Lebanese Association of Certified Public Accountants

International Financial Reporting Standards

23 May 2023

Head Of Exams Committee

Judge John AZZI

A- Multiple choice questions: (20 points)

1. Oslo Company has the following items at year-end:

Cash in bank	€20,000
Petty cash	300
Commercial paper with maturity of 2 months	5,500
Postdated checks	1,400

Oslo should report cash and cash equivalents of

a. €20,000.
b. €20,300.
c. €25,800.
d. €27,200.

2. In preparing its May 31, 2015 bank reconciliation, Kaniper has the following information available:

Balance per bank statement, 5/31/15	€30,000
Deposit in transit, 5/31/15	5,400
Outstanding checks, 5/31/15	4,900
Note collected by bank in May	1,250

The correct balance of cash at May 31, 2015 is

a. €35,400.
b. €29,250.
c. €30,500.
d. €31,750.

3. On February 1, 2020, Hancock Corporation purchased a parcel of land as a factory site for \$200,000. An old building on the property was demolished, and construction began on a new building which was completed on November 1, ~~2015~~ 2020. Costs incurred during this period are listed below:

Demolition of old building	\$ 20,000
Architect's fees	35,000
Legal fees for title investigation and purchase contract	5,000
Construction costs	1,090,000

(Salvaged materials resulting from demolition were sold for \$10,000.

Hancock should record the cost of the land and new building, respectively, as

a. \$225,000 and \$1,115,000.
b. \$210,000 and \$1,130,000.
c. \$210,000 and \$1,125,000.
d. \$215,000 and \$1,125,000.

Use the following information for questions 4 and 5.

On January 1, 2020, ABC Inc. purchased a patent with a cost €2,320,000, a useful life of 5 years. The company uses straight-line depreciation. At December 31, 2021, the company determines that impairment indicators are present. The fair value less costs to sell the patent is estimated to be €1,080,000. The patent's value-in-use is estimated to be €1,130,000. The asset's remaining useful life is estimated to be 2 years.

4. ABC's 2021 income statement will report Loss on Impairment of
a. €0.
b. €262,000.
c. €312,000.
d. €1,190,000.

5. The company's 2022 income statement will report amortization expense for the patent of
a. $377,000.
b. $464,000.
c. $565,000.
d. $1,190,000.

6. Under IFRS, how is the account revaluation surplus reported?
a. As "other revenues and expenses" on the income statement.
b. It is included with Reserves in the stockholders' equity section of the Statement of Financial Position.
c. As part of other comprehensive income which can be reported presented in separate statement, combined with income statement, or in changes in stockholders' equity statement.
d. The account is not reported in the financial statements.

7. XYZ 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 XYZ use for products #1 and #2, respectively?
a. $40 and $70.
b. $50 and $104.
c. $35 and $64.
d. $45 and $90

8. During 2015, A Company purchased the net assets of B Corporation for $1,300,000. On the date of the transaction, B had $300,000 of liabilities. The fair value of B's assets when acquired were as follows:

Current assets	$ 540,000
Noncurrent assets	1,260,000
	$1,800,000

How should the $200,000 difference between the fair value of the net assets acquired ($1,500,000) and the cost ($1,300,000) be accounted for by A?

a. The $200,000 difference should be credited to retained earnings.
b. The $200,000 difference should be recognized as a gain.
c. The current assets should be recorded at $540,000 and the noncurrent assets should be recorded at $1,060,000.
d. A deferred credit of $200,000 should be set up and then amortized to income over a period not to exceed forty years

9. Provisions are contingent liabilities which are accrued because the likelihood of an unfavorable outcome is
a. virtually certain.
b. greater than 50%.
c. at least 75%.
d. possible.

10. What condition is necessary to recognize an environmental liability?
a. Company has an existing legal obligation and can reasonably estimate the amount of the liability.
b. Company can reasonably estimate the amount of the liability.
c. Company has an existing legal obligation.
d. Obligation event has occurred.

