A. 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. 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.

4. 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.

5. 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

6. **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)

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. **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.

9. **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

10. **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

11. **Which of the following will be treated as a subsidiary of Poulgo Co as at 31 December 20X7?**
   1) The acquisition of 60% of Zakron Co’s equity share capital on 1 March 20X7. Zakron Co’s activities are significantly different from the rest of the Poulgo group of companies
   2) The offer to acquire 70% of Unto Co’s equity share capital on 1 November 20X7. The negotiations were finally signed off during January 20X8
   3) The acquisition of 45% of Speeth Co’s equity share capital on 31 December 20X7. Poulgo Co is able to appoint three of the ten members of Speeth Co’s board

   A. 1 only
   B. 2 and 3
   C. 3 only
   D. 1 and 2

12. **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.

13. IAS 41 Agriculture applies to which of the following assets?

A. Seeds awaiting planting
B. Land used for growing trees
C. Trees growing in a forest
D. Lumber harvested and awaiting processing

14. On 1 January 20X6 Fellini hired a machine under a long-term lease agreement. The present value of the lease payments was $3.3 million. Installments of $700,000 are payable annually in advance with the first payment made on 1 January 20X6. The interest rate is 6%.
What amount will appear under non-current liabilities in respect of this lease in the statement of financial position of Fellini at 31 December 20X7?

A. $1,479,000
B. $2,179,000
C. $1,702,000
D. $2,266,000

15. Which of the following is not a requirement of IFRS 6?

A. To improve the existing accounting practices for exploration and evaluation expenditures
B. To measure any impairment of exploration and evaluation assets in accordance with IAS 36 Impairment of Assets
C. To disclose the information that identifies and explains the amounts in the entity's financial statements arising from the utilization of mineral resources
D. None of the above

16. Joy Plc is planning to dispose of a collection of assets. These assets are a disposal group and the carrying amount of these assets immediately before classification was $40m. Joy uses the revaluation model in IAS 16. Upon being classified as a disposal group the assets were revalued to $36m under IFRS. Joy feels that the selling costs would amount to $2m. How would the revaluation of the assets on classification as a disposal group be treated in the financial statements?

A. The entity recognizes an impairment loss of $4m
B. The entity recognizes a loss of $2m
C. The entity recognizes an impairment loss of $6m
D. The entity recognizes a loss of $4m under IAS 16 immediately before classification as held-for-sale and then recognizes an impairment loss of $2m

17. What would the cumulative expense for the following equity-settled share option issued on 1 January 20X1 and vesting on 31 December 20X2 be over the life of the option?

- Fair value 1 January 20X1 = $600,
- Fair value 31 December 20X1 = $800,

- Fair value 31 December 20X2 = $900

A. $800
B. $900
C. $600
D. $850

18. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities. What is the expected manner of recovery for land with an unlimited life?

A. Always through sale
B. Always through usage
C. Through sale or usage
D. Through revaluation

19. Using the requirements set out in IAS 10 Events after the Reporting Period, which of the following would be classified as an adjusting event after the reporting period in financial statements ended 31 March 20X4 that were approved by the directors on 31 August 20X4?

A. A reorganisation of the enterprise, proposed by a director on 31 January 20X4 and agreed by the Board on 10 July 20X4.
B. A strike by the workforce which started on 1 May 20X4 and stopped all production for 10 weeks before being settled.
C. The receipt of cash from a claim on an insurance policy for damage caused by a fire in a warehouse on 1 January 20X4. The claim was made in January 20X4 and the amount of the claim had not been recognised at 31 March 20X4 as it was uncertain that any money would be paid. The insurance enterprise settled with a payment of $1.5 million on 1 June 20X4.
D. The enterprise had made large export sales to the USA during the year. The year-end receivables included $2 million for amounts outstanding that were due to be paid in US dollars between 1 April 20X4 and 1 July 20X4. By the time these amounts were received, the exchange rate had moved in favour of the enterprise.

20. An entity, whose functional currency is the dollar, purchases machinery from a foreign supplier for 8 million Euros on 31 October 2008 when the exchange rate was 1.5 Euros = 1 dollar. At the year-end of 31 December 2008, the amount has not been paid. The closing exchange rate was 1.25 Euros = 1 dollar. Which of the following statements are correct?

A. Cost of plant $6.4 million Dollars, exchange gain $1.07 million, trade payable $5.33
B. Cost of plant $5.33 million Dollars, no exchange loss, trade payable $5.33 million
C. Cost of plant $5.33million Dollars, exchange loss $1.07 million, trade payable $6.4. million
D. Cost of plant $6.4 million Dollars, no exchange gain, trade payable $6.4 million

B. Exercises

Exercise # 1 (20%)

Delta is an entity which prepares financial statements to 30 September each year. Each year the financial statements are authorised for issue on 30 November. During the year ended 30 September 2014, the following transactions occurred:

a) On 1 October 2013, Delta sold a machine to a customer for a total price of $500,000. Delta invoiced the customer for $500,000 on 1 October 2013 and the customer made a payment of $500,000 to Delta on 15 October 2013. The terms of sale included an arrangement that Delta would service and maintain the machine for a four-year period from 1 October 2013. Delta would normally charge an annual fee of $37,500 for a service and maintenance arrangement of this nature. The normal selling price of the machine without a service and maintenance arrangement was $450,000.

