



International Financial Reporting Standards

27 January 2024

Head Of Exams Committee

Judge John AZZI

A - Multiple choice questions: (20 points)

1. When using a perpetual inventory system,
 - a. No Purchases account is used.
 - b. Cost of Goods Sold account is used.
 - c. Two entries are required to record a sale.
 - d. All of these are correct.

2. Given the historical cost of product Z is \$150, the selling price of product Z is \$190, costs to sell product Z are \$11, and the cost to complete product Z is \$20, what is the amount that should be used to value the inventory under the lower-of-cost-or-net realizable value method?
 - a. \$130.
 - b. \$150.
 - c. \$159.
 - d. \$139.

3. Which of the following is **not** a capital expenditure?
 - a. A replacement
 - b. An addition
 - c. A betterment
 - d. Repairs that maintain an asset in operating condition

4. Which of the following is **not** an intangible asset?
 - a. Trade name
 - b. Research and development costs
 - c. Franchise
 - d. Copyrights

5. A loss on impairment of an intangible asset is the difference between the asset's
 - a. carrying amount and the expected future net cash flows.
 - b. carrying amount and its recoverable amount.
 - c. recoverable amount and the expected future net cash flows.
 - d. book value and its fair value.

6. Col borrowed \$175,000 on October 1 and is required to pay \$180,000 on March 1. What amount is the note payable recorded at on October 1 and how much interest is recognized from October 1 to December 31?
 - a. \$175,000 and \$0.
 - b. \$175,000 and \$3,000.
 - c. \$180,000 and \$0.
 - d. \$175,000 and \$5,000.

7. In March 2015, an explosion occurred at Dac Co.'s plant, causing damage to area properties. By May 2015, no claims had yet been asserted against Dac. However, Dac's management and legal counsel concluded that it was possible but not probable that Dac would be held responsible for negligence, and that \$4,000,000 would be a reasonable estimate of the damages. Dac's \$5,000,000 comprehensive public liability policy contains a \$400,000 deductible clause. In Dac's December 31, 2014 financial statements, for which the auditor's fieldwork was completed in April 2015, how should this casualty be reported?
- As a note disclosing a possible liability of \$4,000,000.
 - As an accrued liability of \$400,000.
 - No note disclosure of accrual is required for 2014 because the event occurred in 2015.
 - As a note disclosing a possible liability of \$400,000.
8. On January 2, 2023, Kap Co. issued at par \$2,000,000 of 7% convertible bonds. Each \$1,000 bond is convertible into 20 ordinary shares. No bonds were converted during 2023. Kap had 200,000 ordinary shares outstanding during 2023. Kap's 2023 net income was \$600,000 and the income tax rate was 30%. Kap's diluted earnings per share for 2023 would be (rounded to the nearest penny):
- \$3.49.
 - \$2.91.
 - \$3.08.
 - \$3.00.
9. Each of the following is determined according to IFRS **except**
- income before taxes.
 - income for book purposes.
 - income for financial reporting purposes.
 - taxable income.
10. The full disclosure principle, as adopted by the accounting profession, is best described by which of the following?
- All information related to an entity's business and operating objectives is required to be disclosed in the financial statements.
 - Information about each account balance appearing in the financial statements is to be included in the notes to the financial statements.
 - Enough information should be disclosed in the financial statements so a person wishing to invest in the shares of the company can make a profitable decision.
 - Disclosure of any financial facts significant enough to influence the judgment of an informed reader.
11. Which of the following subsequent events would generally require disclosure, but no adjustment of the financial statements?
- Retirement of the company president

- b. Settlement of litigation when the event that gave rise to the litigation occurred prior to the statement of financial position date.
- c. Employee strikes
- d. Issue of a large amount of ordinary shares.

12. A company's first IFRS financial statements must include at least how many statements of financial position?
- a. One.
 - b. Two.
 - c. Three.
 - d. Five.

13. The basic assumptions of accounting used by the International Accounting Standards Board (IASB) include all of the following **except**:
- a. Going concern.
 - b. Periodicity.
 - c. Accrual basis.
 - d. Materiality

14. The following information is available for Katz Company:

Allowance for doubtful accounts at December 31, 20X4	\$ 8,000
Credit sales during 20X5	400,000
Accounts receivable deemed worthless and written off during 20X5	9,000

As a result of a review and aging of accounts receivable in early January 20X6, however, it has been determined that an allowance for doubtful accounts of \$5,500 is needed at December 31, 20X5. What amount should Katz record as "bad debt expense" for the year ended December 31, 20X5?

