A. MULTIPLE CHOICE QUESTIONS (30%)

1- Which of the following represents a form of communication through financial reporting but not through financial statements?

a. Statement of financial position.
b. President's letter.
c. Income statement.
d. Notes to financial statements.

2- Under the cash basis of accounting, revenues are recorded

a. when they are recognized and realized.
b. when the performance obligation is satisfied.
c. when they are recognized.
d. when the company receives cash.

3- The closing process

a. Is done each time a transaction takes place and is journalized.
b. Transfers all income statement items to their related statement of financial position account (for example, salaries/wages expense transfers to salaries/wages payable).
c. Posts all closing entries to the appropriate general ledger account.
d. All of these choices are correct.

4- disposing of property, plant, and equipment are

a. operating activities.
b. investing activities.
c. financing activities.
d. liquidity activities.

5- Bank overdrafts generally should be

a. reported as a deduction from the current asset section.
b. reported as a deduction from cash.
c. netted against cash and a net cash amount reported.
d. reported as a current liability.

6- Which of the following is a product cost as it relates to inventory?

a. Selling costs.
b. Interest costs.
c. Raw materials.
d. Abnormal spoilage.

7- The disclosure of accounting policies, is important to financial statement readers in determining

a. net income for the year.
b. whether accounting policies are consistently applied from year to year.
c. the value of obsolete items included in ending inventory.
d. whether the working capital position is adequate for future operations.

8- An objective of the statement of cash flows is to
a. disclose changes during the period in all asset and all equity accounts.
b. disclose the change in working capital during the period.
c. provide information about a company's operating, investing, and financing activities.
d. None of these answer choices are correct.

9- The underlying assumption of the conceptual framework is:
a. Decision usefulness.
b. Understandability.
c. Faithful representation
d. Comparability

10-Liabilities are
a. any accounts having credit balances after closing entries are made.
b. deferred credits that are recognized and measured in conformity with generally accepted accounting principles.
c. obligations to transfer ownership shares to other entities in the future.
d. present obligations arising from past events resulting in an outflow of resources.

11-Where should raw materials be classified on the statement of financial position?
a. Prepaid expenses
b. Inventory
c. Equipment
d. Not on the statement of financial position

12-Companies must allocate the cost of all goods available for sale (or use) between:
a. The cost of goods on hands at the beginning of the period as reported on the statement of financial position and the cost of goods acquired or produced during the period.
b. The cost of goods on hand at the end of the period as reported on the statement of financial position and the cost of goods acquired or produced during the period.
c. The income statement and the statement of financial position.
d. All of the choices are correct

13-Lawson manufacturing company has the following account balances at the year end:

Supplies	**$ 4,000**
Raw materials	**27,000**
Work in Process	**59,000**
Finished goods	**92,000**
Prepaid insurance	**6,000**

What amount should Lawson report as inventories in its statement of financial position?

a. $92,000
b. $96,000
c. $178,000
d. $182,000

14- When a plant asset is acquired by issuance of ordinary shares, the cost of the plant asset is properly measured by the:

a. Par value of the shares
b. stated value of the shares
c. Book value of the shares
d. Fair value of the shares

15-When using a perpetual inventory system,

a. no Purchases account is used.
b. a Cost of Goods Sold account is used.
c. two entries are required to record a sale.
d. All of these are correct.

16-On January 1, 2015, the accumulated depreciation- machinery account of a particular company showed a balance of $370,000. At the end of 2015, after the adjusting entries were posted, it showed a balance of $395,000. During 2015, one of the machines which cost $125,000 was sold for $6,500 cash. This resulted in a loss of $4,000. Assuming that no other assets were disposed of during the year, how much was depreciation expense for 2015?

a. $85,000
b. $93,500
c. $25,000
d. $60,500

17-Which of the following is not an intangible asset?

a. Trade names
b. Research costs
c. Franchise
d. Copyrights

18-Which of the following legal fees should be capitalized?

	Legal fees to obtain a copyright	Legal fees to successfully defend a trademark
a.	NO	NO
b.	NO	YES
c.	YES	YES
d.	YES	NO

19-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 a liability if not probable.

20- A company's first IFRS financial statements must include at least how many statements of financial position?

a. One
b. Two
c. Three
d. Five

B. <u>TRUE OR FALSE (15%)</u>

1. Tang Inc. sells collectible jewelry on consignment from various manufacturers and should include this consigned inventory on its statement of financial position.

2. If both purchases and ending inventory are overstated by the same amount, net income is not affected.

3. A trade discount that is granted as an incentive for a first-time customer or as a reward for large order should be accounted for by the purchaser as revenue.

4. Under IFRS, agricultural inventories, such as wheat, oranges, etc., are recorded at their fair value less estimated selling costs at the point of harvest.

5. International financial reporting standards require that a company record an inventory write-down as part of cost of goods sold.

6. Most purchase commitments must be recorded as a liability.

7. Assets under construction for a company's own use do not qualify for interest cost capitalization.

8. Costs incurred subsequent to the acquisition of an asset are capitalized if it is probable that the company will obtain future economic benefits.

9. The major objection to the straight-line method is that it assumes the asset's economic usefulness and repair expense are the same each year.

