SOLUTIONS TO SELF TEST QUESTIONS

Chapter 1

Question 1 - A

Both statements are false.

The Norwalk agreement was between IASB and the FASB, in which both parties pledged to use their best efforts to make their financial reporting standards compatible as soon as practically possible and coordinate their activities so that, once achieved, compatibility is maintained.

Question 2 - A & C

The SAC and the IASCF are completely independent of the European Commission.

Question 3 - C

The correct answer is the Accounting Regulatory Committee (ARC).

Question 4 - A

IFRIC is the correct answer. See the IASB Constitution para 36 for the complete role undertaken by IFRIC.

Question 5 - A & B

IFRIC and SAC are the correct answers per the IASB Constitution para 33 and para 37.

Question 6 - C

EFRAG is the correct answer.

The body responsible for endorsement is the ARC. Technical reviews are received from EFRAG, a group composed of accounting experts from the private sector, the accounting profession and national standard setters.

Question 7 - B & C

"Newly identified financial reporting issues not specifically addressed in IFRSs" and "Issues where unsatisfactory or conflicting interpretations have developed, or seem likely to develop" are the correct answers.

The IASC constitution para 36 provides guidance.

Question 8 - C

It is true that the Norwalk agreement between the IASB and FASB was a commitment towards harmonisation.

IOSCO represents securities organisations and does not require mandatory compliance with IFRS.

Question 9 - B & C

The correct answers are "To promote the use and rigorous application…" and "To work actively with national standard setters".

See *Preface* para 6.

Chapter 2

Question 1 - D

The correct answer is "A present obligation of the entity arising from past events", as defined in para 49(b) of the *Framework*.

Question 2 - D

Both definitions are correct in that profit is the residual amount that remains after expenses have been deducted from income and is also any amount over and above that required to maintain the capital at the beginning of the period.

The definitions are consistent since the first is by reference to the statement of financial performance and the second is by reference to the statement of financial position, and profit appears in both statements. *Framework* para 105 expands on this.

Question 3 - D

The correct answer is "The assets, liabilities and equity of an entity".

Financial position refers to the elements of assets, liabilities and equity. Measurement of performance refers to income and expenses (*Framework* para 47).

Question 4 - B

The correct answer is "The ability of the entity to continue in operation for the foreseeable future".

See para 23 of the *Framework*.

Entities may have sufficient reserves to continue in the face of losses or negative net current assets.

Question 5 - B

The correct answer is "Financial position" (*Framework* para 49). The elements of financial position are an entity's assets, liabilities and equity.

Question 6 - D

The correct answer is "Current cost" (*Framework* para 100) that describes an asset's amount recorded in the statement of financial position in terms of the costs of acquiring an equivalent asset.

Question 7 - A

The correct answer is drawn from para 25 of the *Framework*.

Question 8 - D

The *Framework* (para 36) refers to information in financial statements as being neutral if it is free from bias. Bias is defined as information being presented that attempts to predetermine a reader's decision or judgement arising from the financial statements.

Question 9 - B

The correct answer is "Realisable value" as defined in the IASB *Framework* para 100(c).

Question 10 - A

"Accrual basis…" is the correct answer.

Framework para 22 states "Under this basis events are recognised when they occur and not as cash or its equivalent is received or paid".

Question 11 - C

"Freedom from material error" is the correct answer.

Framework para 31 states "Information…[is reliable] when it is free from material error and bias".

Question 12 - C

"Relevant" is the best answer. *Framework* para 26 states "To be useful, information must be relevant to the decision-making needs of users".

Question 13 - C

"Recognition is the process of incorporating in the financial statements…" is true.

"Recognition is the process of determining the amounts…" is false.

See the *Framework* paras 82 and 99

Question 14 - A & C

The correct answers are "A loss on the disposal of a non-current asset" (*Framework* para 80) and "A decrease in economic benefits during the accounting period" (*Framework* para 79).

Distributions to shareholders are specifically excluded by para 70(b) of the *Framework* from being part of an expense. A reduction in income is not an expense.

