

FINAL EXAM FROM MPF_AACC INTERNATIONAL ACCOUNTING

Name, Surname	Number of points	% of correct answers

TOTAL NUMBER OF POINTS – 70 points

Multiple choice questions, more than one correct answer is possible, total number of points 20

1. What is the primary function of IASB?
 - a) to develop and publish IFRS.
 - b) to develop and publish IFRS and strive for their worldwide use instead of national accounting standards.
 - c) to develop and publish IFRS and strive for their convergence with national accounting standards.
 - d) to develop and publish IFRS and strive for their worldwide use in general purpose financial statements and other financial reporting.

2. Objective of general purpose financial statements is:
 - a) to inform government statistics.
 - b) to support entity's tax return.
 - c) to meet all information needs of all users of entity's financial statements.
 - d) to inform economic decision-making by a broad range of users that are not in a position to demand reports tailored to their needs (e.g. investors and creditors).

3. A lessee shall recognize its financial lease as:
 - a) rights and obligations of use in its statement of financial position at amounts equal to the carrying amount of the leased property or, if lower, the present value of the minimum lease payments, determined at the inception of the lease.
 - b) rights and obligations of use in its statement of financial position at amounts equal to the recoverable amount of the leased property or, if lower, the present value of the minimum lease payments, determined at the inception of the lease.
 - c) rights and obligations of use in its statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, determined at the inception of the lease.

4. In which case control is presumed to exist?
 - a) When the parent owns, directly or indirectly through subsidiaries, half of the voting power of an entity.
 - b) When the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity.
 - c) When the parent owns half or less of the voting power of an entity but it has power over more than half of the voting rights by virtue of an agreement with other investors.
 - d) When the parent owns half or less of the voting power of an entity but it has power to govern the financial and operating policies of the entity under a statute or an agreement.
 - e) When the parent owns half or less of the voting power of an entity but it has power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body.

5. Which statement is true?
 - a) IFRS for SME requires a parent to present consolidated financial statements.
 - b) IFRS for SME requires a parent or a group of subsidiaries to present separate financial statements.
 - c) IFRS for SME requires a group of two or more entities to present combined financial statements.

6. What change is treated as change 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 aimed to raise reliability, relevance and faithfulness of compiled financial statements.
 - 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.

7. Change in annual depreciation/amortization 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.

8. Decide in which order individual procedures which are presented below should take place while accounting for a business combination:
 - (i) identifying an acquirer and acquisition date.
 - (ii) recognizing the assets acquired and liabilities assumed at fair value.
 - (iii) recognizing any difference between the cost of the business combination and the fair value of assets acquired and liabilities assumed.
 - (iv) allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and provisions for contingent liabilities assumed.
 - (v) measuring the cost of the business combination as aggregate of the fair value of assets given, liabilities assumed and equity issued including transaction costs.

Answers:

- a) (i), (ii), (iii), (iv), (v).
 - b) (ii), (i), (iv), (iii), (v).
 - c) (iii), (ii), (i), (v), (iv).
 - d) (i), (ii), (v), (iv), (iii).
9. A lessee shall recognize its financial lease as:
 - a) rights and obligations of use its statement of financial position at amounts equal to the carrying amount of the leased property or, if lower, the present value of the minimum lease payments, determined at the inception of the lease.

