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Financial Reporting

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QUESTION NO: 1

Ant plc purchased 80% of Pillar Ltd's ordinary shares on 1 July 2010 for $2,360,000 when the fair value of Corfu Ltd's net assets was $2,240,000. As at 30 June 2012 Ant plc had recognized impairments in respect of goodwill arising on the acquisition of Pillar Ltd amounting to $100,000.

On 30 June 2013, Ant plc sold all its shares in Pillar Ltd for $3,600,000. The net assets of Pillar Ltd were $3,310,000 at the date of disposal.

What is the profit on disposal of the shares in Pillar Ltd which should be included in the consolidated income statement of Ant plc for the year ended 30 June 2013?

A. $384,000

B. $484,000

C. $952,000

D. $270,000

ANSWER: B

QUESTION NO: 2

The consolidated financial statements of Paulo plc for the year ended 31 March 2013 showed the following.

Non-controlling interest in the consolidated statement of financial position at 31 March 2013 was $6 million ($3.6 million at 31 March 2012). Non-controlling interest in the consolidated income statement for the year ended 31 March 2013 was $2 million.

During the year ended 31 March 2013, the group acquired a new 75% subsidiary whose net assets at the date of acquisition were $6.4 million. On 31 March 2013, the group revalued all its properties and the non-controlling interest in the revaluation surplus was $1.5 million. There were no dividends payable to non-controlling shareholders at the beginning or end of the year.

In accordance with IAS 7 Statement of Cash Flows, what was the dividend paid to non-controlling shareholders that will be shown in the consolidated statement of cash flows of Paulo plc for the year ended 31 March 2013?

A. $1.2 million

B. $2.7 million

C. $4.5 million

D. $7.5 million

ANSWER: B

QUESTION NO: 3

One plc has owned 100% of Ten Ltd and 60% of Six Ltd for many years. At 31 December 2012 the trade receivables and trade payables shown in the individual company statements of financial position were as follows.

	One plc	Ten Ltd	Six Ltd
	$000	$000	$000
Trade receivable	50	30	40
Trade payable	30	15	20

Trade payable are made up as follows

Amount owning to			
One	-	-	-
Ten	2	-	4
Six	3	-	-
Other suppliers	25	15	16
	30	15	20

The intra-group accounts agreed after taking into account the following.

1) An invoice for $3,000 posted by Ten Ltd on 31 December 2012 was not received by One plc until 2 January 2013

2) A cheque for $2,000 posted by One plc on 30 December 2012 was not received by Six Ltd until 4 January 2013.

What amount should be shown as trade receivables in the consolidated statement of financial position of One plc for the year ended 31 December 2012?

A. $56,000

B. $106,000

C. $109,000

D. $111,000

ANSWER: B

QUESTION NO: 4

Harriet Ltd has proposed the following changes to its current accounting practices to be used in its next financial statements.

(i) Motor vehicles have always been depreciated on a straight-line basis. The company has now decided to change to the reducing balance basis as it now believes that this better reflects the consumption of economic benefits.

(ii) In preparing its statement of comprehensive income, Harriet Ltd has previously classified depreciation on motor vehicles as administrative expenses. These depreciation charges are now to be classified under cost of sales as the company now believes that this gives a more reliable and relevant presentation.

According to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - which, if any, of these changes represent a change in accounting policy?

A. (i) only

B. (ii) only

C. Neither of the above

D. Both of the above

ANSWER: B

QUESTION NO: 5

Which of the following items would appear in the reconciliation of profit before tax to cash generated from operations in a statement of cash flows prepared in accordance with IAS 7 Statement of Cash Flows?

(i) Increase in provision for warranty costs

(ii) Decrease in income tax payable

(iii) Depreciation charge

(iv) Dividends paid

A. (i) and (ii)

B. (i) and (iii)

C. (ii) and (iii)

D. (ii) and (iv)

ANSWER: B

QUESTION NO: 6

According to the IASB's Conceptual Framework for Financial Reporting, which of the following does an entity's income statement, statement of financial position and statement of cash flows primarily measure?