- a. \$4,500
 - b. \$5,500
 - c. \$6,500
 - d. \$13,500
15. When computing the amount of interest cost to be capitalized, the concept of "avoidable interest" refers to
- a. the total interest cost actually incurred.
 - b. a cost of capital charge for equity.
 - c. that portion of total interest cost which would not have been incurred if expenditures for asset construction had not been made.
 - d. that portion of average accumulated expenditures on which no interest cost was incurred.

16. When an asset acquired through government grants is recorded using the capital approach,
- assets and equity increase by the cost of the asset.
 - assets and liabilities increase by the fair value of the asset.
 - assets and equity increase by the fair value of the asset.
 - assets and liabilities increase by the cost of the asset.
17. Which of the following situations may give rise to unearned revenue?
- Providing trade credit to customers.
 - Selling inventory.
 - Selling magazine subscriptions.
 - Providing manufacturer warranties.
18. Under IFRS, the fair value option
- must be applied to all instruments the company holds.
 - may be selected as a valuation method by the company at any time during the first 2 years of ownership.
 - reports all gains and losses in income.
 - All of these answer choices are correct.
19. The term "accounting policies" refers to:
- The measurement bases used by an entity
 - The accounting concepts and conventions adopted by an entity
 - The accounting principles applied by an entity
 - All of the above
20. A company uses the indirect method for reporting cash flows from operating activities. During an accounting period, plant which had cost \$30,000 some years ago was sold for \$3,000. The accumulated depreciation on this plant at the time of disposal was \$25,000. The effects of this transaction on the statement of cash flows are as follows:
- Operating activities: Subtract loss on disposal \$2,000 Investing activities: Cash received on disposal of plant \$3,000
 - Operating activities: Add disposal proceeds \$3,000 Investing activities: Subtract loss on disposal of plant \$2,000
 - Operating activities: Add back loss on disposal \$5,000 Investing activities: Cash received on disposal of plant \$3,000
 - Operating activities: Add back loss on disposal \$2,000 Investing activities: Cash received on disposal of plant \$3,000

B – True or False: (10 points)

1. IFRS requires that start-up costs and initial operating losses during the early years be capitalized.
2. All long-term debt maturing within the next year must be classified as a current liability on the statement of financial position.
3. Most purchase commitments must be recorded as a liability.
4. Under IFRS, agricultural inventories, such as wheat, oranges, etc., are recorded at their fair value less estimated selling costs at the point of harvest.
5. After an impairment loss is recorded, the recoverable amount becomes the basis for the impaired asset and is used to calculate depreciation in future periods.
6. A provision differs from other liabilities in that there is greater uncertainty about the timing and amount of settlement.
7. A deferred tax liability represents the increase in taxes payable in future years as a result of taxable temporary differences existing at the end of the current year.
8. The IASB has developed IFRS for small-and medium-sized entities that publish general-purpose financial statement for external users but do not issue shares in a public market.
9. Companies are not obliged to use the same accounting policies for interim reports and for annual reports.
10. If the loss on an account receivable results from a customer's bankruptcy after the statement of financial statement date, the company only discloses this information in the notes to the financial statements.

C – Exercise: (10 Points)

On 1 October 2023, ABC began the construction of a new factory. Costs relating to the factory are as follows:

	USD (000)
Purchase of the land	10,000
Costs of dismantling existing structures on the site	500
Purchase of materials to construct the factory	6,000
Employment costs (note 1)	1,800
Production overheads directly related to the construction (note 2)	1,200
Allocated general administrative overheads	600
Architects and consultants fees directly related to the construction	400
Costs of relocating staff who are to work at the new factory	300
Costs relating to the formal opening of the factory	200
Interest on loan to partly finance factory construction (note 3)	1,200
Plant and machinery purchased for use in the factory	6,000

Note 1

The factory took eight months to construct and was brought into use on 30 June 2024. The employment costs are for the nine months to 30 June 2024.

Note 2

The production overheads were incurred in the eight months ended 31 May 2024. They included an abnormal cost of USD 200,000 caused by the need to rectify damage caused by a gas leak.

