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| **Module MCQ Questions:** | **Answer** | **Explanation** |
| Assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the asset in an orderly disposal". Which measurement basis does this describe?  Select one:  a. Value in use  b. Historical cost  c. Realisable value  d. Current cost | C | Current cost. - Incorrect - The amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset were acquired currently. Historical cost. - Incorrect - The amount of cash or cash equivalents paid, or the fair value of the consideration given, to acquire the asset at the time of their acquisition. Value in use. - Incorrect - This measurement basis is defined as the present value of future cash flows expected to be derived from an asset or cash-generating unit. |
| An entity provides their employees with four weeks of annual leave for each year of service. Unused leave may be carried forward and taken in future years. Should an employee leave the company, the employee is paid out any unused leave entitlement.  Which of the following correctly describes this benefit in terms of IAS 19 Employee benefits?  Select one:  a. Benefit that is accumulating and non-vesting  b. Benefit that is accumulating and vesting  c. Benefit that is non-accumulating and vesting  d. Benefit that is non-accumulating and non-vesting | B | It is a benefit that is both accumulating (as employees can carry forward their entitlements to future periods) and vesting (as the employer has an obligation to pay the benefit even if the employee leaves the company) |
| Which of the following statements is true of General Purpose Financial Statements (GPFS)?  Select one:  a. The objective of GPFS is to provide information that will meet the needs of the maximum number of employees, unions and legal representatives  b. The objective of GPFS is to provide information that will meet the needs of all investors, lenders and other creditors  c. The objective of GPFS is to provide information that will meet the needs of users such as banks who can command the tailoring of financial statements to meet their specific needs  d. The objective of GPFS is to provide information that will meet the needs of the maximum number of investors, lenders and other creditors | D | The objective of GPFS is to provide information that will meet the needs of all investors, lenders and other creditors. - Incorrect - As the information needs of users will be different depending on their outlook, it is not possible to meet all the needs of all investors, lenders and other creditors (referred to as primary users). GPFS seeks to provide the information that will meet the information needs of the maximum number of primary users. The objective of GPFS is to provide information that will meet the needs of the maximum number of employees, unions and legal representatives. - Incorrect - Employees, unions and legal representatives may use financial statements however are not defined in the Conceptual Framework as the primary users of GPFS. The objective of GPFS is to provide information that will meet the needs of users such as banks who can command the tailoring of financial statements to meet their specific needs. - Incorrect - The needs of such users are satisfied through the preparation of Special Purpose Financial Statements |
| XYZ Company is a publicly accountable for-profit-entity. It is statutorily required to prepare financial reports in accordance with accounting standards issued by the XRB. XYZ should apply what tier criteria?  Select one:  a. Tier 2  b. Tier 3  c. Tier 1  d. Tier 4 | C | Tier 2. - Incorrect - Entities that do not have “public accountability” (as defined) and for-pro􀃕t public sector entities that are not large (as defined), and which elect to be in Tier 2, apply Tier 2 For-pro􀃕t Accounting Requirements. Tier 3. - Incorrect - Entities that do not have “public accountability” (as defined) and which have expenses ≤$2 Million and which elect to be in Tier 3 – apply PBE Simple Format Reporting - Accrual (PBE SFR-A). Tier 4. - Incorrect - Entities allowed by law to report in accordance with “non-GAAP” accounting standards and which elect to be in Tier 4 – apply PBE Simple Format Reporting - Cash (PBE SFR-C). |
| Which of the following is a fundamental characteristic of useful financial information according to the Conceptual Framework?  Select one:  a. Accrual basis  b. Understand ability  c. Comparability  d. Relevance | D | Accrual basis. - Incorrect - Accrual basis is an assumption forming the foundation of general purpose financial reporting. It is not a fundamental characteristic. Comparability. - Incorrect - Comparability is an enhancing characteristic of useful financial information Understandability. - Incorrect – Understandability is an enhancing characteristic of useful financial information |
