PART I - MULTIPLE CHOICE QUESTIONS (40%)

1. **IAS 23 - *Borrowing Costs* sets out the conditions under which such costs should be capitalised or expensed.**
   On 1 August 2018, Malcock Plc commenced construction of a factory building for its own use. On the same date it issued a 5% debenture for €40 million. The entire proceeds of the bond were used immediately to pay for the land and to purchase building materials for the project. Construction work commenced on 1 October 2018 and continued throughout the year, except for a half-month break at Christmas 2018 and a further half-month break in July 2019.
   Which of the following amounts should be capitalised as borrowing costs under IAS 23?
   A. €2,000,000
   B. €1,833,333
   C. €1,666,667
   D. €1,500,000.

2. **IFRS 8 - Operating Segments requires certain entities to disclose information on a segmental basis. Which of the following is true regarding IFRS 8?**
   (i) All entities applying IFRS accounting standards are required to comply with IFRS 8.
   (ii) All segments of a business applying IFRS 8 must be reported on.
   A. (i) only
   B. (ii) only
   C. Both (i) and (ii)
   D. Neither (i) nor (ii).

3. **Nangle Plc (Nangle) entered into a 10-year lease on 1 August 2018 under which it agreed to make annual payments of €12 million in arrears in return for the use of a building. Nangle will not own the asset at the end of the lease period. The present value of the minimum lease payments was €80.52 million at 1 August 2018, and the useful economic life of the building was 50 years. Nangle's cost of capital is 8%.**
   How much should be charged to Profit or Loss as finance costs for year ended 31 July 2019 under IFRS 16 *Leases*?
   A. €6.44 million
   B. €12.0 million
   C. Zero
   D. None of the above.

4. **Mealiffe Plc is an Irish company whose functional currency is the euro (€). On 31 May 2019, it sold goods to a UK customer at an agreed price of GBP £40,000. At the reporting date 31 July 2019, the balance remained payable. The relevant exchange rates were as follows:**
   31 May 2019: €1 = GBP £0.98
   31 July 2019: €1 = GBP £0.93
   Ignoring the time value of money, what is the amount of exchange gain or loss that would appear in the financial statements of Mealiffe Plc for year ended 31 July 2019 based on the above transaction?
   A. €2,195 loss
   B. €2,195 gain
   C. €3,011 loss
   D. €3,011 gain.

5. **Troy Plc has calculated its closing inventory for year ended 31 July 2018 at €56,900. Included in this figure is a batch of 30 items of raw material carried at the cost price €1,000 each. These items have declined in value, and could be sold for a maximum of €23,500 at 31 July 2018. However, Troy Plc plans to incorporate these items into finished goods and it expects these to generate a profit of €6,800. What is the correct figure for closing inventory at 31 July 2018 according to IAS 2 - Inventory?**
   A. €26,900
   B. €50,400
   C. €56,900
   D. €63,700.

6. **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

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. **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.

9. **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.

10. **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

11. 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

12. During January 20x2, before the financial statements of Rainbird Co for the year ended 31 December 20x1 had been finalised, a number of events took place.
Which of these events would require an adjustment to the financial statements as at 31 December 20x1 in accordance with IAS Events After Reporting Period?

A. Rainbird Co's board announced a plan to discontinue one of its operations and dispose of the plant. The loss on disposal is estimated at $2 million.
B. The employees of the operation to be discontinued commenced a case against Raibrid Co for constructive dismissal. The total cost could be $3 million.
C. A legal case for which Rainbrid Co had provided $1.7 million at 31 December 20x1 cover possible damages was unexpectedly settled in its favour.
D. One of Rainbird Co's warehouses was destroyed by fire and half of the inventory on hand at 31 December 20x1, valued at $2.5 million, was destroyed.

13. Repro Co, a company which sells photocopying equipment, has prepared its draft financial statements for the year ended 30 September 20x4. It has included the following transactions in revenue at the stated amounts below.
Which of these has been correctly included in revenue according to IFRS 15 Revenue from Contacts with Customers?