Income statement Statement of Statement of

financial position cash flows

A. Financial position Financial performance Financial adaptability

B. Financial performance Financial adaptability Financial position

C. Financial adaptability Financial position Financial position

D. Financial performance Financial position Financial adaptability

ANSWER: D

QUESTION NO: 7

The management of Sage Ltd is considering in liquidating the company. The following assets and liabilities as at 31 March 2013 is in company's books:

(i) Plant and machinery: It represents carrying amount of $30,000 and can be realized for $15,000. The Plant and machinery had an estimated useful life of 10 years and have been used in business for 4 years.

(ii) Goodwill: A professional accountant has estimated the goodwill as $12,000.

(iii) Receivables: Receivables are all trade related which amounted to $15,000. It is estimated that an allowance against receivable of $1,000 would need to be made.

(iv) Cash at bank: The bank account shows a positive balance of $5,000.

(v) Payables: Trade accounts payable amounted to $6,000.

Which ONE of the following options, under breakup basis, is the correct amount that should be stated as net assets in the statement of financial position of Sage Ltd at 31 March 2013?

A. $42,000

B. $40,000

C. $28,000

D. $46,000

ANSWER: B

QUESTION NO: 8

A conceptual framework is a statement of generally accepted theoretical principles which form the frame of reference for financial reporting.

Which of the following is NOT a disadvantage of conceptual framework?

A. Standards are developed on patchwork basis.

B. Conceptual frameworks are developed for preparing financial statements that is intended for wide range of users.

C. Financial statements are used for variety of purposes.

D. The task of preparation and implementation of standards.

ANSWER: A

QUESTION NO: 9

On 1 January 2012, Sigma Ltd purchased a non-current asset for cash of $100,000 and received a grant of $20,000 towards the cost of the asset. Sigma Ltd's accounting policy is to treat the grant as deferred income. The asset has a useful life of 5 years.

What will be the accounting entries to record the asset and the grant in the year ended 31 December 2012?

A. Debit C
redit
Non-current asset at 1 January 2012 $100,000
Cash at 1 January 2012 $20,000
Depreciation expense at 31 December 2012 $20,000
Deferred income at 31 December 2012 $4,000
Cash at 1 January 2012 $100,000
Deferred income at 1 January 2012 $20,000
Accumulated depreciation at 31 December 2012 $20,000
Operating expenses $4,000

B. Debit C
redit
Non-current asset at 1 January 2012 $100,000
Depreciation expense at 31 December 2012 $20,000
Deferred income at 31 December 2012 $4,000
Cash at 1 January 2012 $100,000
Accumulated depreciation at 31 December 2012 $20,000
Operating expenses $4,000

C. Debit C
redit
Non-current asset at 1 January 2012 $100,000
Cash at 1 January 2012 $20,000
Depreciation expense at 31 December 2012 $20,000
Cash at 1 January 2012 $100,000
Deferred income at 1 January 2012 $20,000
Accumulated depreciation at 31 December 2012 $20,000

D. Debit C
redit
Non-current asset at 1 January 2012 $100,000
Cash at 1 January 2012 $20,000
Depreciation expense at 31 December 2012 $20,000
Equity reserve at 31 December 2012 $4,000
Cash at 1 January 2012 $100,000

Deferred income at 1 January 2012	$20,000		
Accumulated depreciation at 31 December 2012		$20,000	
Operating expenses			$4,000

ANSWER: A

QUESTION NO: 10

Taylor buys a machine on three months credit from France for €50,000 on 15 December 2012. The machine has not been paid for by Taylor’s year end of 31 December 2012. The exchange rates are as follows:

Date Rate

15 December 2012 $1: €1.25

31 December 2012 $1: €1.30

What is the journal to initially recognise the transaction?

A. Dr Non-current assets $40,000
Cr Payables $40,000

B. Dr Payables $40,000
Cr Non-current assets $40,000

C. Dr Non-current assets $38,462
Cr Payables $38,462

D. Dr Payables $38,462
Cr Non-current assets $38,462

ANSWER: A