| What do financial statements prepared in accordance with the going concern assumption assume?  Select one:  a. The financial statements are prepared using historical costs  b. Transactions are recognised when they occur rather than when cash is exchanged in response to a transaction  c. The financial statements are prepared using realisable values  d. The entity will continue in operation for the foreseeable future | D | The financial statements are prepared using historical costs. - Incorrect - Historical cost is a measurement basis. The financial statements are prepared using realisable values.. - Incorrect - Realisable value is a measurement basis. Transactions are recognised when they occur rather than when cash is exchanged in response to a transaction. - Incorrect - This is a description of the accrual basis |
| Which of the following statements is not an essential characteristic of a liability according to the Conceptual Framework?  Select one:  a. The obligation must be legally enforceable  b. The obligation must arise from past events  c. Settlement of the obligation must result in an outflow of resources embodying economic benefits  d. The amount at which settlement of the obligation will take place can be measured reliably | A | The obligation must arise from past events. - Incorrect - This statement is part of the definition of a liability (CF Para 4.4(b)). The amount at which settlement of the obligation will take place can be measured reliably. - Incorrect - This is one of the conditions for recognition of a liability (CF para 4.38). Settlement of the obligation must result in an outflow of resources embodying economic benefits. - Incorrect - This statement is part of the definition of a liability (CF para 4.4(b)) |
| Connix Pty Ltd has developed several brands which have generated significant revenue for the company in the past and are expected to continue to generate revenue for the foreseeable future. In accordance with the IAS 38 Intangible Assets, which of the following statements is correct?  Select one:  a. The brands should not be recognised as intangible assets, because it is impossible to measure their cost or value reliably  b. The brands should not be recognised as intangible assets, because they do not meet the  definition of an element of the financial statements  c. The brands should be recognised as intangible assets, because the information is relevant to economic decisions of users  d. The brands should be recognised as intangible assets, because they are expected to generate revenue for the foreseeable future | A | The brands should be recognised as intangible assets, because the information is relevant to economic decisions of users. - Incorrect - IAS 38, para 63 does not permit the recognition of internally generated brands. The brands should be recognised as intangible assets, because they are expected to generate revenue for the foreseeable future. - Incorrect - IAS 38, para 63 does not permit the recognition of internally generated brands. The brands should not be recognised as intangible assets, because they do not meet the definition of an element of the financial statements. - Incorrect - The brands probably do meet the definition of an asset, but IAS 38 para 63 specifically does not permit recognition of internally generated brands |
| Which of the following are primary users of general purpose financial reports according to the Conceptual Framework?  1 Investors  2 Lenders  3 Employees  4 Other creditors  Select one:  a. 1, 2 and 3  b. 1, 2, 3 and 4  c. 1, 2 and 4  d. 1, 3 and 4 | C | 1, 2 and 3. - Incorrect - Employees also may use the financial reports but they are not the primary users according to the Conceptual Framework. 1, 3 and 4. - Incorrect - Employees also may use the financial reports but they are not the primary users according to the Conceptual Framework. 1, 2, 3 and 4. - Incorrect - Employees also may use the financial reports but they are not the primary users according to the Conceptual Framework |
| An entity has 100 employees who are provided 10 working days sick leave each year on a non-vesting accumulating basis. At 30 June 20X6, 25 employees had taken their full entitlement while the remaining employees had an average of 9 days accumulated sick leave. Employees have a 5-day working week. Based on past experience the entity estimates that: - 25 employees use all their sick leave in the year of entitlement  - 60 employees will take 6 days of accumulated sick leave in the year subsequent to their  Accumulation - 15 employees will take 3 days of accumulated sick leave in the year subsequent to their accumulation Assuming an average salary per employee of $50 000, what is the provision for sick leave the entry will make at 30 June 20X6 in accordance with IAS 19 Employee benefits?  Select one:  a. $77 885  b. $144 231  c. $173 077  d. $129 808 | A | Explanation: IAS 19 para 16 states that an entity shall measure the expected cost of accumulating benefits as the additional amount the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period. The sick leave entitlement is accumulating (ie employees are allowed to carry forward unused entitlements to future years). However it is non-vesting (ie employees are not entitled to a cash payment for unused entitlement on leaving the entity). In such a case the entity only has to provide for the number of sick days of the unused entitlement at the end of the reporting period that it is probable will be taken in excess of the next year's entitlement. In the following year it is expected that 60 employees will take 6 days of the previous year's sick leave  entitlement (ie 16 days in all) while 15 employees will take 3 days of the previous year's sick leave entitlement (ie 13 days in all)  No. of sick leave days to be provided for = 60\*6 + 15\*3 = 405.  Provision = 405 \* 50,000/(52\*5) = $77 885 |
