**July Exam 2019**

## MULTIPLE CHOICE QUESTIONS (40%)

**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- The underlying theme of the conceptual framework is**

a. decision usefulness.
b. understandability.
c. faithful representation.
d. comparability.

**3- 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

**4- if the governmental grant was conditional for certain events, then it must be recognized as:**

a. Income when the conditions are met.
b. Income when the grant is approved.
c. Credited to a deferred government account when the conditions of the grant are met.
d. Credited to a deferred government account when the grant is approved

**5- The net realisable value of inventories is defined by IAS2 as:**

a. Selling price
b. Cost price
c. Selling price less costs of completion
d. Selling price less costs of completion and selling costs

**6- 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

7- **Germane has a number of relationships with other companies. In which of the following relationships is Germane necessarily the parent company?**
**(i) Foll has 50,000 non-voting and 100,000 voting equity shares in issue with each share receiving the same dividend. Germane owns all of Foll's non-voting shares and 40,000 of its voting shares**
**(ii) Kipp has 1 million equity shares in issue of which Germane owns 40%. Germane also owns \$800,000 out of \$1 million 8% convertible loan notes issued by Kipp. These loan notes may be converted on the basis of 40 equity shares for each \$100 of loan note, or they may be redeemed in cash at the option of the holder**
**(iii) Germane owns 49% of the equity shares in Polly and 52% of its non-redeemable preference shares. As a result of these investments, Germane receives variable returns from Polly and has the ability to affect these returns through its power over Polly**
a. (i) only
b. (i) and (ii) only
c. (ii) and (iii) only
d. All three

8- **11 Wilmslow acquired 80% of the equity shares of Zeta on 1 April 2014 when Zeta's retained earnings were \$200,000. During the year ended 31 March 2015, Zeta purchased goods from Wilmslow totalling \$320,000. At 31 March 2015, one quarter of these goods were still in the inventory of Zeta. Wilmslow applies a mark-up on cost of 25% to all of its sales.**
**At 31 March 2015, the retained earnings of Wilmslow and Zeta were \$450,000 and \$340,000 respectively.**
**What would be the amount of retained earnings in Wilmslow's consolidated statement of financial position as at 31 March 2015?**
a. \$706,000
b. \$542,000
c. \$498,000
d. \$546,000

9- **In a review of its provisions for the year ended 31 March 2015, Cumla's assistant accountant has suggested the following accounting treatments:**
(i) Making a provision for a constructive obligation of \$400,000; this being the sales value of goods expected to be returned by retail customers after the year end under the company's advertised 30-day returns policy
(ii) Based on past experience, a \$200,000 provision for unforeseen liabilities arising after the year end
(iii) The partial reversal (as a credit to the statement of profit or loss) of the accumulated depreciation provision on an item of plant because the estimate of its remaining useful life has been increased by three years
(iv) Providing \$1 million for deferred tax at 25% relating to a \$4 million revaluation of property during March 2015 even though Cumla has no intention of selling the property in the near future
**Which of the above suggested treatments of provisions is/are permitted by IFRS?**

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

**10- 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.

**11- 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.

**12- 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%.

**13- Which TWO of the following are acceptable methods of accounting for a government grant relating to an asset in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance?***

a. Set up the grant as deferred income
b. Credit the amount received to profit or loss
c. Deduct the grant from the carrying amount of the asset
d. Add the grant to the carrying amount of the asset

**14- Apex Co issued the loan stock on 1 April 20x8. Three events or transactions must be taking place for capitalization of borrowing costs to commence in accordance with IAS 23. Which of the following is NOT one of these?**
a. Expenditure on the asset is being incurred.
b. Borrowing costs are being incurred.
c. Physical construction of the asset is nearing completion.
d. Necessary activities are in progress to prepare the asset for use or sale.

**15- Which of the following would be recognized as an investment property under IAS 40 Investment property in the consolidated financial statements of Build Co?**
a. A property intended for sale in the ordinary course of business
b. A property being constructed for a customer
c. A property held by Build Co as a right-of-use asset and leased out under a six month lease
d. A property owned by Build Co and leased out to a subsidiary

**16- Rainbird Co's finance director is checking some of the financial estimates involved. In accordance with IAS 37 if the reporting entity is presently obliged to transfer economic benefit to another party, the occurrence is probable but the amount cannot be measured with sufficient reliability.**
**Select the correct option stating what this should give rise to in the financial statements.**
a. Provision
b. Contingent liability
c. Long term liability
d. Contingent asset

**17- 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

**18- An entity purchases a trademark and incurs the following costs in connection with the trademark:**

| | |
|---|---|
| **One-time trademark purchase price** | **$100,000** |

| | |
|---|---|
| **Nonrefundable VAT taxes** | **5,000** |
| **Training sales personnel on the use of the new trademark** | **7,000** |
| **Research expenditures associated with the purchase of the new trademark** | **24,000** |
| **Legal costs incurred to register the trademark** | **10,500** |
| **Salaries of the administrative personnel** | **12,000** |

**Applying IFRS and assuming that the trademark meets all of the applicable initial asset recognition criteria, the entity should recognize an asset in the amount of**

a. $100,000
b. $115,500
c. $146,500
d. $158,500

**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- A company determined the following values for its inventory as of the end of its fiscal year:**

| | |
|---|---|
| **Historical cost** | **$100,000** |
| **Current replacement cost** | **70,000** |
| **Net realizable value** | **90,000** |
| **Net realizable value less a normal profit margin** | **85,000** |
| **Fair value** | **95,000** |

