A. MULTIPLE CHOICE QUESTIONS (40%)

1. 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

2. On 1 January 20X6, Gardenbugs Co received a $30,000 government grant relating to equipment which cost $90,000 and had a useful life of six years. The grant was netted off against the cost of the equipment. On 1 January 20X7, when the equipment had a carrying amount of $50,000, its use was changed so that it was no longer being used in accordance with the grant. This meant that the grant needed to be repaid in full but by 31 December 20X7, this had not yet been done.
Which journal entry is required to reflect the correct accounting treatment of the government grant and the equipment in the financial statements of Gardenbugs Co for the year ended 31 December 20X7?

		Dr	Cr
a.	Dr Property, plant and equipment	$10,000	
	Dr Depreciation expense	$20,000	
	Cr Liability		$30,000
b.	Dr Property, plant and equipment	$15,000	
	Dr Depreciation expense	$15,000	
	Cr Liability		$30,000
c.	Dr Property, plant and equipment	$10,000	
	Dr Depreciation expense	$15,000	
	Dr Retained earnings	$5,000	
	Cr Liability		$30,000
d.	Dr Property, plant and equipment	$20,000	
	Dr Depreciation expense	$10,000	
	Cr Liability		$30,000

3. **Parket Co acquired 60% of Suket Co on 1 January 20X7. The following extract has been taken from the individual statements of profit or loss for the year ended 31 March 20X7:**

	Parket Co	Suket Co
	$'000	$'000
Cost of sales	710	480

Parket Co consistently made sales of $20,000 per month to Suket Co throughout the year. At the year end, Suket Co held $20,000 of this in inventory. Parket Co made a mark-up on cost of 25% on all sales to Suket Co.

What is Parket Co's consolidated cost of sales for the year ended 31 March 20X7?

a. $954,000
b. $950,000
c. $774,000
d. $766,000

4. **A company has decided to change its depreciation method to better reflect the pattern of use of its equipment.**
Which of the following correctly reflects what this change represents and how it should be applied?

a. It is a change of accounting policy and must be applied prospectively
b. It is a change of accounting policy and must be applied retrospectively
c. It is a change of accounting estimate and must be applied retrospectively
d. It is a change of accounting estimate and must be applied prospectively

5. **On 1 October 20X1, Bash Co borrowed $6m for a term of one year, exclusively to finance the construction of a new piece of production equipment. The interest rate on the loan is 6% and is payable on maturity of the loan. The construction commenced on 1 November 20X1 but no construction took place between 1 December 20X1 to 31 January 20X2 due to employees taking industrial action. The asset was available for use on 30 September 20X2 having a construction cost of $6m.**
What is the carrying amount of the production equipment in Bash Co's statement of financial position as at 30 September 20X2?

a. $5,016,000
b. $6,270,000
c. $6,330,000
d. $6,360,000

6. **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.

7. 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.

8. 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.

9. 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

10. 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

11. 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.

12. Steinert Company has the following items at year-end:

Cash in bank $30,000
Petty cash 500
Commercial paper with maturity of 2 months 8,200
Postdated checks 2,100

Steinert should report cash and cash equivalents of

a. $30,000.
b. $30,500.
c. $38,700.
d. $40,800.

13. Oslo Corporation has two products in its ending inventory, each accounted for at the lower of cost or net realizable value. Specific data with respect to each product follows:

	Product #1	Product #2
Selling price	$60	$130
Historical cost	40	70
Cost to sell	10	26
Cost to complete	15	40

In pricing its ending inventory using the lower-of-cost-or-net realizable value, what unit values should Oslo use for products #1 and #2, respectively?

a. $35 and $64.
b. $50 and $104.
c. $40 and $70.
d. $45 and $90.

14. Which of the following does not describe intangible assets?

a. They lack physical existence.
b. They are monetary assets.
c. They provide long-term benefits.
d. They are classified as long-term assets.