| Which of the following criteria is not a necessary requirement for an asset to be recognised in the financial statements?  Select one:  a. The asset has a cost or value that can be measured reliably  b. It must be a resource controlled by the entity  c. The entry must be the legal owner of the asset  d. It is probable that any future economic benefits associated with it will flow to the entry | C | It must be a resource controlled by the entity. - Incorrect - This is part of the definition of an asset (CF para 4.4(a)). The asset has a cost or value that can be measured reliably. - Incorrect - This is one of the requirements for the recognition of an item that meets the definition of an asset (CF para 4.38). It is probable that any future economic benefits associated with it will flow to the entry. - Incorrect – This is one of the requirements for the recognition of an item that meets the definition of an asset (CF para 4.38). |
| Bravo Ltd holds a parcel of Delta B redeemable 7 per cent cumulative preference shares issued by Delta Ltd. The Delta B preference shares are unlisted. Bravo Ltd’s financial accountant measured the value of the shares using the market price of Delta A preference shares, which are listed, redeemable, cumulative 5 per cent preference shares, issued by Delta Ltd. The Delta A preference shares have a very similar maturity date to the Delta B preference shares. The accountant determined the yield of the Delta A preference shares by reference to the quoted price and to the timing and amount of the contractual cash flows. The accountant then applied the same yield in a discounted cash flow model,  using the contractual cash flows of Delta B preference shares. Which input level has the accountant used to measure the fair value of the Delta B preference shares?  Select one:  a. Level 1 or 3  b. Level 1  c. Level 2  d. Level 3 | C | Level 1. - Incorrect - It is not Level 1 because the observed price is not for an identical security. Level 3. - Incorrect - The entity should not apply Level 3 because the quoted price of a comparable security (Delta A shares) in an active market is available. Level 1 or 3. - Incorrect - The measurement technique for the Delta B shares uses Level 2 inputs because their measurement was based on a quoted price of a comparable security in an active market, the Delta A shares |
| Which of the following does the Conceptual Framework regard as essential characteristics of a liability?  (1) The amount of the obligation must be certain.  (2) The obligation must be legally enforceable.  (3) Settlement of the obligation must involve an outflow of resources embodying economic benefits.  (4) The liability must arise from a present obligation arising from a past event  Select one:  a. (3) and (4) only  b. (1) and (3) only  c. (1), (2), (3) and (4)  d. (2) and (4) only | A | Responses (3) and (4) are correct. They are included in the definition of a liability (CF para 4.4(b)). Liability is a present obligation arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. Response (1) is incorrect - The amount of the obligation need not be capable of being measured with certainty, reasonable estimates may be used. Response (2) is incorrect - The obligation does not need to be legally enforceable, it may be a constructive obligation arising from normal business practice |
| Which of the following elements of financial statements does the following definition in the Conceptual Framework refer to? "A present obligation of the entry arising from past events, the settlement of which is expected to result in an outflow from the entry of resources embodying economic benefits."  Select one:  a. Income  b. Asset  c. Liability  d. Expenses | C | Asset. - Incorrect - An asset is defined as a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. Income. - Incorrect - Income is defined as increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases in liabilities that result in increases in equity, other than those relating to contributions from equity participants. Expenses. - Incorrect - Expenses are defined as decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences in liabilities that result in decreases in equity, other than those relating to distributions to equity participants |