A. Agency sales of $250,000 on which Repro Co is entitled to a commission.
B. Sale proceeds of $20,000 for motor vehicles which were no longer required by Repro Co.
C. Sales of $150,000 on 30 September 20x4. The amount invoiced to and received from the customer was $180,000, which included $30,000 for ongoing servicing work to be done by Repro Co over the next two years.
D. Sales of $200,000 on 1 October 20x3 to on September 20x5. Repro Co has a cost of capital of 10%.

14. Each of the following events occurred after the reporting date of 31 March 2015, but before the financial statements were authorized for issue.
Which would be treated as a NON-adjusting event under IAS 10 Events After the Reporting Period?

A. A public announcement in April 2015 of a formal plan to discontinue an operation which had been approved by the board in February 2015
B. The settlement of an insurance claim for a loss sustained in December 2014
C. Evidence that $20,000 of goods which were listed as part of the inventory in the statement of financial position as at 31 March 2015 had been stolen
D. A sale of goods in April 2015 which had been held in inventory at 31 March 2015. The sale was made at a price below its carrying amount at 31 March 2015.

15. A material prior period error should be corrected:

A. Retrospectively
B. Prospectively
C. Either retrospectively or prospectively
D. Prospectively unless it is impracticable to do so

16. 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.

17. 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

18. 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.

19. **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.

20. **IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations sets out guidance for dealing with assets held by the entity where the economic benefits will be realised primarily through a sale rather than through continuing use. On 31 March 2019, Jared Plc has a property which meets all the criteria to be classified as 'held for sale' under IFRS 5. It is currently carried at its depreciated historic cost of €14.5 million. The company has estimated the fair value of the property at €20 million and that disposal costs will be €0.5 million.**
    How should the property be treated in the financial statements as at 31 March 2019?
    A. Include within current assets at a value of €14.5 million.
    B. Include within non-current assets at a value of €14.5 million.
    C. Include within current assets at a value of €19.5 million.
    D. Include within non-current assets at a value of €19.5 million.

<u>PART II - EXERCISES</u>

<u>Exercise 1 (10%)</u>

Daktari provides a defined benefit pension scheme for its employees. The following information relates to the balances on the fund's assets and liabilities at the beginning and end of the year and the year ending 31 December 2017:

	1 Jan	31 Dec
Present value of benefit obligation	1,270	1,450
Fair value of plan assets	1,025	1,130

Service cost for year	70
Contributions to the plan	100
Benefits paid	---
Discount rate	3%

Required:

a) Identify the balance to be included in Daktari's statement of financial position at 31 December 2017.
b) Calculate the amounts to be included in the statement of profit or loss and other comprehensive income for the year ended 31 December 2017.
c) Present a journal summarizing the accounting entries.

Exercise 2 (10%)

Gerard Inc, a limited liability company that designs and builds racecourses, entered into a four year contract to build a racing track early in 2012. The contract price was initially agreed at € 12,000,000.

Revenue is recognized 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 (inputs method).

Relevant figures related to this contract are as follows:

	2012	**2013**	**2014**	**2015**
Costs incurred during the period	€ 2,750,000	€ 3,000,000	€ 4,200,000	€ 1,150,000
Costs incurred till yearend	€ 2,750,000	€ 5,750,000	€ 9,950,000	€ 11,100,000
Anticipated future costs	€ 7,750,000	€ 7,750,000	€ 1,550,000	-

Required:

Explain and quantify how shall Gerard report revenues generated from this contract in its financial statements at the end of each of the reporting periods.

Exercise 3 (10%)

On 1 April 2011, Delta purchased some land for $10 million. Delta purchased the land in order to extract minerals from it. During the six months from 1 April 2011 to 30 September 2011, Delta incurred costs totalling $3·5 million in preparing the land and erecting extraction equipment. This process caused some damage to the land. Delta began extracting the minerals on 1 October 2011 and the directors estimate that there are sufficient minerals to enable the site to have a useful economic life of 10 years from that date. Further damage to the land is caused as the minerals are extracted.

i. Delta is legally obliged to rectify the damage caused by the preparation and mineral extraction. The directors estimate that the costs of this rectification on 30 September 2021 will be as follows: $3 million to rectify the damage caused by the preparation of the land.
ii. $200,000 for each year of the extraction process to rectify damage caused by the extraction process itself.