11. The underlying theme of the conceptual framework is
a. decision usefulness.
b. understandability.
c. faithful representation.
d. comparability.

12. Recognition of expense related to amortization of an intangible asset illustrates which principle of accounting?
a. Expense recognition.
b. Full disclosure.
c. Revenue recognition.
d. Historical cost.

13. Materiality is used in all of the following situations of providing financial information, **except**:
a. where it would not make a difference in the actions of decision maker.
b. where it would impact the judgment of a reasonable person.
c. where an amount is of relative large size and importance.
d. where omission of the information would result in bias.

14. Assets that qualify for interest cost capitalization include
a. assets under construction for a company's own use.
b. assets that are ready for their intended use in the earnings of the company.
c. assets that are not currently being used because of excess capacity.
d. All of these assets qualify for interest cost capitalization.

15. 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.

16. Provisions are contingent liabilities which are accrued because the likelihood of an unfavorable outcome is
a. virtually certain.
b. greater than 50%.
c. at least 75%.
d. possible.

17. In January 2015, Nelson Corporation, a newly formed company, issued 10,000 shares of its $10 par ordinary shares for $15 per share. On July 1, 2015, Nelson Corporation reacquired 1,000 shares of its outstanding shares for $12 per share. The acquisition of these treasury shares
a. decreased total shareholders' equity.
b. increased total shareholders' equity.
c. did not change total shareholders' equity.
d. decreased the number of issued shares.

18. At December 31, 2016, Finley Company had 500,000 ordinary shares issued and outstanding, 400,000 of which had been issued and outstanding throughout the year and 100,000 of which were issued on October 1, 2016. Net income for the year ended December 31, 2016, was $1,020,000. What should be Finely's 2016 earnings per share, rounded to the nearest penny?
a. $2.02
b. $2.55
c. $2.40
d. $2.27

19. Consigned goods are recognized as revenues by the
a. consignor when a sale to a third party has occurred.
b. consignor when the merchandise has been shipped to a consignee.
c. consignor when it receives payment from consignee for goods sold.
d. consignee when a sale to a third party has occurred.

20. Which of the following are reported at fair value?
a. Debt investments.
b. Equity investments.
c. Both debt and equity investments.
d. None of these answers choices are correct.

B – True or False: (10 points)

1. When a company sells a product but gives the buyer the right to return it, revenue should not be recognized until the sale is collected.
2. The accrual basis recognizes revenue when earned and expenses in the period when cash is paid.
3. Under International Financial Reporting Standards (IFRS), a company who recorded a loss on a purchase commitment in 2020 cannot record a recovery of that loss in 2021 if prices improve.
4. The fair value of an asset acquired through a government grant can be recorded as deferred revenue and recognized as income over the life of the asset.
5. Companies account for the exchange of non-monetary assets on the basis of the fair value of the asset given up or the fair value of the asset received.
6. When a company sells a product but gives the buyer the right to return it, revenue should not be recognized until the sale is collected.
7. IFRS allows for reduced disclosure of contingent liabilities if the disclosure could increase the company's chance of losing a lawsuit.
8. Abnormal freight costs are not included on the statement of financial position as part of the cost of inventory.
9. Equity security holdings between 20 and 50 percent indicates that the investor has a controlling interest over the investee.
10. The cost of acquiring a customer list from another company is recorded as an intangible asset.

C – Exercise: (20 Points)

On 01 October 2020, Epsilon entered into a contract where performance obligations were deemed to be satisfied over time. The contract was expected to take 27 months and therefore be completed on 31 December 2022. Details of the contract are:

Total contract revenues	12,500,000
Estimated total cost of contract (excluding plant)	5,500,000

Plant for use on the contract was purchased on 01 January 2021 (3 months into the contract as it was not required at the start) at of cost of $8M. The plant has a 4 year life and after 2 years, when the contract is complete, it will be transferred to another contract at its carrying amount. Annual depreciation is calculated using the straight line method (assuming a nil residual value) and charged to the contract on a monthly basis at 1/12 of the annual charge.

