

MULTIPLE CHOICE QUESTIONS (45 %)

| | |
|----|---|
| 1 | C |
| 2 | B |
| 3 | B |
| 4 | A |
| 5 | C |
| 6 | A |
| 7 | B |
| 8 | D |
| 9 | B |
| 10 | A |
| 11 | D |
| 12 | A |
| 13 | C |
| 14 | B |
| 15 | D |

| | |
|----|---|
| 16 | D |
| 17 | B |
| 18 | B |
| 19 | A |
| 20 | D |
| 21 | B |
| 22 | C |
| 23 | B |
| 24 | A |
| 25 | B |
| 26 | B |
| 27 | D |
| 28 | D |
| 29 | C |
| 30 | A |

TRUE & FALSE (12%)

| | |
|---|-------|
| 1 | False |
| 2 | False |
| 3 | False |
| 4 | False |
| 5 | True |
| 6 | True |

| | |
|----|-------|
| 7 | False |
| 8 | False |
| 9 | False |
| 10 | True |
| 11 | True |
| 12 | False |

PROBLEMS (43%)

Problem 1 (13%)

- | | |
|----------------------------------|----------------------------------|
| a. Economic entity assumption | g. Expense recognition principle |
| b. Going concern assumption | h. Full disclosure principle |
| c. Monetary unit assumption | i. Relevance |
| d. Periodicity assumption | j. Faithful representation |
| e. Historical cost principle | k. Comparability |
| f. Revenue recognition principle | |

| | |
|----------|---|
| C | 1 . Stable-dollar assumption (do not use historical cost principle) . |
| F | 2 . Key factor is when the performance obligation is satisfied . |
| J | 3 . Presentation of error-free information . |
| D | 4 . Yearly financial reports . |
| G | 5 . Recording annual depreciation . |
| C | 6 . Useful standard measuring unit for business transactions . |
| H | 7 . Notes as part of necessary information to a fair presentation . |
| A | 8 . Affairs of the business distinguished from those of its owners . |
| B | 9 . Business enterprise assumed to have a long life . |
| E | 10 . Valuing assets at amounts originally paid for them . |
| K | 11 . Application of the same accounting principles as in the preceding year . |
| H | 12 . Summarizing significant accounting policies . |
| I | 13 . Presentation of timely information with predictive and feedback value . |

Problem 2 (4%)

What amount should Vanpelt report as a liability at December 31, 2016?

Answer: $(\$4,200,000 \times .12) - \$189,000 = \$315,000.$

Problem 3 (10 %)

| | <u>Percentage-of-Completion</u> | | <u>Cost-Recovery</u> |
|------|---------------------------------|------|--------------------------------|
| | <u>Gross Profit</u> | | <u>Gross Profit</u> |
| 2015 | <u>\$675,000^a</u> | 2015 | — |
| 2016 | <u>\$165,000^b</u> | 2016 | — |
| 2017 | <u>\$360,000^c</u> | 2017 | <u>\$1,200,000^d</u> |

^a\$1,500,000
 ————— × \$1,800,000 = \$675,000
 \$4,000,000

^b\$2,640,000
 ————— × \$1,400,000 = \$840,000
 \$4,400,000
 2015 gross profit (675,000)
 2016 gross profit \$165,000

^cTotal revenue \$5,800,000
 Total costs 4,600,000
 Total gross profit 1,200,000
 Recognized to date (840,000)
 2017 gross profit \$ 360,000

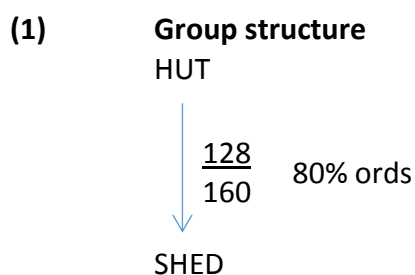
^dTotal revenue \$5,800,000
 Total costs 4,600,000
 Total gross profit \$1,200,000

Problem 4 (16%)

Consolidated statement of financial position of Hut as at 31 December 2016.

| Assets | \$ | \$ |
|---|-----------|----------------|
| Non –current assets | | |
| Tangible | | |
| Land (80,000 + 72,000 + 18,000 (W2)) | | 170,000 |
| Plant at cost (72,000 + 57,600) | | 129,600 |
| Goodwill | | 52,050 |
| | | <u>351,650</u> |
| Current assets | | |
| Inventory (112,000 + 74,400 – 3,200 (W6)) | 183,200 | |
| Receivables (104,000 + 84,000) | 188,000 | |
| Bank (41,000 + 8,000) | 49,000 | |
| | | <u>420,200</u> |
| | | <u>771,850</u> |
| Equity and Liabilities | | |
| Share capital | | 400,000 |
| Retained earnings | | <u>227,440</u> |
| | | 627,440 |
| Non-controlling interest (W4) | | <u>68,410</u> |
| | | 695,850 |
| Current liabilities (52,000 + 24,000) | | <u>76,000</u> |
| | | <u>771,850</u> |

WORKINGS



(2) **Net assets of Shed**

| | <i>Date of consolidation</i> | <i>Acquisition</i> | <i>Post-acquisition</i> |
|---|------------------------------|--------------------|-------------------------|
| | \$ | \$ | \$ |
| Share capital | 160,000 | 160,000 | -- |
| Fair value adjustment on land (90,000 – 72,000) | 18,000 | 18,000 | -- |
| Retained earnings | <u>112,000</u> | <u>(11,000)</u> | 123,000 |
| | <u>290,000</u> | <u>167,000</u> | |

(3) Goodwill

| | |
|---|------------------|
| | \$ |
| Cost of shares | 203,000 |
| Fair value of non-controlling interest | 50,750 |
| Less Net assets acquired (W2) | <u>(167,000)</u> |
| | 86,750 |
| Value at 31 December 2016 | <u>(52,050)</u> |
| Impairment loss | <u>34,700</u> |
| Allocated to: | |
| Shareholders of HUT (DR Retained earnings) (34,700 * 80%) | 27,760 |
| Non-Controlling interest (DR Non-controlling interest) (34,700 * 20%) | <u>6,940</u> |
| | <u>34,700</u> |

(4) Non-controlling interest

| | |
|---|----------------|
| | \$ |
| Fair value on acquisition | 50,750 |
| Share of post-acquisition profits (123,000 * 20%) | 24,600 |
| Share of impairment loss since acquisition (W3) | <u>(6,940)</u> |
| | <u>68,410</u> |

(5) Retained earnings

| | |
|--------------------------------------|----------------|
| | \$ |
| HUT | 160,000 |
| Less Goodwill impaired (W3) | (27,760) |
| Provision for unrealised profit (W6) | (3,200) |
| Shed (80% * 123,000 (W2)) | <u>98,400</u> |
| | <u>227,440</u> |

(6) Provision for unrealised profit

| | | |
|---------------|--------------|-----------------|
| | % | \$ |
| Selling price | 125 | 16,000 |
| cost | <u>(100)</u> | <u>(12,800)</u> |
| Gorss profit | <u>25</u> | <u>3200</u> |

(7) Land

| | |
|---------------------|----------|
| \$72,000 + \$18,000 | \$90,000 |
|---------------------|----------|