Note 3

ABC received the loan of USD 12 million on 1 October 2023. The building meets the definition of a qualifying asset in accordance with borrowing costs standards. The loan carries a rate of interest of 10% per annum.

Required:

Determine the costs of the assets to be included in the statement of financial position upon initial recognition, giving reasons for the inclusion or exclusion of costs.

D – Exercise: (8 Points)

An entity sells goods with a warranty under which customers are covered for the cost of repairing any manufacturing defects discovered within the first 12 months after purchase. If minor defects were detected in all products sold, repair costs of USD 100,000 would result. If major defects were detected in all products sold, repair costs of USD 400,000 would result. The entity's past experience and future expectations indicate that, for the coming year:

- 75 per cent of the goods sold will have no defects;
- 20 per cent of the goods sold will have minor defects; and
- 5 per cent of goods sold will have major defects.

Required:

Calculate the amount to be provided in the financial statements in respect of the warranty claims.

E – Exercise: (12 Points)

Which of the following is a change in accounting policy as opposed to a change in estimation technique? Explain briefly.

A - An entity has previously shown depreciation within cost of sales. It now shows those overheads within administrative expenses.

B - An entity has previously measured inventory using the first in first out method and it now intends to measure inventory using the weighted average cost method.

C - An entity has previously depreciated vehicles using the straight line method and now intends to switch to the reducing balance method

F – Exercise: (10 points)

XYZ Co, a retail and leisure group, has three businesses operating in different parts of the world. XYZ Co reports to management on the basis of region. The results of the regional segments for the year ended 31 December 2023 are as follows. (amounts in USD thousands)

Region	Revenue		Segment Results	Segment assets	Segment liabilities
	External	Internal	Profit (loss)		
Europe	400	6	(20)	600	400
Asia Pacific	600	4	120	1,600	600
Other regions	1,000	10	210	4,000	2,800

There were no significant intra-group balances in the segment assets and liabilities. The retail outlets and leisure centers are located in capital cities in the various regions, and the company sets individual performance indicators for each hotel based on its city location.

Show how these principles would be applied for XYZ Co reporting using the information given above with respect to reporting as per IFRS 8.

G – Exercise: (30 points)

The draft statements of financial position of three companies as at 30 September 2023 are as follows:

	A USD	B USD	C USD
Assets			
Non-current assets			
Tangible assets	697,210	648,010	349,400
Investments:			
- 160,000 shares in B	562,000	-	-
- 80,000 shares in C	184,000	-	-
	<u>1,443,210</u>	<u>648,010</u>	<u>349,400</u>
Current assets			
Cash at bank and in hand	101,274	95,010	80,331
Trade receivables	385,717	320,540	251,065
Inventory	495,165	388,619	286,925
	<u>982,156</u>	<u>804,169</u>	<u>618,321</u>
Total assets	<u>2,425,366</u>	<u>1,452,179</u>	<u>967,721</u>

Equity and liabilities

Equity

Share capital (\$1 share)	600,000	200,000	200,000
Retained earning	1,050,000	850,000	478,000
	<u>1,650,000</u>	<u>1,050,000</u>	<u>678,000</u>

Long term liabilities

Loan notes	400,000	150,000	100,000
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Current liabilities

Trade payables	375,366	252,179	189,721
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Total equity and liabilities	<u>2,425,366</u>	<u>1,452,179</u>	<u>967,721</u>
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You are given the following additional information:

1. A purchased the shares in B on 13 October 2018 when the balance on retained earnings was \$500,000.
2. The shares in C were acquired on 11 May 2018 when retained earnings stood at \$242,000.
3. The following dividends have been declared but not accounted for before the year-end.

A	65,000
B	30,000
C	15,000

4. Included in the inventory figure for C is inventory valued at \$20,000 which had been purchased from A at cost plus 25%.
5. Goodwill in respect the acquisition of B has been fully impaired at 30 September 2022. The recoverable amount of the investment in C exceeds its carrying value at 30 September 2023. Non-controlling interest is valued at the proportionate share of the identifiable net assets.
6. On 30 September 2023, B made a bonus issue of one equity share for every share held. This had not been reflected in the statement of financial position.
7. Included in the current liabilities figure of A is \$18,000 payable to C, the amount receivable being recorded in the receivables figure of C.

Required:

Prepare the consolidated statement of financial position for A as at 30 September 2023.

Good Luck!

President
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