



**Vendor: CPA**

**Exam Code: FR**

**Exam Name: Financial Reporting**

**Version: 13.01**

**Q & As: 80**

**QUESTION 1**

Roland Ltd has loan of 6% redeemable preference shares in issue. They are redeemable on 31 December 2012. In accordance with IAS 32 Financial Instruments: Presentation, where are these to be disclosed in the statement of financial position as at 31 December 2012?

- A. Non-current liabilities
- B. Current liabilities
- C. Equity
- D. Non-current assets

**Correct Answer: A**

**QUESTION 2**

Watson earns a bonus of 2% of net profit from his employers, ABC Co. In September 2012, Watson received a payment-in-anticipation of \$3,000. On 31 December 2012, the directors estimated that net profits for the year would probably be \$170,000. What figure should be included in the Statement of Comprehensive Income for the year ended 31 December 2012 as an employee benefit?

- A. \$3,400
- B. \$3,000
- C. \$400
- D. Cannot be estimated

**Correct Answer: A**

**QUESTION 3**

IAS 34 Interim Financial Report contains either a complete set of financial statements or a set of condensed financial statements for an interim period.

The treatment for non-mandatory intangible assets and depreciation during interim period should therefore be:

- (i) Non-mandatory intangible assets: Costs of an intangible asset should be deferred and treated as an expense in the interim statement.
- (ii) Depreciation: Depreciation should be charged on all non-current assets.

State whether the above treatments are either correct or incorrect.

- A. Both (i) and (ii) are correct
- B. (i) is correct but (ii) is incorrect
- C. (i) is incorrect but (ii) is correct
- D. Both (i) and (ii) are incorrect

**Correct Answer: D**

**QUESTION 4**

Rich Ltd has prepared draft financial statements for the year to 31 March 2013. On 5 June 2013,

the accountant received a letter regarding an accident which had taken place on 14 March 2013. The accident had destroyed a machine with a net book value of \$578,000. The company's insurance policy has an excess of \$55,700. The accountant had taken this into consideration when drafting the accounts. The insurance company declined to pay the claim as they believed that the accident had been caused by negligence. How should the information in the letter be reflected in the draft accounts?

- A. A charge of \$522,300 is required
- B. A charge of \$578,000 is required
- C. A note should be included explaining the post balance sheet event
- D. There will be no effect on the draft financial statements

**Correct Answer: A**

#### **QUESTION 5**

Richard Ltd and McMagoo Inc. trades in shares and securities and are close rivals for many years. Richard Ltd accuses McMagoo Inc. of providing false information related to a particular PH plc's share; though Richard Ltd knows it is not true. McMagoo Inc. sues Richard Ltd. for defamation. Richard's and McMagoo Inc's lawyers agree that it is likely that McMagoo Inc. will win the case and receive damages of an amount of \$1.5m. There is no possibility of the case being resolved before the financial statements are finished. How the above litigation will be represented in the financial statements of both Richard Ltd and McMagoo Inc.?

- A. Richard Ltd should provide for \$1.5m. McMagoo Inc. has a contingent asset and should disclose in the financial statements.
- B. Richard Ltd should provide for \$1.5m. McMagoo Inc. should ignore as this is too remote.
- C. Richard Ltd should ignore as this is too remote. McMagoo Inc. has a contingent asset and should disclose in the financial statements.
- D. Richard Ltd should have a contingent asset and should disclose in the financial statements. McMagoo Inc. should provide for \$1.5m.

**Correct Answer: A**

#### **QUESTION 6**

The following statements relate to intangible assets.

- 1) An intangible asset should be amortized on a systematic basis over the asset's useful life.
- 2) Internally generated goodwill may be carried in the statement of financial position if the value can be determined with reasonable certainty.
- 3) Internally generated brands can never be recognized as intangible assets.

Which of the above statements are consistent with IAS 38 Intangible Assets?

- A. 1 and 2 only
- B. 1 and 3 only
- C. 2 only
- D. 3 only

**Correct Answer: D**

#### **QUESTION 7**

Tradus buys a non-current asset on three months credit on 15 December 2012 for 90,000 Roubles. Rates are as follows:

DateRate

15 December 2012\$1:10 Roubles

31 December 2012\$1:9 Roubles

What are the journal entries to record the transaction at year end?

- A. DrIncome statement\$1,000  
CrPayable\$1,000
- B. DrPayable\$1,000  
CrIncome statement\$1,000
- C. DrRetained earnings\$1,000  
CrIncome statement\$1,000
- D. DrReceivable\$1,000  
CrRetained earnings\$1,000

**Correct Answer:** A

#### QUESTION 8

Wolf plc acquired 80,000 \$1 ordinary shares in Fox plc on 1 April 20X5 at a cost of \$77,000. Fox plc's retained earnings at that date were \$50,000 and its issued ordinary share capital was \$100,000. What is the amount of the gain on a bargain purchase arising on the acquisition?

- A. \$35,000
- B. \$43,000
- C. \$63,000
- D. \$73,000

**Correct Answer:** B

#### QUESTION 9

Sin plc is considering purchasing Lam Ltd, a subsidiary company of Jim Co. The result of such decision from the directors of Sin plc was because Lam Ltd produces a technically advanced computer microchip but unfortunately neither Lam Ltd nor Jim Co was successful. However, the director of marketing, Mr. Schulze Kidder, presented some factual areas in the board meeting and requested for further investigation before any final decisions are made. The areas are:

- (i) The terms of trading between the entities to assess how much of the subsidiary's trade is recurring and whether it is on fair market terms.
- (ii) The existence of debt between the parties.
- (iii) The level of dividends payable as the subsidiary may have paid large dividends to the parent which may not be sustainable post sale.

Which of the above area(s) is / are not relevant when considering purchase of a subsidiary company like Lam Ltd?

- A. (ii) only
- B. (i) and (ii) only