The questions 15 to 17 refer to this case
Omega purchased at the beginning of April year N a real estate which needs renovation and has incurred the following expenditures:

Land acquisition cost	**$90,000**
Building acquisition cost	**410,000**
Registration fees	**83,000**
Contracts expenses	**3,500**
Commissions	**40,700**
Architect expenses	**22,000**
Major Repairs expenses	**242,000**

15. The amount that must be recorded as expenses :

a. $127,200
b. $ 0
c. $123,500
d. None of the above

16. In refer to the above case, the land acquisition cost that must be recorded is

a. $ 112,896
b. $ 115,830
c. $ 102,370
d. None of the above

17. In refer to the above case, the building acquisition cost that must be recorded is

a. $ 805,954
b. $ 778,304
c. $ 752,911
d. None of the above

18. Hall Co. incurred research and development costs in 2015 as follows:

Materials used in research and development projects	$ 850,000
Equipment acquired that will have alternate future uses in future research and development projects	3,000,000
Depreciation for 2015 on above equipment	300,000
Personnel costs of persons involved in research and development projects	750,000
Consulting fees paid to outsiders for research and development projects	300,000
Indirect costs reasonably allocable to research and development projects	225,000
	$5,425,000

Assume economic viability has not been achieved.
The amount of research and development costs charged to Hall's 2015 income statement should be

a. $1,900,000.
b. $2,200,000.
c. $2,425,000.
d. $4,900,000.

19. 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.

20. 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

C- Exercises

Exercise I (20%)

Leonard incurs considerable research and development expenditure. It had previously been capitalizing its development expenditure but this treatment has now been identified as an error as the capitalisation criteria of IAS 38 *Intangible Assets* had not been met. The final accounts for the year ended 30 June 2017 and the 2018 draft accounts reflect this capitalisation policy and show the following:

	2018	**2017**
	$000	$000
Revenue	101,260	97,250
Cost of sales	(56,010)	(60,530)
Gross Profit	45,250	36,720
Administrative expenses	(37,397)	(31,260)
Profit before taxation	7,853	5,460
Tax on profit	(3,141)	(2,260)
Profit for the financial year	4,712	3,200
Statement of changes in equity (extract)		
Retained profit for the financial year	4,712	3,200
Retained earnings brought forward	23,950	22,500
Dividends	(2,500)	(1,750)
Retained earnings carried forward	26,162	23,950

The carrying amount of development costs included in intangible non-current assets has been as follows:		
		$000
At 30 June 2016		400
At 30 June 2017		450
At 30 June 2018		180

Amortisation of development costs (charged to cost of sales) and expenditure on development has been.		
	Amortisation	Expenditure
	$000	$000
Year ended 30 June 2017	450	500
Year ended 30 June 2018	870	600

Required:
Show how the errors will be reflected in the financial statements for the year ended 30 June 2018.

Exercise II (25%)

Hever company has held shares in two companies, Spiro and Alridge, for a number of years. As at 31 December 2004 they have the following statements of financial position:

	Hever	Spiro	Alridge
	$'000	$'000	$'000
Non-current assets			
Property, plant and equipment	370	190	260
Investments	218	-	-
	588	190	260
Current Assets			
Inventories	160	100	180
Trade receivables	170	90	100
Cash	50	40	10
	380	230	290
	968	420	550
Equity			
Share capital ($1 ordinary shares)	200	80	50
Share Premium	100	80	30
Retained Earnings	568	200	400
	868	360	480
Current Liabilities			
Trade payables	100	60	70
	968	420	550

1) The 'investments' in the statement of financial position comprise solely Hever's investment in Spiro ($128,000) and in Alridge ($90,000).

2) The 48,000 shares in Spiro were acquired when Spiro's retained earnings balance stood at $20,000.
   The 15,000 shares in Alridge were acquired when that company had a retained earnings balance of $150,000.
3) When Hever acquired its shares in Spiro the fair value of Spiro's net assets equalled their book value s with the following exceptions:

	$'000
Property, plant and equipment	50 higher
Inventories	20 lower (sold during 20X4)

   Depreciation arising on the fair value adjustment to non-current assets since this date is $5,000.
4) During the year, Hever sold inventories to Spiro for $16,000, which originally cost Hever $10,000. Three-quarters of these inventories have subsequently been sold by Spiro.
5) No impairment losses on goodwill had been necessary by 31 December 20X4.
6) It is group policy to value non-controlling interests at full (or fair) value. The fair value of the non-controlling interests at acquisition was $90,000.

Required:
Produce the consolidated statement of financial position for the Hever group.

Exercise III (15%)
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.

Good Work!!