Question 15 - B

The Preface to IFRS para 14 states that bold type indicates the main principles but that bold and plain type have equal authority.

Question 16 - A & B

Para 11 of the Preface includes accounting policies and a cash flow statement as part of the financial statements.

Question 17 - A

Both statements are false, as specified in para 2 of the IASB *Framework*.

Question 18 - C & D

The IASB *Framework* identifies going concern and accrual basis as its underlying assumptions (paras 22 and 23).

Question 19 - B & C

The correct answers are that primary responsibility for the financial statements rests with management and that financial statements must not avoid complex issues for the sake of understandability.

See *Framework* para 11 for responsibility for preparation of financial statements and para 25 for complex transactions.

Question 20 - B & D

The IASB *Framework* identifies understandability and relevance as two of the four principal qualitative characteristics (para 24). Accrual and going concern are underlying assumptions.

Question 21 - B

The IASB *Framework* para 5 deals with objectives and qualitative characteristics.

Question 22 - B & C

The correct answer is "Determining the basis of … " and "Reviewing broad strategic issues…" per para 16 of its Constitution

Question 23 - A & D

The correct answers are "Establishing an advisory committee to give advice" and "Developing and publishing a discussion document for public comment" per para 18 of the IFRS *Preface*.

Chapter 3

Question 1 - C

Materiality of items depends on their influence on users' economic decisions. Materiality of an item depends on its relative, not absolute, size.

See IAS1 para 7.

Question 2 - C & D

IAS1 para 103 states that notes "…disclose information … not presented elsewhere in the financial statements."

Question 3 - A

A loss on disposal of assets is recognised in the statement of comprehensive income because IAS16 *Property, plant and equipment* does not permit otherwise (IAS1 para 88).

Dividends paid are recognised in the statement of changes in equity (IAS1 para 106).

Question 4 - C

Provisions should be recognised in the statement of financial position (IAS1 para 54).

A gain is part of income which should be recognised in the statement of comprehensive income (IAS1 para 81).

Question 5 - A & C

The correct answers are Investment property and Provisions. See IAS1 para 54.

The information about the number of shares authorised and own shares held may be presented in the statement of financial position, the statement of changes in equity or the notes (IAS1 para 79).

Question 6 - A & D

The correct answers are Cash and cash equivalents and Deferred tax. See IAS1 para 54.

Analysis by class may be presented in the notes (IAS1 para 78).

Question 7 - B & D

IAS1 para 10 lists the statements that must be presented.

Question 8 - D

Biological assets should appear in the statement of financial position (IAS1 para 54).

IAS1 para 79 governs the presentation of the number of shares authorised.

Question 9 - D

A statement of changes in equity should always be presented, per IAS1 para 106.

Question 10 - D

Cash that is restricted from being used in the settlement of a liability for at least 12 months after the reporting period should be classified as a non-current asset per IAS1 para 66(d).

Question 11 - A

Employment taxes that are due for settlement in 15 months would be classified as a current liability as they are part of the entity's normal operating cycle per paras 69 and 70 of IAS1.

Question 12 - C

Because Oakes both has the right to roll over the loan beyond 12 months for the end of the reporting period and intends to roll it over, it should be presented as a non-current liability per para 73 of IAS1.

Chapter 4

Question 1 - B

It is true that changes in accounting estimates arise from new information or new developments, per IAS8 para 5.

IAS8 para 36 requires changes in accounting estimates to be recognised prospectively, not retrospectively.

Question 2 - A & C

IAS8 para 5 defines prospective application as
(i) applying a new accounting policy to transactions occurring after the date at which the policy changed
(ii) recognising a change in an accounting estimate in the current and future periods affected by the change.

Question 3 - A

The correct answer is "Retrospective application".

IAS8 para 5 gives definitions.

Question 4 - B

IAS8 para 14 specifies the criteria under which changes in accounting policy are allowed.

A change is only allowed if the change will result in providing reliable and more relevant information or is required by an IFRS or an IFRIC interpretation.