b) On 1 October 2013, Delta completed the construction of an ecologically efficient power station at a total construction cost of $40m. The useful life of the factory at 1 October 2013 was 40 years. Under the terms of the operating licence granted by the Government, Delta is required to dismantle the power station on 30 September 2053 and return the land to its original state. The latest estimated cost of this process, at 30 September 2053 prices, is $55m. An appropriate discount rate to use in any relevant calculations is 5% per annum. At this discount rate, the present value of $1 receivable in 40 years is 14.2 cents.

c) On 5 May 2014, Delta was notified that a customer (Chi) was taking legal action against Delta in respect of financial losses incurred by Chi. Chi alleged that the financial losses were caused due to the supply by Delta of faulty products on 30 November 2013. Delta defended the case but considered, based on the progress of the case up to 30 September 2014, that there was a 75% probability they would have to pay damages of $20m to the customer. The case was ultimately settled by De lta paying damages of $18m to Chi on 15 November 2014.

Required

Explain and show (where possible by quantifying amounts) how the three events would be accounted for in the financial statements of Delta for the year ended 30 September 2014.

Exercise # 2 (20%)

Radium Co. operates in the tourism industry and has a 30 June 2020 reporting date. Radium Co's operations have been significantly affected by COVID-19 and its impairment calculations in accordance with IAS 36 are significantly affected by how long travel restriction and government imposed 'lockdowns' remain in place. As at 30 June 2020, Radium Co. has probability weighted four scenarios in its value in use calculations:

- Positive case: restrictions are lifted 4 weeks after year-end
- Base case: restrictions are lifted 6 weeks after year-end
- Negative case: restrictions are lifted 10 weeks after year-end
- Worst case: restrictions are lifted 16 weeks after year-end

Following are two distinct scenarios that occur before Radium Co completes its financial statements:

A- On 10 July 2020, based on government action and medical announcements, the 'base case' is almost certain to occur.

B- On 5 August 2020, based on government action and medical announcements, the 'worst case' is almost certain to occur.

The financial statements have been authorized for issuance on 20 August 2020.

Required:

Discuss, for each of scenarios A & B whether the information obtained should be incorporated into the cash flow model in the value in use calculation for the year ended 30 June 2020 in accordance with international financial reporting standards.

Exercise # 3 (30%)

On 1 October 2010, Alpha secured a majority equity shareholding in Beta on the following terms:

an immediate payment of $4 per share on 1 October 2010; and a further amount deferred until 1 October 2011 of $5·4 million. The immediate payment has been recorded in Alpha's financial statements, but the deferred payment has not been recorded. Alpha's cost of capital is 8% per annum.

On 1 February 2011, Alpha also acquired 25% of the equity shares of Gamma paying $10 million in cash.

The summarized statements of financial position of the three companies at 30 September 2011 are:

	Alpha	Beta	Gamma
	$'000	$'000	$'000
Assets			
Non-current assets			
Property, plant and equipment	40,000	31,000	30,000
Intangible assets	7,500		
Investments – Beta (8 million shares at $4 each)	32,000		
– Gamma	10,000	nil	nil
	89,500	31,000	30,000
Current assets			
Inventory	11,200	8,400	10,000
Trade receivables	7,400	5,300	5,000
Bank	3,400	nil	2,000
Total assets	111,500	44,700	47,000
Equity and liabilities			
Equity			
Equity shares of $1 each	50,000	10,000	10,000
Retained earnings - at 1 October 2010	25,700	12,000	31,800
- for year ended 30 September 2011	9,200	6,000	1,200
	84,900	28,000	43,000
Non-current liabilities			
Deferred tax	15,000	8,000	1,000
Current liabilities			
Bank	nil	2,500	nil
Trade payables	11,600	6,200	3,000
Total equity and liabilities	111,500	44,700	47,000

The following information is relevant:

(i) Alpha's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose the directors of Alpha considered a share price for Beta of $3·50 per share to be appropriate.

(ii) At the date of acquisition, the fair values of Beta's property, plant and equipment was equal to its carrying amount with the exception of Beta's plant which had a fair value of $4 million above its carrying amount. At that date the plant had a remaining life of four years. Beta uses straight-line depreciation for plant assuming a nil residual value.

Also at the date of acquisition, Alpha valued Beta's customer relationships as a customer base intangible asset at fair value of $3 million. Beta has not accounted for this asset. Trading relationships with Beta's customers last on average for six years.

(iii) At 30 September 2011, Beta's inventory included goods bought from Alpha (at cost to Beta) of $2·6 million. Alpha had marked up these goods by 30% on cost. Alpha's agreed current account balance owed by Beta at 30 September 2011 was $1·3 million.

(iv) Impairment tests were carried out on 30 September 2011 which concluded that consolidated goodwill was impaired by $1.0 million, and, due to disappointing earnings, the value of the investment in Gamma was impaired by $2·5 million.

(v) Assume all profits accrue evenly through the year.

Required:

Prepare the consolidated statement of financial position for Alpha as at 30 September 2011.

Good Work!!