CPA

Exam FR

Financial Reporting

Version: 6.0

[Total Questions: 80]

Question No : 1

NORMAN plc has one subsidiary. On 1 January 2012 NORMAN plc purchased 30% of the ordinary share capital of SEA Ltd for $12 million. Thesummarizedstatement of financial position of SEA Ltd as at 31 December 2012 was as follows.

$m

Net asset (at carrying amount)30

Ordinary share capital ($1 share)10

Retained earnings 1 January 201215

Net profit for the year ended 31 December 20125

30

At 1 January 2012 the fair value of the net assets of SEA Ltd was $5 million greater than their carrying amount. The difference, which has not been recorded in SEA Ltd's books, relates to land which is still owned by SEA Ltd at 31 December 2012.

At what amount should the investment in SEA Ltd be included in NORMAN plc's consolidated statement of financial position as at 31 December 2012?

A. $12 million
B. $13.5 million
C. $17 million
D. $9 million

Answer: B

Question No : 2

Bony plc purchased equipment on 1 April 2010 for $100,000. The equipment was depreciated using the reducing balance method at 25% per annum. Bony plc prepares accounts to 31 March annually. Depreciation was charged up to and including 31 March 2012. At that date, the recoverable amount of this equipment was $42,000.

According to IAS 36 Impairment of Assets, what was the impairment loss on this equipment calculated on 31 March 2012?

A. Nil
B. $8,000
C. $14,250
D. $25,000

Answer: C

Question No : 3

The aim of IAS 7 is to provide information to users of financial statements about the entity's ability to generate cash and cash equivalents, as well as indicating the cash needs of the entity.

Which one of the following statements gives the best definition of cash equivalents as set out in IAS 7 Statement of Cash Flows?

A. Cash equivalents are cash, overdrafts, short-term deposits, options and other financial instruments and equities traded in an active market
B. Cash equivalents are short-term highly liquid investments subject to insignificant risks of change in value
C. Cash equivalents are readily disposable investments
D. Cash equivalents are investments which are traded in an active market

Answer: B

Question No : 4

An asset is recorded in S Co's books at its historical cost of $4,000. On 1 January 2012 P Co bought 80% of S Co's equity. Its directors attributed a fair value of $3,000 to the asset as at that date. It had been depreciated for two years out of an expected life of four years on the straight line basis. There was no expected residual value. On 30 June 2012 the asset was sold for $2,600.

What is the profit or loss on disposal of this asset to be recorded in P Co's consolidated accounts for the year ended 31 December 2012?

A. Profit on disposal for consolidation: $350
B. Loss on disposal for consolidation: $400
C. Profit on disposal for consolidation: $600
D. Profit on disposal for consolidation: $1,100

Answer: A

Question No : 5

Yisen Co issues 2,000 convertible bonds at the start of 2012. The bonds have a three year term, and are issued at par with a face value of $1,000 per bond, giving total proceeds of $2,000,000. Interest is payable annually in arrears at a nominal annual interest rate of 6%. Each bond is convertible at any time up to maturity into 250 common shares.

When the bonds are issued, the prevailing market interest rate for similar debt without conversion options is 9%. At the issue date, the market price of one common share is $3. The dividends expected over the three year term of the bonds amount to 14c per share at the end of each year. The risk-free annual interest rate for a three year term is 5%.

What is the value of the equity component in the bond?

NB.Discount factor at 9% year 3 is 0.772, Annuity factor is 2.531

A. $152,280
B. $152,580
C. $456,000
D. $NIL

Answer: A

Question No : 6

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

Answer: A

Question No : 7

Roadrunner is a large motor-race track construction company. The finance director is working on the published accounts for the year ended 31 March 2013. The following cases have to be resolved before the accounts can befinalized.

(i)One of Roadrunner's customers using the tracks was injured during a race. The customer claims that the accident was Roadrunner's fault due to there being a cleft on track. Roadrunner's lawyers have advised that the customer has a very strong case, but will be unable to estimate the financial outcome until further medical evidence becomes available.

(ii)Roadrunner has recently expanded its overseas market building motor racing tracks in areas with no such activity. It is expected that the tracks will be abandoned in five years' time. At that point the tracks will need to be dismantled and the area restored to its original condition in accordance with current legislation. The estimated cost of restoration is expected to be $4 million. The cost of capital of the company is 10%.

Which of the following options is correct in relation to the above two facts in respect of Roadrunner?