| According to Conceptual Framework what are the enhancing qualitative characteristics of useful financial information?  Select one:  a. Comparability, verifiability, understandability and relevance  b. Comparability, verifiability, timeliness and faithful representation  c. Comparability, verifiability, timeliness and understandability  d. Comparability, verifiability, timeliness and relevance | C | Comparability, verifiability, timeliness and relevance. - Incorrect - Understandability, also an enhancing characteristic of useful financial information, has not been included. Relevance is a fundamental qualitative characteristic. Comparability, verifiability, understandability and relevance. - Incorrect - Timeliness, also an enhancing characteristic of useful financial information, has not been included. Relevance is a fundamental qualitative characteristic. Comparability, verifiability, timeliness and faithful representation. - Incorrect - Understandability, also an enhancing characteristic of useful financial information, has not been included. Faithful representation is a fundamental qualitative characteristic |
| An entity is developing a new production process. During 20X6, expenditure incurred was $100 000, of which $90 000 was incurred before 1 December 20X6 and $10 000 was incurred between 1 December 20X6 and 31 December 20X6. The entity is able to demonstrate that, at 1 December 20X6, the production process met the criteria for recognition as an intangible asset. The recoverable amount of the know-how embodied in the process (including future cash outflows to complete the process before it is available for use) is estimated to be $50 000. What amount of intangible asset should be recognised in the financial accounts are 31 December 20X6?  Select one:  a. At the end of 20X6, the production process is recognised as an intangible asset at a cost of $50 000  b. At the end of 20X6, the production process is recognised as an intangible asset at a cost of $100 000  c. At the end of 20X6, the production process is recognised as an intangible asset at a cost of $90 000  d. At the end of 20X6, the production process is recognised as an intangible asset at a cost of $10 000 | A | At the end of 20X6, the production process is recognised as an intangible asset at a cost of $10 000 (expenditure incurred since the date when the recognition criteria were met, ie 1 December 20X6). The $90 000 expenditure incurred before 1 December 20X6 is recognised as an expense because the recognition criteria were not met until 1 December 20X6. This expenditure does not form part of the cost of the production process recognised in the statement of financial position |
| Which of the following is correct with regard to the historical cost convention?  Select one:  a. Fails to take account of changing levels in price over time  b. Has been replaced by a system of current cost accounting  c. Values all assets at cost to the business, making no adjustment for depreciation  d. The historical costs basis ensures assets are not carried at values in excess of their recoverable amounts | A | Has been replaced by a system of current cost accounting. - Incorrect - The historical cost basis is still permitted and is the measurement basis most commonly adopted in the preparation of financial statements. Values all assets at cost to the business, making no adjustment for depreciation. - Incorrect - The historical costs basis allows for depreciation provisions. The historical costs basis ensures assets are not carried at values in excess of their recoverable amounts. - Incorrect - Historical cost has to be supplemented by additional rules that check to see whether the amount is recoverable |
| Which of the following statements is not true of IFRS 13 Fair Value Measurement and the fair value hierarchy established to categorise the inputs to valuation techniques used to measure fair value?  Select one:  a. IFRS 13 prescribes the use of fair values  b. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities  c. The inputs are categorised into three categories  d. The hierarchy gives the lowest priority to unobservable inputs | A | The inputs are categorised into three categories. - Incorrect - True, see IFRS 13 para 72. The hierarchy gives the lowest priority to unobservable inputs. - Incorrect - True, see IFRS 13 para 72.  The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities. - Incorrect - True, see IFRS 13 para 72 |
| IAS 40 Investment Property gives a choice between two different models as the accounting policy to be used in relation to investment property. Which one of the following disclosures is required by IAS 40 when the fair value model has been adopted?  Select one:  a. Useful lives or depreciation rates used  b. The amount of impairment losses recognised  c. Net gains or losses from fair value adjustments  d. Depreciation methods used | C | Depreciation methods used. - Incorrect - Depreciation would only apply under the cost model Useful lives or depreciation rates used. - Incorrect - Depreciation would only apply under the cost model  The amount of impairment losses recognised. - Incorrect - Requirement of IAS 36 not IAS 40 |