Following this rectification work the land could potentially be sold to a third party for no less than its original cost of $10 million.

An annual discount rate appropriate for this project is 12%. The present value of $1 payable in 10 years' time with an annual discount rate of 12% is 32·2 cents. The present value of $1 payable in 9½ years' time with an annual discount rate of 12% is 34·1 cents.

Required:

Explain and show how this event would be reported in the financial statements of Delta for the year ended 31 March 2012.

Exercise 4 (30%)

Alpha is a company based in Lebanon with shareholdings in two other companies, Beta and Gamma. Statements of Financial Position are shown below for all three companies as at 31 July 2019.

Statements of Financial Position as at 31 July 2019

	Alpha $ **million**	**Beta** $ **million**	**Gamma** $ **million**
Non-current assets:			
Property, plant & equipment	758	326	159
Investments	1,200	40	25
	1,958	**366**	**184**
Current assets:			
Inventories	235	153	65
Trade receivables	188	134	42
Cash & cash equivalents	100	36	20
	523	323	127
Total assets	**2,481**	**689**	**311**
Equity:			
Equity share capital of $1 each	1,000	400	100
Other equity reserves	200	30	80
Retained earnings	977	112	70
	2,177	**542**	**250**
Current liabilities:			
Contingent consideration	38	0	0
Trade payables	161	127	46
Taxation	25	20	15
Dividends proposed	80	0	0
	304	**147**	**61**
Total equity & liabilities	**2,481**	**689**	**311**

The following additional information should be taken into account insofar as it is relevant:

(i) Alpha bought 320 million ordinary shares in Beta on 1 August 2018, when the other equity reserves of Beta were $20 million and the retained earnings of Beta were $132 million. The consideration was agreed at $800 million. This was satisfied by the issue of 200 million equity shares by Alpha at an agreed fair valuation of $750 million, plus $50 million to be paid by Alpha on 31 July 2019 if the profit target for the year ($15 million) was met by Beta. The contingent element of the consideration was recorded at its fair value of $38 million at 1 August 2018. As it turned out, significant losses were incurred by Beta in the year to 31 July 2019. Consequently, nothing is payable by Alpha on 31 July 2019 under this part of the deal. No entry has been made by Alpha to reflect this change in expectation.

(ii) The group accounting policy is to value any Non-Controlling Interests (NCI) at their fair value at the acquisition date. On the date, Alpha acquired its interest in Beta, the fair value of the NCI in Beta was $130 million.

(iii) At 1 August 2018, some equipment held by Beta had a fair value $25 million in excess of its carrying value. This equipment had a remaining useful economic life of 5 years at that date.

(iv) Alpha bought a 30% holding in the ordinary shares of Gamma on 1 August 2018, when the other equity reserves of Gamma were $75 million and the retained earnings balance in Gamma' books stood at $60 million. The consideration consisted of an immediate cash payment of $112 million. Alpha exerts significant influence over Gamma as a result of this shareholding. Other investments are held by all three companies. These are equity investments and not more than 5% of the issued share capital is held in any of these individual entities.

(v) During the financial year ended 31 July 2019, Beta sold goods to Alpha for $30 million. These goods were sold at a mark-up on cost of 100%. Of these goods, 40% of these goods remained in the inventory of Alpha at 31 July 2019: $2.5 million of the cost of these goods remains unpaid by Alpha at 31 July 2019.

(vi) No dividends were paid or proposed in the year by any of the companies.

(vii) Due to the unexpected losses incurred by Beta during the year, an impairment review was undertaken on 31 July 2019 and goodwill was found to be impaired by 60% of its acquisition value. There was no impairment necessary in respect of the investment in Gamma.

Note: *All workings should be rounded to the nearest $0.1m.*

Required:

(a) Prepare the Consolidated Statement of Financial Position for the Alpha group as at 31 July 2019 in accordance with International Financial Reporting Standards.

(b) IFRS 3 - *Business Combinations* permits two methods for valuing non-controlling interest at acquisition. Discuss how the initial calculation and subsequent treatment of goodwill arising on the acquisition of Beta would have differed had the non-controlling interest been measured using the proportionate share of the identifiable net assets at the acquisition date. Recalculate the goodwill on this basis.

Good Work!!