2013:

(i) Wages & salaries €350,000.

(ii) New equipment with a 6 year useful economic life €750,000 (bought on 1 July 2012).

(iii) Overheads specific to the R&D department €140,000. These are allocated in proportion to the activity of the department.

(iv) Materials for laboratory use €420,000. There was a closing inventory of these materials amounting to €60,000. No opening inventory existed.

The R&D department is working on several projects. The directors estimate the department's time and resources can be allocated reasonably as follows:
Research activities 30%;
Development activities (projects not meeting the IAS 38 criteria for capitalisation) 25%;
Development activities (projects meeting the IAS 38 criteria for capitalisation) 45%.
How much of the above expenditure should be capitalised under IAS 38 to intangible assets (development costs) in the year ended 30 June 2013?

a. €438,750
b. €465,750
c. €720,000
d. €747,000.

17. **During the year ended 31 March 2014, it was discovered that the published financial statements for year ended 31 March 2013 included €25,000 of goods in closing inventory, which had in fact been sold during March 2013. Assume this is a material amount in the context of the financial statements.**

    In compliance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, how should this matter be dealt with during the preparation of the financial statements for year ended 31 March 2014?

    a. Treat the matter as a current period error, and correct in the 2014 financial statements;
    b. Treat the matter as a prior period error, and correct by adjustments to the 2013 comparatives;
    c. Treat the matter as a change of estimate, and correct in the 2014 financial statements;
    d. Recall all copies of the 2013 annual report and reissue a corrected version.

18. **4. Moon plc bought a new, fully fitted, office building on 1 April 2013 for €20 million. On the same date it issued a €25 million bond at an annual yield of 7.5%, primarily to pay for the new building. The building remained idle for 4 months as the directors of Moon plc decided not to move offices until the summer. On 1 August 2013 the company occupied the building, and remained in occupation for the balance of the financial year. The reporting date is 31 March 2014.**

    Under IAS 23 Borrowing Costs, how much interest should be capitalised to the buildings account?

    a. nil
    b. €500,000
    c. €625,000
    d. €1,875,000

19. During the financial year ended 31 March 2019, Marty Plc sold goods at an invoice value of €60,000 to a customer on a 'sale or return' basis. This included a profit margin of 30%. No payment was received. At 31 March 2019, the goods had not yet been sold on by the customer.
Under IFRS 15 - Revenue from Contracts with Customers, how much should Marty Plc report as revenue, as trade receivables and as inventory in respect of the above goods?

	Revenue	Trade Receivables	Inventory
a.	€60,000	€60,000	Nil
b.	Nil	Nil	Nil
c.	Nil	Nil	€60,000
d.	Nil	Nil	€42,000

20. On January 2, 2015, Q. Tong Inc. purchased equipment with a cost of HK$10,440,000, a useful life of 10 years and no salvage value. The Company uses straight-line depreciation. At December 31, 2015 and December 31, 2016, the company determines that impairment indicators are present. The following information is available for impairment testing at each year end:

	12/31/2015	12/31/2016
Fair value less cost to sell	**HK$9,315,000**	**Hk$8,350,000**
Value-in-use	**HK$9,350,000**	**HK$8,315,000**

There is no change in the asset's useful life or salvage value. The 2016 income statement will report

a. Recovery of Impairment Loss of HK$3,889.
b. Impairment Loss of HK$10,000.
c. Recovery of Impairment Loss of HK$38,889.
d. Impairment Loss of HK$1,000,000.

PART II - EXERCISES

Treat THREE OUT OF THE FOUR Cases below (13 marks each)

Case 1

Delta prepares its financial statements to **31 March** each year.

On 1 March 2019, Delta sold a product to customer X. Customer X is based in a country whose currency is the florin and Delta has a large number of customers in that country to whom Delta sell similar products. The invoiced price of the product was 500,000 florins. The terms of the sale gave the customer the right to return the product at any time in the three-month period ending on 31 May 2019. On 1 March 2019, Delta estimated that there was a 22% chance the product would be returned during the three-month period. The product had not been returned to Delta by 25 May 2019 (the date the financial statements for the year ended 31 March 2019 are authorized for issue).