| FR-MQ-M1-20  On 1 January 20X6 an entity grants share options to each of its employees. The options are subject to the condition that the employees continue to work for the entity until 31 December 20X9. The entity estimates that not all the employees will complete the required period and that therefore only 45 000 options will vest. The market price for each option was $12 at 1 January 20X6 and $15 at 31 December 20X6.  Which of the following journal entries is required to account for the grant of the options for the year ended 31 December 20X6 in accordance with IFRS 2 Share based payments?  Select one:  a. Profit or loss Dr $135 000, Equity Cr $135 000  b. Profit or loss Dr $168 750, Liabilities Cr $168 750  c. Profit or loss Dr $540 000, Equity Cr $540 000  d. Profit or loss Dr $135 000, Liabilities Cr $135 000 | A | Pro􀃕t or loss Dr $540 000, Equity Cr $540 000. - Incorrect - This is the total remuneration expense based on the fair value of the options. The cost needs to be spread over the vesting period Pro􀃕t or loss Dr $135 000, Liabilities Cr $135 000. - Incorrect - IFRS 2 specities that the fair value of the options to be granted be recognised as equity rather than as a liability Profit or loss Dr $168 750, Liabilities Cr $168 750. - Incorrect - The expense is based on the market price at 31 December 20X6 rather than at the grant date |
| Which of the following are among the advantages of having a conceptual framework of accounting? I Development of accounting standards is subject to less political pressure  II A consistent balance sheet or income statement approach is used to setting standards  III Considers the needs of all users IV Avoids a mixed up approach to se􀆫ng standards  Select one:  a. I, II, III and IV  b. I and II  c. I, II and III  d. I, II and IV | D | One of the disadvantages of using a conceptual framework of accounting is that it cannot consider the needs of all users even though each user will have different needs and requirements |
| Which of the following options correctly describes the status of the Conceptual Framework for Financial Reporting?  Select one:  a. Compliance with the Conceptual Framework ensures that the financial statements show a true  and fair view  b. No departures are allowed from the contents of the framework  c. It carries the force of law  d. It provides a framework for the development of accounting standards | D | It carries the force of law. - Incorrect - The Conceptual Framework does not carry the force of law. No departures are allowed from the contents of the framework. - Incorrect - Due to various constraints, some standards may have certain inconsistencies to the Conceptual Framework. Compliance with the Conceptual Framework ensures that the financial statements show a true and fair view. - Incorrect - The financial statements have to comply with accounting standards and other legal requirements |
| Which two of the following statements describe consistency as referred to in the Conceptual Framework?  (1) The effects of transactions should be reflected in the financial statements for the accounting period in which they occur and not in the period where any cash involved is received or paid. (2) Use of the same methods by different entities for the same period.  (3) Financial information should be selected and presented without bias or manipulation.  (4) Use of the same methods by the same entity over different periods  Select one:  a. (2) and (4) only  b. (1) and (2) only  c. (1) and (3) only  d. (3) and (4) only | A | Responses (2) and (4) describe consistency per CF para QC 22.  Response (1) describes the accruals basis and Response (3) refers to faithful representation, a fundamental characteristic of useful financial information |
| Which of the following statements are correct?  1 The fair value of investment property shall reflect market conditions at the balance sheet date. 2 An investment property shall be measured initially at its cost. Transaction costs shall not be included in the initial measurement. 3 Compensation from third parties for investment property that was impaired, lost or given up shall be recognised in pro􀃕t or loss when the compensation becomes receivable. 4 For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in  profit or loss.  Select one:  a. 1, 3 and 4  b. 1, 2 and 4  c. 1, 2, 3 and 4  d. 1, 2 and 3 | A | 1 is correct. Per IAS 40 para. 38, the fair value of investment property shall reflect market conditions at the end of the reporting period. 2 is incorrect. Per IAS 40 para. 20, transaction costs shall be included in the initial measurement. 3 is correct. Per IAS 40 para. 72, compensation from third parties for investment property that was impaired, lost or given up shall be recognised in pro􀃕t or loss when the compensation becomes receivable. 4 is correct. Per IAS 40 para. 63, for a transfer from inventories to investment property that will be carried  at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss |
| A company operates a scheme under which employees may qualify for long service leave. Assuming that the company does not hold any assets specifically to fund long-term employee benefits, how should the liability for long service leave be measured in terms of IAS 19 Employee benefits?  Select one:  a. At settlement value  b. At fair value  c. At historic cost  d. At present value | D | IAS 19 para 155 requires the amount of long term employee benefits to be measured on a net basis as the present value of the obligation less the fair value of plan assets (if any) out of which the obligations are to be funded. In this question as there are no plan assets, the long service leave liability will be measured at present value |
| Which one of the following are correct concerning the treatment of investment properties under IAS 40 Investment property? 1 An investment property is initially measured at cost, including transaction costs. 2 Following initial recognition, investment property can be held at either cost or fair value. 3 If an investment property is held at fair value, this must be applied to all of the entity's investment property.  4 A gain or loss arising from a change in the fair value of an investment property should be recognised in other comprehensive income  Select one:  a. 1, 3 and 4  b. 1, 2 and 3  c. 1, 2 and 4  d. 1, 2, 3 and 4 | B | Statements 1, 2 and 3 are correct. Statement 4 is incorrect because a gain or loss arising from a change in the fair value of an investment property is recognised in profit or loss |
| Under IAS 40 Investment property, which one of the following additional disclosures must be made when an entity chooses the cost model as its accounting policy for investment property?  Select one:  a. The occupancy rate of the property  b. Rentals owing at end of financial period  c. The fair value of the property  d. Present value May approximate fair value but certain differences exist | C | Present value. - Incorrect - May approximate fair value but certain differences exist. The fair value of the property. - Correct - Required by IAS 40 para 79(e). The occupancy rate of the property. - Incorrect - Not required by IAS 40. Rentals owing at end of financial period. - Incorrect - Not required by IAS 40 |
| Which of the following statements are correct in terms of the Conceptual Framework? 1 Systematic risk relates to the risk specific to a particular asset due to the unique features of that asset 2 Transactions are grouped into broad classes within financial statements, these are the elements of the financial statements and include assets, liabilities, equity, income and expenses 3 A key difference in the definition of an asset and liability under the Conceptual Framework is the direction of the flow of economic benefits in relation to the entity 4 Items can be recognised in the financial statements provided it is probable that any future economic benefit associated with the item will flow to or from the entity and the item has a cost or value that can be reliably measured  Select one:  a. 1, 2 and 4  b. 2, 3 and 4  c. 1, 2, 3 and 4  d. 1, 2 and 3 | B | Statements 2, 3 and 4 are correct. Statement 1 is incorrect because systematic risk relates to the risk due to economy wide factors affecting all assets |
| According to the Conceptual Framework which of the following statements best describes the going concern assumption?  Select one:  a. The going concern assumption assumes that the management of the company will not change in the foreseeable future  b. The going concern assumption presumes that the entity will continue to operate for the foreseeable future  c. The going concern assumption presumes that the entity will continue to operate for the next 12 months  d. The going concern assumption presumes that the entity's assets can be sold for at least the amount they are included in the accounts | B | The going concern assumption assumes that the entity will continue to operate for the foreseeable future |
| Which of the following is not an advantage of the historical cost basis of accounting?  Select one:  a. It is less costly to implement  b. It is well understood  c. It can be faithfully represented  d. It does not distort performance measurement | D | It is well understood. - Incorrect - The historical cost basis is well understood. It is less costly to implement. - Incorrect - As historical cost accounting is linked to the occurrence of transactions, measurement is readily available and of little or no additional cost.  It can be faithfully represented. - Incorrect - Historical costs can be faithfully represented by evidence of actual transactions. |
| Which of the following are generally correct about the Conceptual Framework? 1 States the measurement basis for specific transactions or events 2 Used by auditors to help form an opinion on compliance with IFRS 3 Used by the standard setting bodies to develop accounting standards Used by preparers of financial reports when issues arise that are not directly covered by a standard  Select one:  a. 1, 2 and 3  b. 1, 2, 3 and 4  c. 1, 2 and 4  d. 2, 3 and 4 | D | 1, 2 and 3. - Incorrect - 1 is not correct, as this is the role of accounting standards rather than the Conceptual Framework. 1, 2 and 4. - Incorrect - 1 is not correct, as this is the role of accounting standards rather than the Conceptual Framework. 2, 3 and 4. - Correct - These are applications of the Conceptual Framework. 1, 2, 3 and 4. - Incorrect - 1 is not correct, as this is the role of accounting standards rather than the  Conceptual Framework |
