MAKING YOU COUNT

THE INSTITUTE OF CERTIFIED FINANCIAL MANAGERS

EXAM ASSIGNMENT

in discipline of
IFRS and Financial accounting

February 2011

Section 40 points

TESTS (20 questions with 2 points credited for each correct answer)

1. Examples of expenses calculated as expenses of the accounting period during which they were incurred, are:

    a. Expenses on dale, expenses on storage of the final goods, and administrative expenditures
    b. Expenses on purchase and processing of raw materials
    c. Harmful level of off-cuts, expenses on employees payroll, and other operational expenditures
    d. Answers a and c

2. According to the IAS 17 “Lease” rented assets are represented in the lessee’s balance-sheet in case of:

    a. Financial lease
    b. Operational lease
    c. All types of lease
    d. Are not represented under any types of lease

3. As of December 31, 2009 balance value of the fixed assets was £100,000, value in use – £75,000, sale price – £85,000, and additional expenditures on sale – £5,000. What amount of loss due to depreciation should be specified in financial accounting according to IAS 36 «Depreciation of assets»:

    a. £25,000
    b. £20,000
    c. Loss is not specified since the balance value of the asset is more than its value in use and fair value minus expenditures on sale
    d. £15,000

4. What is the equity instrument?

    a. Any agreement that certifies the right to a share of assets of the company left after exclusion of all its liabilities.
    b. The agreement that certifies the right to a share of assets of the company left after evaluation of all the liabilities
    c. Probable asset that emerges as a result of previous events
    d. Share of net equity of the company left after exclusion of all the liabilities

5. Accounting policy should changed:

    a. Every year
    b. When approving the policy of assets reassessments for the first time
    c. When required by the accounting standardization authorities, or if the change causes more accurate representation of operations in statements
    d. In all the mentioned cases

6. Name the rule of preparation of financial accounting that requires representation of stock according to the least of two assessments – prime cost or net sale value?

    a. Rule of understandability

b. Rule of diligence
c. Rule of essentiality
d. Rule of accrual

7. Balance value of the asset is £500, its taxable basis is £600, rate of the profit tax is 25%:

   a. Deferred tax liability is £125
   b. Deferred tax liability is £25, deferred tax asset is £25
   c. Deferred tax liability is £25
   d. Deferred tax asset is £25

8. The company will apply the method of participation in the capital for including the investment, if it:

   a. Holds 15% of shares of the other company
   b. Holds more than 50% of shares of the other company
   c. Has significant impact on decision-making regarding financial and operational policy of the investment object
   d. Has made the investment for further sale of purchased shares

9. When inspecting the annual report the auditor found that the depreciation expenses were overvaluated. If depreciation expenses are recalculated faithfully, how will this affect elements of the accounting equation:

	Assets	*Liabilities*	*Capital*
a.	Will increase	Won’t change	Will increase
b.	Will increase	Will decrease	Won’t change
c.	Will decrease	Will increase	Will increase
d.	Will decrease	Won’t change	Will decrease

10. Equipment has the base cost of £55,000 and residual value of £1,000. Depreciation is calculated by reducing balance method with the rate of 20% per year. After three years of service it was sold for £25,000. What is the financial result of this sale?

    a. Loss of £2 648
    b. Loss of £3 160
    c. Profit of £3 000
    d. Profit of £2 400

11. Prime-cost of sold goods in the Loss and Profit Statement was £185,000 invoices due increased by £10,000, stock was reduced by £8,000, and accounts receivable increased by £18,000. Payment of cash assets to purchase was:

    a. 167 000
    b. 183 000
    c. 187 000
    d. 203 000

12. Borrowing costs should be recognized as expenses and be charged off during the period when they emerged:

    a. Only in case when the asset is qualifying
    b. When borrowing costs from various sources are used
    c. If borrowing costs are related to current (fast-moving) stock
    d. They are never recognized as expenses

13. The material error of the preceding period found in the accounting period must be obligatorily corrected according to IAS 8 «Accounting policy, changes in calculation accounting assessment, and errors»:

    a. In the current accounting period
    b. Backhandedly, in the period where the error emerged
    c. Prospectively, in the following accounting period
    d. Is not represented in financial statements, but clarified in remarks to the financial statements of the accounting period

14. Consolidated statements has the profit from sale of assets within the group:

    a. Shown as a component of profit of the group
    b. Shown separately
    c. Excluded
    d. Capitalized and written-off during the validity period of the asset

15. Base cost of the building being purchased by the company is £200 mln and will be depreciated for 20 years. In 15 years you buy the company the balance of which refers to this building, and you evaluate it at its fair value of £400 mln. Consolidated financial statement executed after the purchase has the year amount of the depreciation fees equal to:

    a. £ 10 mln
    b. £ 20 mln
    c. £ 27 mln
    d. £ 80 mln

16. If the subsidiary is a part of unified plan of cessation of key activity of the group of companies, by day of terminations of its use the company needs to provide results of operations and details of cash flow that refer to this subsidiary as:

    a. Terminated activity
    b. Retained for sale
    c. Continuing activity
    d. Results are not represented separately

