MID-TERM TEST FROM MPF_AACC INTERNATIONAL ACCOUNTING

Name and surname	Number of points

TOTAL NUMBER POINTS – 20 points

Part I. Multiple choice questions, more than one correct answer is possible, total number of points - 5

1. What is the primary function of IASB?
   a) to develop and publish IFRS.
   b) to develop and publish IFRS and strive for their worldwide use instead of national accounting standards.
   c) to develop and publish IFRS and strive for their convergence with national accounting standards.
   d) to develop and publish IFRS and strive for their worldwide use in general purpose financial statements and other financial reporting.

2. Objective of general purpose financial statements is:
   a) to inform government statistics.
   b) to support entity's tax return.
   c) to meet all information needs of all users of entity's financial statements.
   d) to inform economic decision-making by a broad range of users that are not in a position to demand reports tailored to their needs (e.g. investors and creditors).

3. In which example an entity has public accountability?
   a) An entity operates two businesses from its premises - banking and retail clothing. Its banking operation takes deposits from the general public in return for a promise to pay to customers the capital plus a return interest for every deposit received from them. The entity uses the funds generated in its banking operation to partially fund its retail clothing operations.
   b) An entity's shares are not listed on a stock exchange but do trade 'over-the-counter' and the over-the-counter market is subject to government regulation though to a lesser degree than the stock exchange.
   c) An entity's shares are traded on one of the secondary securities markets in the European Union (EU) that are not 'regulated markets' for the purposes of applying the EU's IAS Regulation.
   d) An entity's only business is earning interest on money that it lends to its clients. The entity obtains all of its funds direct from its two owner-managers both of whom are billionaires (i.e. the entity does not take deposits from customers).
   e) The ordinary shares of an entity's parent are listed on a stock exchange.

4. In which of the following examples according to IFRS for SME income is recognized as gain:
   a) On 31 December 20X5 an entity sold inventory for CU1,500 when the carrying amount of the inventory was CU1,000.
   b) On 31 December 20X5 an entity sold a machine used by the entity in the manufacture of goods for CU1,500 when the carrying amount of the machine was CU1,000.
   c) A chain of bicycle shops holds bicycles for short-term hire and for sale. The bicycles available for hire are used for two or three years and then sold by the shops as second-hand models. All shops sell both new and second-hand bicycles. The shops have three sources of revenue: (i) the sale of new bicycles, (ii) the sale of second-hand bicycles and (iii) the rental of bicycles.

   d) On 31 December 20X5 an entity received settlement from its foreign customer for invoiced issued in foreign currency. The invoiced amount was FCU100, the exchange rate at the day of its issue was FCU1 = CU1. The exchange rate on 31 December 20X5 was FCU1 = CU1,1.

5. What are the primary objectives of notes to the general purpose financial statements?
   a) to present information about the basis of preparation of the financial statements and the specific accounting policies used.
   b) to provide information on relationship between entity's assets, liabilities and equity.
   c) to provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.
   d) to present fair value measurement of entity's revenues and expenses.

6. In which case control is presumed to exist?
   a) When the parent owns, directly or indirectly through subsidiaries, half of the voting power of an entity.
   b) When the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity.
   c) When the parent owns half or less of the voting power of an entity but it has power over more than half of the voting rights by virtue of an agreement with other investors.
   d) When the parent owns half or less of the voting power of an entity but it has power to govern the financial and operating policies of the entity under a statute or an agreement.
   e) When the parent owns half or less of the voting power of an entity but it has power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body.

7. Which statement is true?
   a) IFRS for SME requires a parent to present consolidated financial statements.
   b) IFRS for SME requires a parent or a group of subsidiaries to present separate financial statements.
   c) IFRS for SME requires a group of two or more entities to present combined financial statements.

8. What change is treated as change in accounting policy?
   a) Application of new accounting policy which is aimed to improve quality of accounting for particular transactions, events or conditions.
   b) Application of new accounting policy which is aimed to raise reliability, relevance and faithfulness of compiled financial statements.
   c) Application of new accounting policy for transactions, other events or conditions, which differ in substance from those previously occurring.
   d) Application of new accounting policy for transactions, other events or conditions, which did not occur previously or were not material.