- b) rights and obligations of use its statement of financial position at amounts equal to the recoverable amount of the leased property or, if lower, the present value of the minimum lease payments, determined at the inception of the lease.
 - c) rights and obligations of use its statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, determined at the inception of the lease.
10. If asset's fair value less costs to sell and its value in use exceed asset's carrying amount, then:
- a) such asset is not impaired.
 - b) such asset is impaired.
 - c) its fair value should be reviewed.
 - d) its replacement cost should be reviewed.
11. Impairment loss shall be allocated to reduce the carrying amount of the assets of the unit in the following order:
- a) first, to reduce the carrying amount of all assets other than goodwill, which comprise a cash-generating unit, and then to any goodwill allocated to the cash-generating unit.
 - b) first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the cash-generating unit.
 - c) to reduce the carrying amount of all assets, which comprise a cash-generating unit.
12. At initial measurement basic financial instruments should be measured at:
- a) transaction price including transaction costs unless the arrangement constitutes, in effect, a financing transaction.
 - b) fair value through profit or loss unless the arrangement constitutes, in effect, a financing transaction.
 - c) transaction price including transaction costs except in the initial measurement of financial assets and liabilities that are measured at fair value through profit or loss unless the arrangement constitutes, in effect, a financing transaction.
 - d) transaction price including transaction costs except in the initial measurement of financial assets and liabilities that are measured at fair value through profit or loss.
13. Equity includes:
- a) investments by the owners of the entity plus additions to those investments earned through profitable operations and retained for use in the entity's operations, minus reductions to owners' investments as a result of unprofitable operations and distributions to owners.
 - b) investments by the owners of the entity minus additions to those investments earned through profitable operations and retained for use in the entity's operations, plus reductions to owners' investments as a result of unprofitable operations and distributions to owners.
 - c) investments by the owners of the entity minus additions to those investments earned through profitable operations and retained for use in the entity's operations, minus reductions to owners' investments as a result of unprofitable operations and distributions to owners.
14. While accounting for treasury share requirement an entity shall:
- a) include into equity the fair value of the consideration given for the treasury shares.
 - b) deduct from equity the present value of the consideration given for the treasury shares.
 - c) deduct from equity the fair value of the consideration given for the treasury shares.
15. What are the criteria for provisions and contingencies being recognized?
- a) The entity has an obligation at the reporting date as a result of a past event.

- b) The entity has a receivable at the reporting date as a result of a past event.
- c) It is probable (i.e. more likely than not) that the entity will be required to transfer economic benefits in settlement.
- d) It is probable (i.e. more likely than not) that the entity will be receive a transfer of economic benefits in settlement.
- e) The amount of the obligation can be estimated approximately.
- f) The amount of the obligation can be estimated reliably.

16. Decide if in the following cases corresponding provisions can be recognized?

- a) Waste from an entity's production process contaminated the groundwater at the entity's plant. The entity is not required by law to restore the contaminated environment and there is no court case. However, before the end of the current reporting period the entity made a public announcement that it would restore the contaminated environment within the next 12 months.
- b) An entity operates an open-cast mine in a jurisdiction where environmental rehabilitation laws state that all mine shafts deeper than 10 metres must be entirely filled in by 31 December 2X20 or the mining company that dug the holes for the shafts will be required to pay a substantial fine. The geologists' reports indicate that the entity will be able to extract significant quantities of ore for at least 20 years. The ore is located 15 metres below the surface. At 31 December 20X1 the entity has sunk a shaft 5 metres deep. It is highly likely that the entity will mine beyond 10 metres in the future and therefore will be obliged to fill in each shaft.
- c) A ski resort operator operates in a cyclical business, with 'good years' and 'bad years' depending primarily on the weather. The entity believes that, because of the earnings volatility, it is prudent to defer recognition of a portion of the profit in a 'good year' to the inevitable 'bad year' by recognising a provision in 'good years' and reversing the provision in 'bad years'. The owners of the entity are in full agreement with recognising a provision in the good year. Also, the local income tax law allows deferral of a portion of the profit in a 'good year' to help ensure that ski resort operators have cash to continue operating in 'bad years'. The amount of the entity's accrual under the IFRS for SMEs is based on the tax law.
- d) An entity has made a written pledge to contribute a substantial sum of money toward the construction of a new performing arts centre in its community. Executives of the entity appeared in a press conference to announce the pledge. With the entity's consent, the charitable organisation that is building the arts centre has cited the entity's pledge in its materials soliciting additional pledges for construction. Under local law, pledges to charitable organisations are not legally enforceable.

17. An entity shall measure the revenue transaction at:

- a) the fair value of the goods or services received adjusted by the amount of any cash or cash equivalents transferred.
- b) the present value of the goods or services given up adjusted by the amount of any cash or cash equivalents transferred.
- c) the acquisition cost of the goods or services given up adjusted by the amount of any cash or cash equivalents transferred.

18. An entity's functional currency is:

- a) the currency in which the financial statements are presented.
- b) the currency of the primary economic environment in which the entity operates.
- c) the currency in which sales prices for the entity's goods and services are denominated and settled.
- d) always the local currency of the country in which the entity is based.