10. IFRS requires that start-up costs and initial operating losses during the early years be capitalized.

11. The cause for litigation must have occurred on or before the date of the financial statements to report a liability in the financial statements.

12. Provisions are only recorded if it is possible that the company will have to settle an obligation at some point in the future.

13. If the loss on an account receivable results from a customer's bankruptcy after the statement of financial statement date, the company only discloses this information in the notes to the financial statements.

14. Companies should generally use the same accounting policies for interim reports and for annual reports

15. Inventories are measured at the lower of cost or fair value

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C- Exercises

Exercise I (10%)

Apex issued a $10 million unsecured loan with a coupon (nominal) interest rate of 6% on 1 April 2017. The loan is redeemable at a premium and the effective finance cost is 7.5% per annum.

The loan was specifically issued to finance the building of the new store which meets the definition of a qualifying asset in IAS 23. Construction of the store commenced on 1 May 2017 and it was completed and ready for use on 28 February 2018, but did not open for trading until 1 April 2018.

During the year trading at Apex's other stores was below expectations so Apex suspended the construction of the new store for a two-month period during July and August 2017. The proceeds of the loan were temporarily invested for the month of April 2018 and earned interest of $40,000.

Calculate the net borrowing cost that should be capitalized as part of the cost of the new store and the finance cost that should be reported in the statement of profit or loss for the year ended 31 March 2018.

Exercise II (10%)

On 1 April 2017 Speedo established a new research and development unit to acquire scientific knowledge about the use of synthetic chemicals for pain relief. The following expenses were incurred during the year ended 31 March 2018.

1- Purchase of building for $200,000. The building is to be depreciated on a straight line basis at the rate of 4% per annum on cost.
2- Wages and salaries of research staff $1,750,000.
3- Scientific equipment costing $30,000 to be depreciated using a reducing balance rate of 50% per annum.

Speedo charges a full year's depreciation expense in the year of acquisition.

Calculate the amount of research and development expenditure to be recognized as an expense in the year ended 31 March 2018.

Exercise III (15%)

Delta acquired a car taxi business on 1 January 2016 for $230,000. The values of the assets of the business at that date based on net selling prices were as follows:

Elements	**Amount $**
Vehicles (12 vehicles each for $10,000)	120,000
Intangible assets (taxi license)	30,000
Trade receivables	10,000
Cash	50,000
Trade payables	(20,000)
Total	**190,000**

On 1 February 2016, the taxi company had three of its vehicles stolen. The net selling value of these vehicles was $30,000 and because of non-disclosure of certain risks to the insurance company, the vehicles were uninsured.

As a result of this event, Delta wishes to recognize an impairment loss of $45,000 (inclusive of the loss of the stolen vehicles) due to the decline in the value in use of the cash generating unit, that is the taxi business.

On 1 March 2016 a rival taxi company commenced business in the same area. It is anticipated that the business revenue of Delta will be reduced by 25%, leading to a decline in the recoverable amount of the business, which is calculated at $155,000 (including the decline of the net selling value of the taxi license to $25,000. The net selling values of the other assets have remained the same as at 1 January 2016 throughout the period).

Required:

Describe how Delta should treat the above impairments of assets in its financial statements at 1 February 2016 and 1 March 2016.

D- CASE (20 %)

On 1 April 20X8 PIC acquired 90% of the equity shares in SUN. SUN's retained profits at the date of acquisition were $2,640,000.

Balance sheets as of March 20X9

	PIC	***SUN***
	$'000	$'000
Non-current assets		
Property, plant and equipment	2,544	2,388
Intangible – Software	-	2,520
Investments – equity in SUN	5,036	-
- others	214	252
	7,794	5,160
Current Assets		
Inventories	863	672
Receivables	629	394
SUN current account	90	-
Cash	24	-
	1,606	1,066
	9,400	**6,226**
Capital and Reserves		
Equity shares of $1 each	2,400	1,800
Share premium	2,400	600
Retained earnings	3,360	2,706
	8,160	5,106
Non-current liabilities		
Government grants	276	240
Current liabilities		
Trade payables	690	566
PIC current account	-	72
Income taxes payable	274	210
Operating overdraft	-	32
	964	880
	9,400	**6,226**

1. The software of SUN represents the depreciated cost of the development of an integrated business accounting package. It was completed at a capitalized cost of $2,880,000 and went on sale on 1 April 20X8. SUN's directors are depreciating the software on straight-line basis over an eight-year life (i.e. $360,000 per annum). However, the directors of PIC are of the opinion that a six-year life would be more appropriate as sales of business software rarely exceed this period.

2. At the date of acquisition PIC sold an item of plant to SUN for $240,000. This plant had cost PIC $200,000. SUN has charged depreciation of $24,000 on this plant since it was acquired.

3. The inventory of PIC on 31 March 20X9 contains goods at a transfer price of $30,000 that were supplied by SUN who had marked them up with a profit of 25% on cost.

4. On March 20X9 SUN remitted to PIC a cash payment of $18,000. This was not received by PIC until early April.

Required:

Prepare the consolidated balance sheet of PIC as at march 20X9

Good Work!!