9. Decide which of the followings are cash and cash equivalents?
   a) cash receipts from the sale of goods and the rendering of services
   b) cash payments to suppliers for goods and services
   c) money market instruments, e.g. T-bills and commercial loans
   d) cash payments or refunds of income tax
   e) demand deposits and demand loans
   f) term deposits and term loans

10. At initial measurement the cost of an item of property, plant and equipment comprises all of the following:

a) purchase price.
b) legal and brokerage fees.
c) non-refundable import duties.
d) trade discounts and rebates.
e) costs of site preparation as well costs of dismantling and removing the item and restoring the site on which it is located.
f) initial delivery and handling, installation and assembly.
g) costs of before-production tests.
h) costs of advertising and promotional activities.
i) general administrative costs.

Part II. Examples, total number of points – 15

Exercise 1: Statement of income (3 points)

Item	CU'000
Advertising	18,000
Carriage inwards	15,135
Carriage outwards	6,799
Depreciation	12,852
Closing inventory	13,088
Discounts allowed	4,477
Discounts received	6,644
Gas and electricity	18,359
Irrecoverable debts	9,274
Loan interest	6,000
Opening inventory	13,565
Other operating expenses	3,613
Other operating income	4,400
Purchases	178,647
Revenue	349,500
Water rates	9,711

On the basis of items presented above prepare a statement of income.

Exercise 2: Expense and prepayment (3 points)

During 20X7 Iris Co paid CU100,800 for factory rent for the period 1 August 20X7 to 28 February 20X9.

What figure should appear for rental expense and prepayment for year ended 31 December 20X8?

Exercise 3: Expense and prepayment (3 points)

At 30 April 20X6 accrued electricity was CU500. During the year ended 30 April 20X7 invoices received for electricity amounted to CU3,000, including an invoice for CU450 for the quarter ended 30 June 20X7.

What is the correct electricity expenses to include for the year ended 30 April 20X7?

Exercise 4: Compile consolidated statement of financial position (3 points)

Parent acquires 80% of subsidiary on January 1, 2019. Group year-end is December 31, 2019 Goodwill = …			
Item	Parent's statement of fin position (in CU) at fair value as per Dec 31, 2019	Subsidiary's statement of fin position (in CU) at fair value as per Dec 31, 2019	Group's statement of fin position (in CU) at fair value as per Dec 31, 2019
Non-current tangible assets	296,500	94,250	…
Consideration transferred (acquisition cost) by Parent (P)	184,000		…
Goodwill			…
Current assets	115,000	76,500	…
Total assets	**595,500**	**170,750**	**…**
Legal capital	385,000	111,000	…
Retained earnings	100,500	27,650	…
Long-term loan	110,000	32,100	…
Total equity and liabilities	**595,500**	**170,750**	**…**

Additional information:

	Subsidiary's statement of fin position (in CU) at fair value as per Dec 31, 2018
Non-current tangible assets	89,538
Current assets	72,675
Total assets	**162,213**
Legal capital	111,000
Retained earnings	19,113
Long-term loan	32,100
Total equity and liabilities	**162,213**

Exercise 5: Correction of prior period errors (3 points)

At the beginning of the year 20X1 the entity discovered that in the year 20X0 due to loss of issued invoice in amount of CU 75,000 thus resulting in understatement of revenue for 20X0. Balance of retained earnings at the beginning of the year 20X0 was CU 210,000 and at the beginning of the year 20X1 – CU 300,000.

Correct the error.

Initial income statements:

	20X0	**20X1**
Revenues (CU)	530,000	650,000
Expenses (CU)	410,000	580,000
EBT (CU)	...	...
Income tax 25% (CU)	...	...
EAT (CU)	**...**	**...**

Corrected income statements:

	20X0	**20X1**
Revenues (CU)	...	...
Expenses (CU)	...	...
EBT (CU)	...	...
Income tax 25% (CU)	...	...
EAT (CU)	**...**	**...**

Correction of retained earnings:

Item	**20X0**	**20X1**
Retained earnings at the beginning of the period (CU)	**...**	**...**
Correction of errors (CU)	...	...
Corrected retained earnings at the beginning of the period (CU)	**...**	**...**