Preparation for exam. Part 1.

Exercise 1: Compile the statement of financial position

Item	Value (CU)
Building, plant and equipment	850,000
Amortization for building, plant and equipment	-230,000
Materials	170,000
Merchandise	260,000
Cash	180,000
Receivables	90,000
Corrections for receivables (bad debts)	-15,000
Company's brand name	75,000
Short-term bank loan	55,000
Long-term bank loan	145,000
Payables	120,000
Common stocks	750,000
Reserves	190,000
Retained earnings	230,000
Business result (profit or loss) of the current period	-110,000

Assets:	Value (CU)
Current assets	
Non-current assets	
Total assets	
Equity and liabilities:	
Short-term liabilities	
Short-term bank loan	
Long-term bank loan	
Owner's equity	
Total equity and liabilities	

Exercise 2: Compile the statement of total comprehensive income

Item	Value (CU)
Sale of own production	700,000
Own production	-550,000
Sales of unused equipment	180,000
Recovery amount of unused equipment sold	-165,000
Sales of securities	175,000
Securities held for sale	-190,000
Income tax expense for comprehensive income	-24,000

Exchange differences on translating foreign operations	-10,000
Actuarial gains on defined benefit pension obligations	8,000
Share of associates' other comprehensive income	12,000
Income tax expense for other comprehensive income	-1,500

Item	Value (CU)
Income from continuing operations (before tax)	
Gain/Loss from discontinued operations (before tax)	
Income tax expense for comprehensive income	
Profit/Loss for the year	
Other comprehensive income (before tax)	
Income tax expense for other comprehensive income	
Other comprehensive income for the year	
Total comprehensive income for the year	

<u>Exercise 3: Find changes in owner's equity</u>

Item	Value (CU)
Total equity	
Common stocks	350,000
Reserves	120,000
Fond for remeasurement	95,000
Retained earnings	130,000

Operations	Value (CU)
Creation of reserves	95,000
Share of retained earnings distributed to shareholders	-70,000
Remeasurement of securities	-15,000
Profit for the year	65,000

	Share capital	Reserves	Fond for remeasurement	Retained earnings and	**Restated balance**
Balance at the beginning of the period	...	...	...	...	...
Creation of reserves	...	...	...	...	...
Distribution to shareholders	...	...	...	...	...
Remeasurement of	...	...	...	...	...

securities					
Profit for the year	...	...	...	...	...
Total	...	...	...	...	...

Exercise 4: Compile consolidated statement of financial position and account for goodwill for the entity presented below

Parent (P) acquires 60% of subsidiary (S) Goodwill = ...			
Item	**Parent (P)**	**Subsidiary (S)**	**Consolidated statement of financial position**
Non-current tangible assets	550,000	110,000	...
Consideration transferred (acquisition cost) by Parent (P)	200,000		...
Goodwill			...
Current assets	210,000	80,000	...
Total assets	960,000	190,000	...
Non-controlling interest			...
LT liabilities		10,000	...
Legal capital	500,000	150,000	...
Retained earnings	460,000	30,000	...
Total equity and liabilities	960,000	190,000	...

Exercise 5: Costs of acquisition an item and restoring the site after dismantling and removing the item acquired

On 1.1.20X1 an entity bought a building for CU 230,000. Expected lifetime of the building is 7 years and after the end of this lifetime it will be necessary to restore the site on which the building is located. Estimated costs of site restoring are CU 24,000 and average interest rate is 15% p.a.

Present value entity's costs for site restoration:	...
Acquisition cost of building:	...

Example 6: Carrying amount of an item at subsequent measurement

On 1 January 20X1 an entity acquired equipment for CU 380,000. Management estimates the useful life of the equipment as 10 years measured from the date of acquisition. Furthermore, it estimates the residual value of the equipment as CU 30,000. Management judges that straight-line method reflects the pattern in which it expects to consume future economic benefits generated by the equipment.

At 31 December 20X1 the equipment was damaged and its recoverable amount was estimated as CU 340,000. What is the carrying amount of the plant on 31 December 20X1?

Exercise 7: Calculate a depreciation amount

An entity has equipment with balance value CU 6,000. Lifetime is defined as 4 years, recoverable amount is CU 400. It is assumed that equipment will produce 20 units of goods during first two years of its lifetime and 30 units of goods during last two years of its lifetime.

Year	**Straight-line depreciation**	**DDB**	**Production depreciation**
1	...	...	...
2	...	...	...
3	...	...	...
4	...	...	...
Total	**...**	**...**	**...**

Exercise 8: Correct the errors and adjust retained earnings

At the beginning of the year 20X1 an entity found, that in the year 20X0 there was an expense of CU 150,000, which was not accounted. Balance of retained earnings at the beginning of the year 20X0 was CU 300,000 and at the beginning of the year 20X1 – CU 400,000.

Initial income statements:

	20X0	**20X1**
Revenues (CU)	750,000	900,000
Expenses (CU)	500,000	750,000
EBT (CU)	...	...
Income tax 30% (CU)	...	...
EAT (CU)	**...**	**...**

Corrected income statements:

	20X0	**20X1**
Revenues (CU)	...	...
Expenses (CU)	...	...
EBT (CU)	...	...
Income tax 30% (CU)	...	...
EAT (CU)	**...**	**...**

Correction of retained earnings:

Item	20X0	20X1
Retained earnings at the beginning of the period (CU)	**...**	**...**
Correction of errors (CU)	...	...
Corrected retained earnings at the beginning of the period (CU)	**...**	**...**

<u>Exercise 9: Determine the amount of goodwill which should be recognized</u>

At 1 January 20X5 SME A acquired 100 per cent of the equity interests in SME B in exchange for cash of CU 300,000. The fair value of SME B's identifiable assets acquired and liabilities assumed are as follows (no contingent liabilities exist):

Item	Value (CU)
Equipment	105,000
Inventory	45,000
Accounts receivable	20,000
Patents	70,000
Accounts payable	23,000

What is the value of goodwill that the entity should recognize?