On 25 May 2019, the directors estimated that there was an 8% chance the product would be returned before 31 May 2019. The directors of Delta considered that the most reliable method of measuring the price for this transaction was to estimate any variable consideration using a probability (expected value) approach. Exchange rates (florins to $1) are as follows:

- 1 March 2019 2.00 florins to $1
- 31 March 2019 2.10 florins to $1
- 25 May 2019 2.15 florins to $1
- Predicted 31 May 2019 2.20 lorins to $1

<u>Required:</u>

Explain and show with appropriate calculations how Delta would report those events in its financial statements (statement of financial position <u>and</u> statement of profit and loss) for the year ended <u>31 March 2019.</u>

<u>Case 2:</u>

Gamma prepares its financial statements to **<u>30 September</u>** each year.

On 1 October 2018, the board of Gamma granted key employees share options that are subject to vesting conditions. Details of the award are as follows:

i. Fifty employees can potentially receive 5,000 options each on 30 September 2020. The options that vest (see below) will allow the employees to purchase shares in Gamma at any time in the year to 30 September 2021 for $15 per share. The par (or nominal) value of the shares is $1 per share.
ii. The options only vest if the employees remain in employment with Gamma until 30 September 2020 and if the share price of Gamma is at least $20 by that date.
iii. On 1 October 2018, the board of Gamma estimated that 5 of the 50 employees would leave in the following two years. Three of the employees left in the year ended 30 September 2019 and at that date the board considered that a further three would leave in the year to 30 September 2020.
iv. On 1 October 2018, the share price of Gamma was $15. The price had risen to $18 by 30 September 2019 and the directors are reasonably confident that the price will exceed $20 by 30 September 2020.
v. On 1 October 2018 the directors estimated that the fair value of one of the granted options was $4.50. This estimate had risen to $5 by 30 September 2019.

<u>Required:</u>

Explain and show with appropriate calculations how Gamma would report those events in its financial statements (statement of financial position <u>and</u> statement of profit and loss) for the year ended 30 September 2019.

Case 3:

Omega, a company with a year end 30 September 2017, applies IFRS 16 – *Leases* to report lease transactions in the financial statements. The following information is provided in the notes:

Note 1 – property lease

On 1 October 2016, Omega began to lease a property on a 10 year lease. The annual lease payments were $500,000, payable in arrears – the first payment being made on 30 September 2017. Omega incurred initial direct costs of $60,000 in arranging this lease. The annual rate of interest implicit in the lease was 10%. When the annual discount rate is 10% the present value of $1 payable at the end of years 1-10 is $6.145.

Note 2 – sale and leaseback

On 1 April 2017, Omega sold a property to a third party for proceeds of $4,500,000. The carrying amount of the property in the financial statements of Omega at 1 October 2016 was $17,500,000 (depreciable component $12,000,000) and its estimated future useful life was 20 years.

On 1 April 2017, Omega began a 10 year leaseback of the property from the third party. The annual rate of interest implicit in the lease was 10%. Annual rentals were 528,500, payable in arrears. The sale of the property by Omega does not constitute the satisfaction of a relevant performance obligation under IFRS 15- *Revenue from Contracts with Customers*.

Required:

> **Explain and show with appropriate calculations how Omega would report those events in its financial statements (statement of financial position and statement of profit and loss) for the year ended 30 September 2017.**

Case 4:

IFRS 15 – Revenue from Contracts with Customers – was issued in September 2015 and applies to accounting periods beginning on or after 1 January 2018. IFRS 15 replaces IAS 11 – *Construction Contracts* – and IAS 18 – *Revenue*. IFRS 15 contains principles which underpin the timing of the recognition of revenue from contracts with customers and the measurement of that revenue.

Alpha prepares financial statements to 30 September each year. Notes 1 and 2 provide information on revenue transactions relevant to the year ended 30 September 2017.

On 1 April 2017, Alpha sold a product to a customer for $121,000. This amount is payable on 30 June 2019. The manufacturing cost of the product for Alpha was $80,000. The customer had a right to return the product for a full refund at any time up to and including 30 June 2017. At 1 April 2017, Alpha had no reliable evidence regarding the likelihood of the return of the product by the customer. The product was not returned by the customer before 30 June 2017 and so the right of return for the

customer expired. On both 1 April 2017 and 30 June 2017, the cash selling price of the product was $100,000. A relevant annual rate to use in any discounting calculations is 10%.