| Because loss on operating the shops, the accountant is considering the issue of going concern. If it were decided that Lisbon was no longer a going concern at 31 March 20X6, which of the following would apply in accordance with the Conceptual Framework?  Select one:  a. All the assets should be liquidated  b. Financial statements do not need to be prepared  c. The financial statements should be prepared on a different basis  d. The financial statements should be prepared as normal and the going concern status disclosed in the notes | C | The financial statements should be prepared on a different basis. The basis of valuation of assets will be affected. |
| Which of the following statements is/are correct?  1 The shareholder needs a statement of financial prospects, ie an indication of future progress. However, the supplier of goods on credit needs a statement of financial position, ie an indication of the current state of affairs. 2 The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.  Select one:  a. 2 only  b. 1 only  c. Neither 1 or 2  d. Both 1 and 2 | A | 2 is the IASB’s Conceptual framework description of the purpose of financial statements. 1 is incorrect, although the shareholder needs to know the future prospects, he also needs to know that the current Position of the company is secure. Similarly, the supplier needs to know the future prospects to ensure that he will be paid |
| According to the IASB's Conceptual Framework for Financial Reporting, which two of the following are part of faithful representation?  1 It is neutral  2 It is relevant  3 It is presented fairly  4 It is free from material error  Select one:  a. 1 and 4  b. 1 and 2  c. 2 and 3  d. 3 and 4 | A | Information has the quality of faithful representation when it is complete, neutral and free from material error |
| The Conceptual Framework describes a number of different measurement bases. One of them is described as follows. 'Assets are carried at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.' Which measurement basis is being described?  Select one:  a. Current cost  b. Realisable (settlement) value  c. Present value  d. Historical cost | A | Historical cost is the original amount of the asset or liability. Realisable value is the amount that would be received to transfer the asset or the amount that would have to be paid to se􀆩le the liability. Present value is the discounted amount of the future cash flows that can be obtained from continuing to use an asset |
| On 30 June 20X4, Cliff Ltd (lessor) leased a motor vehicle to David Ltd (lessee). At that date, the fair value of the vehicle is $74 800, its estimated residual value at the end of the lease term is $11 000 and its economic useful life is six years. The lease is cancellable but the lessee will incur a penalty equal to 24 months of lease payments if it chooses this option. There is no option for the lessee to purchase the vehicle at the end of the lease term. The lease agreement cost Cliff Ltd $2 912 to set up and included the following details: $ Annual lease payments (payable 30 June each year in advance) 21 780 Executory costs (included in annual lease payment)\* 1 980 Residual value guarantee 6 600 Unguaranteed residual value 4 400 Lease term 4 years Interest rate implicit in the lease 9% \* The executory costs relate to the reimbursement of insurance and maintenance costs which will be paid annually by Cliff Ltd. Relevant present value factors are as follows: · PV factor of an annuity at 9% over 3 years is 2.5313 · PV factor of a lump sum in 4 years time at 9% is 0.7084 What should be the journal entry by the lessee to record the lease payment on 30 June 20X5? Amounts should be rounded to the nearest dollars  Select one:  a. Debit Lease liability $16 818; Debit Interest expense $4 962; Credit Cash $21 780  b. Debit Lease liability $14 868; Debit Interest expense $4 932; Debit Prepaid executory costs $1 980; Credit Cash $21 780  c. Debit Lease liability $16 397; Debit Interest expense $5 383; Credit Cash $21 780  d. Debit Lease liability $15 289; Debit Interest expense $4 511; Debit Prepaid executory costs $1 980; Credit Cash $21 780 | B | Debit Lease liability $16 397; Debit Interest expense $5 383; Credit Cash $21 780 - Incorrect - This option includes executory costs in the calculation of lease liability. Debit Lease liability $16 818; Debit Interest expense $4 962; Credit Cash $21 780 - Incorrect - This option includes executory costs and excludes guaranteed residual value in the calculation of lease liability.  Debit Lease liability $15 289; Debit Interest expense $4 511; Debit Prepaid executory costs $1 980; Credit Cash $21 780 - Incorrect - This option excludes guaranteed residual value in the calculation of lease liability. Solution $ Present value of future lease payments (($21 780 – $1 980) x 2.5313) 50 120 Present value of guaranteed residual value ($6 600 x 0.7084) 4 675 Lease liability at 30.06.20X4 54 795 Interest expense for the year ended 30.06.20X5 ($54 795 x 9%) 4 932 Payment on 30.06.20X5 (19 800) Lease liability at 30.06.20X5 39 927 Journal entry for the lease payment on 30 June 20X5 $ $ Lease liability\* 14 868 Interest expense 4 932 Prepaid executory costs 1 980 Credit Cash 21 780 \*Reduction in liability = Annual lease payment – Interest |