**Under IFRS, what amount should the company report as inventory on its balance sheet?**

a. $70,000
b. $85,000
c. $90,000
d. $95,000

## A. <u>Exercises</u>

**<u>Exercise 1 ( 15%)</u>**

**Determining the transaction price**

Taplop supplies laptop computers to large businesses. On 1 July 20x5, Taplop entered into a contact with TrillCo, under which TrillCo was to purchase laptops at $500 per unit. The contract states that if TrillCo purchases more than 500 laptops in a year, the price per unit is reduced retrospectively to $450 per unit. Taplop's year end is 30 June.

a) As at 30 September 20x5, TrillCo had bought 70 laptops from Taplop. Taplop therefore estimated that TrillCo's purchases would not exceed 500 in the year to 30 June 20x6, and TrillCo would therefore not be entitled to the volume discount.
b) During the quarter ended 31 December 20x5, TrillCo expanded rapidly as a result of a substantial acquisition, and purchased an additional 250 laptops from Taplop. Taplop then estimated that TrillCo's purchases would exceed the threshold for the volume discount in the year to 30 June 20x6.

**Required**

Calculate the revenue Taplop recognize in:

a) Quarter ended 30 September 20x5
b) Quarter ended 31 December 20x5

We need to apply the principles of IFRS 15 *Revenue from Contracts With Customers.*

**Exercise 2 ( 5%)**

You are the financial controller of Omega, a listed company which prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). Your managing director, who is not an accountant, has recently attended a seminar and has raised question for you concerning issues discussed at the seminar:

(a) One of the delegates at the seminar was a director of an entity which is involved in the exploration for, and evaluation of, mineral resources. This delegate told me that under IFRS rules it is possible for individual entities to develop their own policies for when to recognise the costs of exploration for and evaluation of mineral resources as assets. This seems very strange to me. Surely IFRS requires consistent treatment for all tangible and intangible assets so that financial statements are comparable. Please explain the position to me and outline the relevant IFRS requirements regarding accounting for exploration and evaluation expenditures.

**Required:** Provide an answer to the question raised by the managing director.

**Exercise 3 ( 10%)**

On 1 January 20X1, Heggie leased a machine under a five-year lease. The useful life of the asset to Heggie was four years and there is no residual value.
The annual lease payments are $6 million payable in arrears each year on 31 December. The present value of the future lease payments at 1 January 20X1 was $24 million using the interest rate implicit in the lease of approximately 8% per annum. At the end of the lease term legal title remains with the lessor. Heggie incurred $0.4 million of direct costs of setting up the lease.
The directors have not leased an asset before and are unsure how to account for it.

**Required:** Discuss, with suitable computations, the accounting treatment of the above transaction in Heggie's financial statements for the year ended 31 December 20X1. Work to the nearest $0.1 million.

**Exercise 4 ( 30%)**

On 1 July 2014 Bycomb acquired 80% of Cyclip's equity shares on the following terms:

- a share exchange of two shares in Bycomb for every three shares acquired in Cyclip; and
- a cash payment due on 30 June 2015 of $1·54 per share acquired (Bycomb's cost of capital is 10% per annum).

At the date of acquisition, shares in Bycomb and Cyclip had a stock market value of $3·00 and $2·50 each respectively.

**Statements of profit or loss for the year ended 31 March 2015:**

| | **Bycomb** | **Cyclip** |
|---|---|---|
| | **$'000** | **$'000** |
| Revenue | 24,200 | 10,800 |
| Cost of sales | (17,800) | (6,800) |
| | | |
| Gross profit | 6,400 | 4,000 |
| Distribution costs | (500) | (340) |
| Administrative expenses | (800) | (360) |
| Finance costs | (400) | (300) |
| Profit before tax | 4,700 | 3,000 |
| Income tax expense | (1,700) | (600) |
| Profit for the year | 3,000 | 2,400 |

| **Equity in the separate financial statements of Cyclip as at 1 April 2014:** | | |
|---|---|---|
| | | **$'000** |
| **Equity** | | |
| Equity shares of $1 each | | 12,000 |
| Retained earnings | | 13,500 |

The following information is also relevant:

(i) At the date of acquisition, the fair values of Cyclip's assets were equal to their carrying amounts with the exception of an item of plant which had a fair value of $720,000 above its carrying amount. The remaining life of the plant at the date of acquisition was 18 months. Depreciation is charged to cost of sales.

(ii) On 1 April 2014, Cyclip commenced the construction of a new production facility, financing this by a bank loan.
Cyclip has followed the local GAAP in the country where it operates which prohibits the capitalisation of interest.

Bycomb has calculated that, in accordance with IAS 23 Borrowing Costs, interest of $100,000 (which accrued evenly throughout the year) would have been capitalised at 31 March 2015. The production facility is still under construction as at 31 March 2015.

(iii) Sales from Bycomb to Cyclip in the post-acquisition period were $3 million at a mark-up on cost of 20%. Cyclip had $420,000 of these goods in inventory as at 31 March 2015.

(iv) Bycomb's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose Cyclip's share price at that date can be deemed to be representative of the fair value of the shares held by the non-controlling interest.

(v) On 31 March 2015, Bycomb carried out an impairment review which identified that the goodwill on the acquisition of Cyclip was impaired by $500,000. Impaired goodwill is charged to cost of sales.

**Required:**
**(a) Calculate the consolidated goodwill at the date of acquisition of Cyclip.**
**(b) Prepare extracts from Bycomb's consolidated statement of profit or loss for the year ended 31 March 2015,**
**for:**
**(i) Revenue;**
**(ii) Cost of sales;**
**(iii) Finance costs;**
**(iv) Profit or loss attributable to the non-controlling interest.**

***Good Work!!***