<u>Exercise 10: Test inventories for impairment and, if any, decide about subsequent reversal of Impairment loss</u>

A retailer holds three items of inventory (X, Y, and Z) at 31 December 20X0. All three inventories stay unsold at 31 December 20X1.

	Carrying amount at 31/12/20X0	Selling price at 31/12/20X0	Costs to sell estimated at 31/12/20X0	Selling price estimated at 31/12/20X1	Costs to sell estimated at 31/12/20X1
Item X	30,000	40,000	10,000	30,000	2,000
Item Y	50,000	50,000	5,000	70,000	12,000
Item Z	70,000	70,000	3,000	73,000	5,000

	Item X	Item Y	Item Z
Carrying amount at 31/12/20X before impairment test			

Selling price less cost to sell at 31/12/20X0			
Impairment loss at 31/12/20X0			
Carrying amount at 31/12/20X1 before impairment test			
Selling price less cost to sell at 31/12/20X1			
Impairment loss at 31/12/20X1			
Reversal of impairment loss for the year ended 31/12/20X1			

Exercise 11: Account for financial leasing in financial statements of lessee

On 1 January 20X1 an entity entered, as lessee, into a three-year non-cancellable lease of a machine. At the end of the lease term ownership of the machine passes to the lessee. There were made three lease payments for CU 4,000 always paid by 31 December. The interest rate implicit in the lease is 15 per cent per year. Real value of machine is CU 9,500. Estimated lifetime of machine is 10 years, estimated residual value at the end of lifetime is CU 500.

Compile schedule of lease payments and compile extraction of statement of financial position and statement of comprehensive income of lessee during contract term.

Example 12: Perform impairment test for goodwill and estimate the recognized amount of impairment loss

On 31 December 20X1, Entity T acquires 100% of voting rights in Entity M for CU10,000. Entity M has manufacturing plants in three countries. The data below relates to the end of 20X1.

	Allocation of purchase price	**Fair value of identifiable assets**	**Goodwill**
Activities in Country A	5,000	3,500	
Activities in Country B	2,000	1,500	
Activities in Country C	5,000	3,500	

Goodwill arising on the acquisition of Entity M has been allocated to three cash-generating units (Countries A, B and C).

During 20X2, a new government is elected in Country A. It passed legislation that significantly restricts exports of the main product produced by Entity T and its subsidiaries (ie Group T). As a result, and for the foreseeable future, Group T's production in Country A will be cut by 40 per cent. The significant export restriction and the resulting production decrease require Group T to estimate the recoverable amount of Country A's cash-generating unit at the end of 20X2. Management estimates cash flow forecasts for Country A operations and determines the cash-generating unit's recoverable amount to be CU 2,750.

	Goodwill	Identifiable assets	Total
Historical cost			
Accumulated amortization/depreciation (31 December 20X2)			
Carrying amount 31 December 20X2			
Impairment loss 31 December 20X2			
Carrying amount after impairment loss 31 December 20X2			

At the end of 20X2, accumulated amortization for goodwill and identifiable assets for cash-generating unit from country A was CU 350 and CU 400 respectively. Estimate impairment loss and new carrying amount of intangible assets for cash-generating unit from country A at 31 December 20X2.

Example 13: Estimate the cost of purchase (inventories)

A retailer imported goods at a cost of CU 570, including CU 45 non-refundable import duties and CU 25 refundable purchase taxes. The risks and rewards of ownership of the imported goods were transferred to the retailer upon collection of the goods from the harbor warehouse. The retailer was required to pay for the goods upon collection. The retailer incurred CU23 to transport the goods to its retail outlet and a further CU 15 in delivering the goods to its customer. Further selling costs of CU 10 were incurred in selling the goods. What is the recognized cost of purchase of inventories?

Example 14: Joint product (inventories)

An entity manufactures a chemical 'A' for use in the agriculture industry. The production process requires a mixture of base chemicals followed by a maturation process, and from which, a product 'A' and joint product 'B' are produced.

Furthermore, the total costs (ie including direct costs and the allocation of overheads) of a production run are CU 600,000.

Each production run produces:

- 8,000 liters of product A, sales value = CU450,000
- 6,500 liters of product B, sales value = CU350,000

The entity allocates the joint process costs to the products produced on the basis of their relative sales values.

What are the per unit costs of by-products A and B?

Example 15: Financial leasing

On 1 January 20X1 an entity entered, as lessee, into a three-year non-cancellable lease of a machine. At the end of the lease term ownership of the machine passes to the lessee. There were made three lease payments for CU 3,000 always paid by 31 December. The interest rate implicit in the lease is 10 per cent per year. Real value of machine is CU 9,000. Estimated lifetime of machine is 10 years, estimated residual value at the end of lifetime is CU 600. Compile schedule of lease payments and compile extraction of statement of financial position and statement of comprehensive income of lessee during contract term.