| IFRS 16 Leases requires a lessee to capitalise a right-of-use asset initially at cost.  Which of the following amounts will be included in the initial cost? I The amount of the lease liability II Total interest expense over the period of the lease III Initial direct costs incurred by the lessor IV Estimated costs of dismantling the asset at the end of the lease term  Select one:  a. I and II  b. II and III  c. III and IV  d. I and IV | D | I and II - Incorrect - Interest expense is not capitalised into the cost of the asset. Statements I and IV are correct (see IFRS 16 para 24).  II and III - Incorrect - Interest expense is not capitalised into the cost of the asset and only the initial direct costs of the lessee are capitalised into the cost of the asset. III and IV - Incorrect - Only the initial direct costs of the lessee are capitalised into the cost of the asset. Statements I and IV are correct (see IFRS 16 para 24). |
| A company acquired an item of plant under a finance lease on 1 April 20X7. The present value of the minimum lease payments was $11.7 million and the rentals are $4.5 million per annum paid in arrears for three years on 31 March each year. The interest rate implicit in the lease is 8% per annum. What amount will appear under current liabilities in respect of this lease in the statement of financial position at 31 March 20X8? Answer should be rounded to the nearest thousand dollars  Select one:  a. $3 564 000  b. $3 849 000  c. $5 500 000  d. $4 287 000 | B | Calculations $'000 Present value of minimum lease payments 11 700 Interest at 8% 936 Payment (4 500) Balance as at 31.3.X8 8 136 Interest at 8% 651 Payment (4 500) Balance as at 31.3.X9 4 287 Current liability = 8 136 - 4 287 = 3 849 |
| Delta enters into a lease with Omega of an aircraft which had a fair value of $264 000 at the inception of the lease. The terms of the lease require Delta to pay 10 annual rentals of $38,000 in arrears. Delta is wholly responsible for the maintenance of the aircraft which has a useful life of approximately 15 years. The present value of the 10 annual rentals of $38 000 discounted at the interest rate implicit in the lease is $250 000. Applying the requirements of IFRS 16 Leases to this agreement, what amount would be added to Delta's non-current assets in respect of the leased aircraft?  Select one:  a. $264 000  b. $380 000  c. $250 000  d. Nil | C | The lease is for the right-of-use of an asset that should be capitalised at the present value of minimum lease payments (ie 250 000), as this is the initial amount of the lease liability recognised. |
| On 30 June 20X4, John Ltd (lessor) leased a motor vehicle to Chris Ltd (lessee). At that date, the fair value of the vehicle is $81 600, its estimated residual value at the end of the lease term is $12 000 and its economic useful life is six years. The lease is cancellable but the lessee will incur a penalty equal to 24 months of lease payments if it chooses this option. There is no option for the lessee to purchase the vehicle at the end of the lease term. The lease agreement cost John Ltd $3 176 to set up and included the following details: $ Annual lease payments (payable 30 June each year in advance) 21 600 Residual value guarantee 7 200 Unguaranteed residual value 4 800 Lease term 4 years Interest rate implicit in the lease 9% Relevant present value factors are as follows: · PV factor of an annuity at 9% over 3 years is 2.5313 · PV factor of a lump sum in 4 years time at 9% is 0.7084 What is the balance of lease receivable by lessor at 30 June 20X5? Answer should be rounded to the nearest dollar  Select one:  a. $31 920  b. $65 744  c. $43 590  d. $47 262 | D | Solution $ Present value of future lease receipts ($21 600 x 2.5313) 54 676  Present value of guaranteed residual value ($7 200 x 0.7084) 5 100 PV of unguaranteed residual value ($4 800 × 0.7084) 3 400 Lease receivable at 30.06.20X4 63 176 Interest revenue for year ended 30.06.20X5 ($63 176 x 9%) 5 686 Lease receipt on 30.06.20X5 (21,600) Lease receivable at 30.06.20X5 47 262 Applying the guidance in para s 63 and 64 of IFRS 16, the present value of the lease payments of $81 376 represents almost all of the fair value of the vehicle, $81 600. Therefore, the present value test is satisfied. Thus, the lessor (John Ltd) should classify the lease of motor vehicle as a finance lease. |