

## **Accounting policies, estimates and errors**

1. Decide which statements are true:
  - a) While accounting for particular transactions, events or conditions entities are never allowed to deviate from basic requirements imposed by IFRS for SME.
  - b) While accounting for particular transactions, events or conditions entities are allowed to deviate from basic requirements imposed by IFRS for SMEs but only if the effect of following the existing under IFRS for SME guidance will be material.
  - c) While accounting for particular transactions, events or conditions entities are allowed to deviate from basic requirements imposed by IFRS for SMEs but only if the effect of following the existing under IFRS for SME guidance will not be material.
  
2. What changes are treated as changes in accounting policy?
  - a) Application of new accounting policy which is aimed to improve quality of accounting for particular transactions, events or conditions.
  - b) Application of new accounting policy which is switch from fair value model to cost model when fair value is no longer available.
  - c) Application of new accounting policy for transactions, other events or conditions, which differ in substance from those previously occurring.
  - d) Application of new accounting policy for transactions, other events or conditions, which did not occur previously or were not material.
  
3. What changes are treated as changes in accounting estimates?
  - a) Application of new accounting estimates for adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset on the basis of new information or new developments and, accordingly, are not corrections of errors.
  - b) Application of new accounting estimates for recognition of an asset or a liability, or the amount of the periodic consumption of an asset on the basis of existing information (i.e. information which was available in previous periods) which may help to improve existing quality of financial statements prepared.
  - c) Application of new accounting estimates for measurement of the new carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset on the basis of existing information (i.e. information which was available in previous periods) which may help to improve existing quality of financial statements prepared.
  
4. Prior period errors are results of:
  - a) a failure to use or misuse of reliable accounting information
  - b) mathematical mistakes and wrongly paired accounts
  - c) oversights or misinterpretations of facts and fraud
  - d) all mention above

### Exercise 1: Account for change in estimate

An entity bought a fixed asset for CU 2 500, the defined period of depreciation was 10 years. In the 6<sup>th</sup> year on the basis of new information the entity changed the period of depreciation for 7 years.

#### Original depreciation plan

Year	1	2	3	4	5	6	7	8	9	10
Depreciation										

#### Change in estimate

Year	1	2	3	4	5	6	7
Depreciation							

### Exercise 2: Account for correction of prior period errors

At the beginning of the year 20X1 an entity found, that in the year 20X0 there was an expense of CU 100 000, which was not accounted for. Balance of retained earnings at the beginning of the year 20X0 was CU 300 000 and at the beginning of the year 20X1 it was CU 400 000.

#### Initial income statements:

Item	20X0	20X1
Revenues	500 000	650 000
Expenses	150 000	100 000
<b>EAT</b>	...	...
<b>Corporate income tax 30%</b>	...	...
<b>EAT</b>	...	...

#### Corrected income statements

Item	20X0	20X1
Revenues	...	...
Expenses	...	...
<b>EAT</b>	...	...
<b>Corporate income tax 30%</b>	...	...
<b>EAT</b>	...	...

#### Correction of retained earnings:

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

## Property, plant and equipment

1. Which of the following categories of assets can be recognized as PPE?
  - a) assets held for use in production or supply of goods or services
  - b) assets held for rental to others
  - c) assets held for administrative purposes
  - d) assets expected to be used in <1 period
  
2. Decide which statements are true:
  - a) Spare parts and servicing equipment are usually carried as part of property, plant and equipment, and they are depreciated together with the main asset to which they belong.
  - b) If the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits, an entity shall allocate the initial cost of asset to its major components and depreciate each such component separately over its useful life.
  - c) Land and buildings shall be accounted together.
  
3. At initial measurement the cost of an item of property, plant and equipment comprises all of the following:
  - a) purchase price
  - b) legal and brokerage fees
  - c) non-refundable and refundable import duties and purchase taxes
  - d) trade discounts and rebates
  - e) costs of site preparation as well costs of dismantling and removing the item and restoring the site on which it is located
  - f) initial delivery and handling, installation and assembly
  - g) costs of advertising and promotional activities
  - h) administration and other general overhead costs
  - i) borrowing costs
  
4. At subsequent measurement the cost of an item of property, plant and equipment is estimated in the following way:
  - a) Initially recognized cost minus accumulated depreciation and minus accumulated impairment loss
  - b) Initially recognized cost plus accumulated depreciation and minus accumulated impairment loss
  - c) Initially recognized cost minus accumulated depreciation, plus impairment loss and minus impairment loss reversal
  - d) Initially recognized cost minus accumulated depreciation, minus impairment loss and plus impairment loss reversal
  
5. The depreciation charge for each period shall be recognized in
  - a) statement of financial position
  - b) statement of comprehensive income

- c) statement of change in equity
  - d) statement of retained earnings
  - e) statement of cash flow
6. Change in annual depreciation charge on the basis of new information is accounted as:
- a) change in accounting policy
  - b) change in accounting estimate
  - c) correction of prior period error

#### Exercise 1: Costs of acquisition of item

See examples No2 from scan

#### Exercise 2: Costs of acquisition of item and restoring site after dismantling and removing the item acquired

On 1.1.20X1 an entity bought a building for CU 500 000. Expected lifetime of the building is 20 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 100 000, average interest rate is 6% p.a.

#### Exercise 3: Component depreciation

An entity has equipment with balance value CU 250 000, lifetime period of which is 6 years. As part of this equipment there is a spare part with balance value CU 60 000, which is replaced every 3 years. Estimate the depreciation amount and residual amount of equipment with spare part at the end of every year during the lifetime of the equipment.

#### Exercise 4: Depreciation

An entity has equipment with balance value CU 200. Lifetime is defined as 4 years, The residual amount is CU 100. It is assumed that equipment will produce 20 units in the first two years and 30 units in the last two years. Annual amount of depreciation under straight-line method, method of double declining balance and production method.