19. Financial statements prepared in accordance with these IFRS are an entity's first such financial statements if, for example, the entity:
- a) did not present financial statements for previous periods.
 - b) presented its most recent previous financial statements under national requirements that are consistent with these IFRS in all respects.
 - c) presented its most recent previous financial statements in conformity with full IFRSs.
20. An entity that had never presented financial statements decided to adopt the IFRS for SMEs in 20X8. The entity's financial statements for the year ended 31 December 20X8 conformed to the IFRS for SMEs. Full comparative information is provided for one year. What is the entity's date of transition to the IFRS for SMEs?
- e) 1 January 20X5.
 - f) 1 January 20X6.
 - g) 1 January 20X7.
 - h) 1 January 20X8.

Practical exercises, total number of points 50 points

Exercise 1: Cost accrual (8 points)

At 30 April 20X6 accrued electricity was CU250. During the year ended 30 April 20X7 invoices received for electricity amounted to CU900, including an invoice for CU300 for the quarter ended 30 June 20X7.

What is the correct electricity expenses to include for the year ended 30 April 20X7?

Exercise 2: Impairment of items from cash-generating unit (8 points)

An entity produces a product in a continuous process using three press-machines (ie the output of Machine A is the input (raw material) for Machine B, the output of which is the raw material for Machine C. The output from Machine C is the entity's only marketable product. After recognizing depreciation for the year ended 31 December 20X1 the carrying amount of Machines A, B and C are:

	Machine A	Machine B	Machine C
Carrying amount	14,300	35,100	29,575
Machine's carrying amount in relation to the cash-generating unit's carrying amount (%)	18%	44%	37%

The entity must conduct an impairment test because of a significant market downturn for its products. There is active market for machine A and as per 31 December 20X1 Machine A's fair value less costs to sell is determined as CU12 500. Management could neither determine the fair value less costs to sell nor the value in use of any other individual asset within the cash-generating unit. The value in use of the cash-generating unit is CU 66 000.

Determine of the impairment and the allocation of the impairment loss to Machines A, B and C, and the new carrying amount after impairment.

Example 3: Estimate the cost of stock (joint products) at reporting date (8 points)

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, two joint products are produced – a product 'A' and a product 'B'.

The total costs (i.e. including direct costs and the allocation of overheads) of one production run are CU 525 000.

Each production run produces:

- 4,750 litres of product A, sales value = CU 500 000
- 6,400 litres of product B, sales value = CU 440 000

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 product A and product B during one production run?

Exercise 4: Estimate amortized cost of financial instrument in balance sheet and income statement at the reporting date (8 points)

A company invests 12,500 in 12% loan notes (on January 1, 20X1). The loan notes are repayable at a premium after 2 years. The effective rate of interest is 14%. The company intends to collect the contractual cash flows which consist solely of repayments of interest and capital and have therefore chosen to record the financial asset at amortized cost.

What amounts will be shown in statement of profit or loss and statement of financial position for the financial asset for 1st and 2d year?

Example 5: Account for issue of ordinary shares and sale of options (10 points)

At 31 December 20X0 as a year-end SME A has ordinary share capital of CU200,000, which was contributed at par on incorporation of SME A. The par value of the shares of the entity is CU2 per share.

On 1 January 20X1 the entity issues a further 150,000 ordinary shares at CU7 per share. The shares are issued for cash.

Also on 1 January 20X1, as an incentive to encourage investment, each shareholder is permitted to buy one share option for every share purchased on 1 January 20X1 at CU1 per option. Each option allows the holder to buy two shares on 31 January 20X2 at CU3 per share. 150 000 share options were purchased.

On 31 January 20X2 all share options are converted into ordinary shares. The commercial law to which the entity is subject requires to account for depletion of share option reserve as share premium.

What is the accounting for conversion of options into ordinary shares? Compile short extract from statement of change in owner's equity.

Example 6: revenue from rendering of services (8 points)

A vehicle dealer enters into contracts to maintain its customer's new vehicle for a three-year period.

On 1 January 20X1 a customer paid the dealer CU15,000. Experience has shown that the costs to the dealer of maintaining new vehicles of the model owned by the customer are on average CU2,500 in the first year two years of ownership (each year) and CU5,000 in the third year.

What is the amount of revenue recognized at the end of each reporting period during the lifetime of the contract?