

Leases

1. The major difference between financial and operating lease is:
 - a) substantial transfer of all the risks and costs incidental to ownership.
 - b) substantial transfer of all the risks and rewards incidental to ownership.
 - c) substantial transfer of all the risks and uncertainties incidental to ownership.
 - d) substantial transfer of all the rewards and costs incidental to ownership.
2. 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.
3. A lessor shall recognize assets held under a finance lease in:
 - a) in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease.
 - b) in its statement of financial position and present them as a receivable at an amount equal to its fair value.
 - c) in its statement of financial position and present them as a receivable at an amount equal to its carrying amount.
4. A lessee shall recognize lease payments provided under operating leases:
 - a) as an expense in its first statement of comprehensive income when the contract on operating lease was signed.
 - b) as a revenue in its first statement of comprehensive income when the contract on operating lease was signed.
 - c) as an expense on a straight-line basis in all its statements of comprehensive income throughout the whole life of the contract on operating lease.
 - d) as a revenue on a straight-line basis in all its statements of comprehensive income throughout the whole life of the contract on operating lease.
5. A lessor shall recognize lease payments received under operating leases:
 - a) as an expense in its first statement of comprehensive income when the contract on operating lease was signed.
 - b) as a revenue in its first statement of comprehensive income when the contract on operating lease was signed.
 - c) as an expense on a straight-line basis in all its statements of comprehensive income throughout the whole life of the contract on operating lease.

- d) as a revenue on a straight-line basis in all its statements of comprehensive income throughout the whole life of the contract on operating lease.

Example 1: Financial statements of lessee

On 1 January 20X1 an entity entered, as lessee, into a three-year non-cancellable lease of a machine. At the end of the lease term ownership of the machine passes to the lessee. There were made three lease payments for CU 3 000 always paid by 31 December. The interest rate implicit in the lease is 10% p.a.. Fair value of machine is CU 7 540. Estimated lifetime of machine is 5 years, estimated residual value at the end of lifetime is CU 568.

Compile schedule of lease payments and compile extraction of statement of financial position and statement of comprehensive income of lessee during contract term.

Example 2: Financial statements of lessor

Given info – see Example 1, except of the interest rate implicit – 9.4 % p.a.

Compile schedule of lease payments and compile extraction of statement of financial position and statement of comprehensive income of lessor during contract term.

Inventories

1. Which of the following categories of assets can be recognized as inventories
 - a) assets held for sale in the ordinary course of business (finished goods).
 - b) assets being in the process of production for further sale (work in process).
 - c) assets in the form of production halls held by real estate agency for further resale.
 - d) assets expected to be used in >1 period.

2. Inventories should be measured at :
 - a) cost.
 - b) purchase price.
 - c) the lower of cost and estimated selling price less costs to complete and sell
 - d) the lower of cost and fair value less costs to complete and sell.

3. Cost of inventories is the sum of:
 - a) costs of purchase and costs of conversion.
 - b) direct costs, indirect costs and other costs (allocated production overheads).
 - c) costs of purchase, costs of conversion (e.g. allocated production of overheads) and other costs incurred in bringing the inventory to their present location and condition.
 - d) salaries of factory staff and storage costs necessary in the production process before a further production stage and selling costs.
 - e) abnormal amounts of wasted materials and selling costs.

4. Impairment test for inventories is carried out by:
 - a) comparing the carrying amount of each item of inventory (or group of similar items) with its selling price less costs to complete and sell.
 - b) comparing the carrying amount of each item of inventory (or group of similar items) with its fair value.
 - c) comparing the carrying amount of each item of inventory (or group of similar items) with its recoverable amount.

5. When inventories are sold, the entity shall recognize the carrying amount of those inventories as:
 - a) an expense in the period in which the related revenue is recognized.
 - b) a revenue in the period in which the related expense is recognized.
 - c) an expense in the period in which the related receivable is paid off.
 - d) a revenue in the period in which the related payable is settled.

Example 1: Estimate the cost of purchase

A retailer buys a good priced at CU 500 per unit. However, the supplier awards the retailer a 20 per cent discount on orders of 100 units or more.

The retailer buys 100 units in a single order. What is the recognized cost of purchase of inventories?

Example 2: Estimate the cost of purchase

A retailer buys a good priced at CU 500 per unit. However, the supplier awards the retailer a 20 per cent discount on orders of 100 units or more. Furthermore, when the retailer has purchased 1 000 or more units in a calendar year, the supplier awards the retailer a further volume discount of 10 per cent of the list price. The additional volume discount applies to all units acquired by the retailer during the calendar year.

On 1 January 20X1 the retailer buys 1,000 units from the supplier in a single order. What is the recognized cost of purchase of inventories?

Example 3: Allocation of overhead

An entity incurred fixed production overheads of CU 900 000 during a one-month period in which it manufactured 250,000 units of production. When operating at normal capacity the entity manufactures 250 000 units of production per month.

What is the recognized amount of fixed production overhead cost to each unit produced during the month?

Example 4: By-products

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, a product 'A' and a by-product 'C' are produced.

The total costs of a production run (i.e. including direct costs and the allocation of overheads) are CU 100 000.

Each production run produces:

- 5,000 litres of product A, sales value = CU 250 000
- 1,000 litres of (by-product) C, sales value = CU 2 000

The entity accounts for the by-product by deducting its selling price from the cost of the main product. In this example, the costs to complete and sell the by-product are negligible and have been ignored.

What are the per unit costs of product A?

Example 5: Joint product

The facts are the same as in example 22. However, in this example, instead of the by-product there is another joint product 'B' resulting from the maturation process. Furthermore, the total costs (i.e. including direct costs and the allocation of overheads) of a production run are CU 300 000.

Each production run produces:

- 5,000 litres of product A, sales value = CU 250 000
- 4,000 litres of product B, sales value = CU 400 000

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 by-products A and B?

Example 6: Subsequent measurement

An entity manufacturing engines for its business activity purchased:

- on 10. 4. 2015 first supply - 800 components for engines at total price of CU 176,000 (220 CU/per unit)
- on 20. 4. 2015 second supply - 200 components for engines at total price of CU 36 000 (180 CU/1 per unit).
- According to withdrawal notes there were consumed 900 components.

Account for purchase and consumption of engine components under: (a) FIFO method; and (2) weighted arithmetic average.