A. (i) A provision should be made;
(ii) Should be treated as contingent liability
B. (i) A liability for the future costs should berecognizedimmediately;
(ii) Should be treated as contingent liability
C. (i) Should be treated as a contingent liability and disclosed in a note to the financial statements;
(ii) A liability for the future costs should berecognizedimmediately
D. (i) A liability for the future costs should berecognizedimmediately;
(ii) Should be treated as a contingent liability and disclosed in note to the financial statements

Answer: C

Question No : 8

Measurement of the elements of financial position is the process of determining the monetary amounts at which the elements of the financial statements are to berecognizedand carried in the statement of financial position and statement of comprehensive income. There are number of basis of measurement that companies use in preparing financial statements.

Which of the following best explains the ‘current cost accounting’?

A. Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition.
B. The amount of cash or cash equivalents that would have to be paid if an equivalent asset was acquired currently.
C. The amount of cash or cash equivalents that was paid if an equivalent asset was acquired currently.
D. The amount of cash or cash equivalents that could currently be obtained by selling an asset in an orderly disposal.

Answer: C

Question No : 9

The net book value of land and buildings at 31 December 2012 of Ruth Ltd was $56,000. Ruth Ltd revalues its land and building at the end of each accounting year. At 31 December 2012 the land and buildings is revalued to $52,600 into the financial statements. The building’s remaining life at 1 January 2012 was 8 years. Ruth Ltd does not make an annual transfer from the revaluation reserve to retained earnings in respect of therealizationof the revaluation surplus.

What is the gain / loss on revaluation of land and buildings as at 31 December 2012? Ignore deferred tax on the revaluation surplus.

A. Revaluation gain $3,600
B. Revaluation loss $3,400
C. Revaluation loss $3,600
D. Revaluation gain $3,400

Answer: A

Question No : 10

On 1 April 2012, Hunting plc acquired 70% of the ordinary shares of ICM Ltd. The following figures relate to the year ended 31 December 2012.

Hunting plcICM Ltd

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Revenue769,000600,000

Cost of sales568,500420,000

Gross profit200,500180,000

On 15 November 2012 ICM Ltd sold goods which cost it $5,000 to Hunting plc for $7,000. These goods were still held by Hunting plc at 31 December 2012.

What is the amount for gross profit in the consolidated income statement of Hunting plc for the year ended 31 December 2012?

A. $335,500
B. $333,500
C. $983,500
D. $985,500

Answer: B

Question No : 11

Debra Ltd. has the following loan finance in place during the year ended 31 December 2012:

$2 million of 6% loan finance

$4 million of 8% loan finance

It constructed a new factory which cost $900,000 and this was funded out of the existing loan finance.

The factory took eight months to complete.

What borrowing costs should be capitalised in the year ended 31 December 2012?

A. $65,970
B. $43,980
C. $36,000
D. $30,000

Answer: B

Question No : 12

On 1 January 2008 Sudden Ltd purchased a freehold office block for $2.5 million. At the date of acquisition the useful life was estimated to be 50 years and the residual value $250,000. The company policy is to depreciate freehold property on the straight-line basis. On 31 December 2013 the residual value of the offices was estimated at $450,000 due to an increase in commercial property prices. The estimated useful life of the property remained unchanged.

What amount will berecognizedin profit or loss as depreciation in respect of the freehold property in the year to 31 December 2013?

A. $41,000
B. $40,556
C. $45,000
D. $45,555

Answer: B

Question No : 13

Back plc has one associated company, Beyond Ltd, in which Back plc holds 40% of the issued 100,000 $1 ordinary shares. The financial controller of Back plc is unsure how the following transactions should be reflected in the consolidated statement of cash flows and has asked you to confirm the overall impact.

1)In the previous accounting period, Back plc had made a cash advance of $100,000 to Beyond Ltd. During the current accounting period, Beyond Ltd repaid $30,000 of this cash advance.

2)During the current accounting period, Beyond Ltd sold an item of property, plant and machinery at its carrying amount for $20,000 cash.

3)During the current accounting period, Beyond Ltd paid a dividend of 20c per share.

In accordance with IAS 7 Statement of Cash Flows, what is the impact of the above cash transactions on Back plc's consolidated statement of cash flows for the current accounting period?

A. Cash from sale of associate's plant $20,000; dividend paid by associate $20,000
B. Cash from repayment of cash advance from associate $30,000; cash from sale of associate's plant $20,000
C. Cash from repayment of cash advance from associate $30,000; dividend received from associate $8,000
D. Dividend received from associate $8,000

Answer: C

Question No : 14

During the year ended 30 June 2013, Emily plc spent $300,000 on the development of a new range of garden machinery. In order to carry out this work, Emily plc purchased some highlyspecializedequipment on 1 July 2012 at a cost of $100,000. The equipment is expected to have a useful life of five years and is to be depreciated over that period by the straight-line method.

According to IAS 38 Intangible Assets, what is the maximum amount that Emily plc can carry forward as development expenditure as at 30 June 2013?

A. $100,000
B. $300,000
C. $320,000
D. $400,000

Answer: C

Question No : 15