Required:

Explain and show how the transaction would be reported in the financial statements of Alpha (statement of financial position and statement of profit and loss) for the year ended 30 September 2017.

Part III GROUP ACCOUNTING (31%)

Alpha, a parent with investments in two companies, Beta and Gamma. Is preparing its consolidated statement of financial position at 31 March 20X2.

The following information is provided in the notes:

Note 1 – Statements of financial position

	Alpha $'000	Beta $'000	Gamma $'000
ASSETS			
Non-current assets :			
Property, plant and equipment (Note 2)	267,000	190,000	220,000
Investments (Notes 2 and 3)	263,349	Nil	Nil
	530,349	190,000	220,000
Current assets:			
Inventories (Notes 2 and 4)	85,000	50,000	40,000
Trade receivables	75,000	45,000	36,000
Cash and cash equivalents	15,000	10,000	8,000
	175,000	105,000	84,000
Total assets	**705,349**	**295,000**	**304,000**
EQUITY AND LIABILITIES			
Equity			
Share capital ($1 shares)	195,000	100,000	80,000
Retained earnings	281,167	100,000	100,000
Total equity	476,167	200,000	180,000
Non-current liabilities:			
Deferred consideration (Note 2)	61,983	Nil	Nil
Long-term borrowings (Note 5)	60,000	45,000	50,000
Deferred tax	21,199	10,000	20,000
Total non-current liabilities	143,182	55,000	70,000
Current liabilities:			
Trade and other payables	70,000	30,000	34,000
Short-term borrowings	16,000	10,000	20,000
Total current liabilities	86,000	40,000	54,000
Total equity and liabilities	**705,349**	**295,000**	**304,000**

Note 2 – Alpha's investment in Beta

On 1 April 20X0, Alpha acquired 75 million shares in Beta by means of a share exchange. The terms of the business combination were as follows:

- Alpha issued two shares for every three shares acquired in Beta. On 1 April 20X0, the market value of an Alpha share was $3·50.
- Alpha will make a deferred cash payment to the former shareholders of Beta on 31 March 20X3 of $1 per Beta share acquired. On 1 April 20X0, Alpha's incremental borrowing rate was 10% per annum. Alpha has included a liability of $61,983,471 in respect of this deferred payment in its statement of financial position as at 31 March 20X1.

It is the group policy to value the non-controlling interest in subsidiaries at the date of acquisition at fair value. The market value of an equity share in Beta of $2.00 at 1 April 20X0 can be used for this purpose.

On 1 April 20X0, Beta had retained earnings $80m.

The directors of Alpha carried out a fair value exercise to measure the identifiable assets and liabilities of Beta at 1 April 20X0. The following matters emerged:

- Plant and equipment with a carrying value of $100 million had an estimated market value of $110 million. The estimated future useful life of the plant at 1 April 20X0 was five years and this estimate remains valid. Beta has disposed of 20% of this plant and equipment since 1 April 20X0.
- Inventory with a carrying amount of $35 million had an estimated market value of $38 million. This inventory had been sold since 1 April 20X0.

The fair value adjustments have not been reflected in the individual financial statements of Beta. In the consolidated financial statements the fair value adjustments will be regarded as temporary differences for the purposes of computing deferred tax. The rate to apply to temporary differences where required is 20%. On 31 March 20X2, the directors of Alpha identified that the goodwill in Beta should be impaired by $13m.

Note 3 – Alpha's investment in Gamma:

On the date of incorporation of Gamma, Alpha subscribed for 40% of the equity shares of Gamma, making a payment of $32 million in cash. This investment made Gamma an associate. The draft financial statements of Alpha recognise this investment at cost.

You can ignore any deferred tax implications of the investment by Alpha in Gamma.

Note 4 – inter-company sale of inventories

The inventories of Beta and Gamma at 31 March 20X2 included components purchased from Alpha during the year at a cost of $15 million to Beta and $12·5 million to Gamma. Alpha applied a mark-up of 25% of its production cost in arriving at the sale price of these components. You can ignore the deferred tax implications of any adjustments you make due to the information in this note.

Required:

Use the draft statements of financial position of Alpha, Beta and Gamma at 31 March 20X2 in Note 1, and the further information provided in notes 2-4 to prepare the consolidated statement of financial position of Alpha at 31 March 20X2.

Good Work!!