17. IFRS 8 «Operating segments» requires companies to represent such details in its statements:

    a. Of earnings from sale of their goods or services, and of the countries where it gains earnings and holds its assets
    b. Of earnings from sale of its goods or services and of large-scale customers
    c. Of operations with state authorities
    d. Of earnings from sale of its goods or services, of countries where it gains earnings and holds its assets, and of the large-scale customers

18. Reincorporated company purchase four lots of goods:

September 1	300 pieces	For the amount of £ 1 540
September 10	400 pieces	For the amount of £ 2 360
September 15	400 pieces	For the amount of £ 2 520
September 28	300 pieces	For the amount of £ 1 980
Total purchase	1400 pieces	For the amount of £ 8 400

September 30 results of the inventory inspection showed that the stock was 200 pieces.

Prime cost of sold goods as of September 30 calculated by the weighted average cost method with periodic inventory is:

a. £7 200
b. £7 080
c. £1 320
d. £1 200

19. When being recognized the financial assets present for sale should be evaluated by:

a. Base cost
b. Fair value
c. Depreciated value
d. Fair value with regard to expenses on the deal

20. You are selling portfolio of shares in December 2010 for £10,000 with the following repurchase in March 2011 for £10,500 as stipulated by the agreement. The earnings may be recognized:

a. £10 000 in December 2010
b. £10 000 in March 2011
c. Earnings are not recognized
d. £10 500 in March 2011

SECTION B

Task 2. 30 points

October 01, 2009 the *Orion* company purchased 8 mln shares of the Sirius company for £11 450 000. Retained earnings of *Sirius* as of that day were £1,500,000.

Please find financial statements of the company as of October 01, 2010 below.

Financial statement
as of October 01, 2010

	Orion		Sirius	
	£ thous.	**£ thous.**	**£ thous.**	**£ thous.**
Assets				
Long-term assets				
Fixed assets	17 900		12 500	
Investments to Sirius	11 450	**29 350**		**12 500**
Current assets				
Stock	9 000		6 000	
Trade receivables	7 200		5 000	
Accounts receivable of Sirius	300			
Cash assets	450	**16 950**	250	**11 250**
Total assets		**46 300**		**23 750**
Liabilities and capital				
Long-term liabilities				
Bank credit	10 000	**10 000**	4 700	**4 700**
Short-term liabilities				
Trade payables	6 000		4 200	
Accounts payable to Orion			300	
Tax liabilities	800	**6 800**	550	**5 050**
Total liability		**16 800**		**9 750**
Net equity:				
Statutory capital	17 500		10 000	
Retained earnings	12 000	**29 500**	4 000	**14 000**
Total liabilities and net equity		**46 300**		**23 750**

Additional details:

- Statutory capital of both companies is composed of ordinary shares £1 each. There were no changes during a year.
- Fixed assets of *Sirius* company include land, fair value of which was assessed at £7,000,000 as of October 01, 2009 and balance value of land as of this day was £6,000,000. Reassessment wasn't represented in the financial statement of *Sirius*.
- Goodwill that emerged with consolidation of companies was depreciated by £900 000 as of the statement day.
- As of October 01, 2010 stock of *Sirius* includes goods purchased from Orion for £750 000 with the trade margin of 25% to the prime cost.

Task:

Draft a consolidated financial statement of *Orion and Sirius* group as of October 01, 2010.

Task 3. 15 points

January 01, 2009 Rain company issued bonds at the amount of £10 000 000. The company is obliged to pay interest at the amount of £900,000 by December 31 every year. Bonds are to be paid off on December 31, 2015 with the bonus, and will not be paid off before. Effective interest rate for such bonds is 10%. December 31, 2009 Rain paid the interest prescribed by the agreement on issuance of bonds.

Task:

Show and explain how above mentioned instruments should be represented in financial accounting of Rain company for the year that ended December 31, 2009.

Task 4. 15 points

August 31, 2010 governors of Focus company decided to terminate operations of one of its commercial offices. The closure process commenced September 5, 2010: employees received notices with offers to get dismissed or transferred to other branches of the company; negotiations with consignees were launched in order to terminate valid agreements and sale of the office assets.

The latest assessment showed that

- expenses on dismissal wage payment for the employees will be £10 000 000;
- expenses related to transfer of employees to new place of work and their reeducation will be £5 000 000;
- equipment of the office of the balance value of £2 000 000 will be sold for £3 000 000;

The office closure operation is anticipated to end by March 31, 2011. Chief accountant of the company has no suggestions as to particular way to represent this operation in financial accounting for 2010 explaining it by the fact that the deal will be closed only in 2011.

Task:

Explain how decision to close the commercial office should be represented in financial accounting of Focus company for the year that ended December 31, 2010.