The correctly reported profit or loss results for the contract for the year ended 31 March 2021 were:

Revenue recognized	3,500,000
Contract expenses recognized	(2,660,000)
Profit recognized	840,000

Details of the progress of the contract at 31 March 2022 are:

Contract costs incurred to date (excluding depreciation)	4,800,000
Agreed value of work completed and invoiced to date	8,125,000
Total cash received to date (payments on accounts)	7,725,000

The percentage of performance obligations satisfied is calculated as the agreed value of work completed as a percentage of the agreed contract price.

Required:

Calculate the amounts which would appear in the statement of profit or loss and statement of financial position of Epsilon, including the disclosure note of contract asset/liabilities, for the year ended 31 March 2022 in respect of the above contract.

D – Exercise: (20 Points)

On 1 July 2015, Gammà acquired Delta, a company that operates a scenic railway along the coast of a popular touristic area. The summarized statement of financial position at fair values of Delta on 1 July 2015 reflecting the terms of the acquisition was:

Goodwill	200,000
Operating license	1,200,000
Property – train stations and land	300,000
Rail track and coaches	300,000
Steam engines (2)	1,000,000
Total	**3,000,000**

The operating license is for 10 years. It has been recently renewed by the transport authority and is stated at the cost of its renewal. The carrying amount of the property and the rail track and coaches are based on their estimated replacement cost. The engines are valued at their fair values, less cost to sell.

On 1 August 2015, the boiler of one of the steam engines exploded, completely destroying the whole engine. Fortunately no one was injured, but the engine was damaged beyond repair. Due to its age, a replacement could not be obtained. Because of the reduced passenger capacity, the estimated value in use of the business after the accident was assessed at $2M.

Passenger numbers after the accident were below expectations even after allowing for the reduced capacity. A market research report concluded that tourists were not using the railway because of the fear of a similar accident occurring to the remaining engine. In the light of this, the value in use of the business was re-assessed at 30 September 2015 at $1.8M. On this date, Gamma received an offer of $900,000 in respect of the operating license (it is transferable).

Required:

Show how each of the assets of Delta would be valued at 01 August 2015 and 30 September 2015 after recognizing the impairment losses (Ignore depreciation of assets). Use the below format for your answer.

	Assets 1 July	First provision	Revised assets 1 August	Second provision	Revised assets 30 September
Goodwill					
Operating license					
Property – train station and land					
Rail track and coaches					
Steam engines					
Total					

E – Exercise: (30 Points)

On 1 July 2021 Alpha acquired 128,000 equity shares ($1 per share) of Beta. The following statements of financial position have been prepared as at 31 December 2022:

	Alpha $	***Beta $***
Land at cost	80 000	72 000
Plant at cost	72 000	57 600
Cost of shares in Beta	203 000	-
Inventory at cost	112 000	74 400
Receivables	104 000	84 000
Bank balance	41 000	8 000
	612 000	296 000

	Alpha $	***Beta $***
Share capital ($1 per share)	400 000	160 000
Retained earnings	160 000	112 000
Suppliers	52 000	24 000
	612 000	296 000

The following information is available:

1) At 1 July 2021 Beta had a debit balance of $11,000 on retained earnings.

2) In fixing the bid price for the shares of Beta, Alpha valued the land at $90,000. All Beta plant was acquired since 1 July 2021.

3) The inventory of Beta includes goods purchased from Alpha for $16,000. Alpha invoiced those goods at cost plus 25%.

4) The fair value for non-controlling interest on acquisition was $50,750. On 31 December 2022 goodwill is valued at $52,050.

Required:

Prepare the consolidated statement of financial position of Alpha as at 31 December 2022.

Good Luck!

President

LACPA Exams' Committee

Judge John R. Azzi