Question 5 - B & C

IAS8 para 14 limits changes in accounting policy to changes made arising from new standards or made to provide more relevant information.

Para 16 specifies that new policies to deal with new or different transactions are not changes in policies.

Question 6 - C

Per IAS8, a new method of calculating the provision for uncollectible receivables is a change in an accounting estimate (para 32), while the measurement of investment properties falls within the definition of an accounting policy (para 5).

Question 7 - A

The correct answer is CU60,000. IAS8 para 32's list of examples of changes in accounting estimates includes inventory obsolescence.

Question 8 - C

Prior period errors should be corrected by retrospective restatement, per IAS8 paras 5 and 42. Closing inventory at 31 December 20X6 should be reduced by CU200,000 and closing inventory at 31 December 20X5 by CU120,000. The net effect on the profit for the year ended 31 December 20X6 is to reduce it by the net change in 20X6, so CU80,000.

Question 9 - D

Per IAS8 para 42 a correction of a material error should be applied retrospectively by restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Question 10 - D

Inventory obsolescence is one of the examples in IAS8 para 32 of a change in accounting estimate which should be accounted for prospectively in the period of change, per IAS8 para 36.

Question 11 - B

The inventory adjustment is made to reduce earnings retrospectively because it was an error (IAS8 para 42), but the receivables write-off is a change in accounting estimate, adjusted prospectively (IAS8 para 36).

Question 12 - A

Prior period errors should be corrected by retrospective restatement, per IAS8 paras 5 and 42. Closing inventory at 31 December 20X6 should be reduced (reducing 20X6 profit) and opening inventory at 1 January 20X7 should be reduced (increasing 20X7 profit.)

Chapter 5

Question 1 - A & C

IAS18 para 24 permits surveys of work performed and costs incurred to date as methods of apportioning revenue on service contracts.

Question 2 – A & D

The correct answers are "The amount of revenue can be measured reliably" and "The costs incurred for the transaction and the costs to complete the transaction can be measured reliably".

IAS18 para 20 covers the recognition of services transactions.

Question 3 - A & B

The choices consistent with para 14 of IAS18 are that managerial control over the goods sold has been relinquished and revenue can be reliably measured.

Question 4 - D

The correct answers are CU200,000 and CU30,000.

See IAS18 para 8. In this example Ordessos recognises as revenue the full amount supplied to the agent. The agent recognises the amount of commission.

Question 5 - B

The correct answer is found by discounting the value of the sale by one year at the imputed rate of interest, i.e. CU8,000 / 1.09.

See IAS18 para 11.

Question 6 - C

Under IAS18 para 14 revenue from the sale of goods should be recognised when the significant risks and rewards of ownership have been transferred to the buyer and the seller no longer retains management involvement in, or control over, the goods. Little should recognise revenue on 1 August 20X7 when it has completed the installation.

Question 7 - A

The period of the contract to date is 3 months. Revenue is apportioned over the life of the contract. Thus the correct answer is to allocate 3/12ths of one quarter of the projected revenue.

See IAS18 paras 20-21.

Question 8 - B

Para 26 of IAS18 states that if the outcome of a services contract cannot be estimated reliably, revenue should be recognised to the extent that expenses are recoverable.

Question 9 - A

The correct answer is: Revenue CU108,000, Interest income CU12,000.

IAS18 para 11 covers deferred income. In this example the revenue is the value at the time of supply, July 20X7. Therefore the interest is the amount of the payment in full in July 20X8 less the offered cash payment price at July 20X7.

Question 10 - C

Under IAS18 Appendix A para 11 a selling price which includes an amount for after-sales support should be split into two components: the support component (being the cost of such support plus a reasonable profit margin) and the sale of goods component (measured as the balance). The support component should be recognised as revenue over the service period.

The support component is CU180,000 (CU120,000 plus 50%), of which half (CU90,000) should be recognised in the year ended 31 December 20X7, along with the CU620,000 (CU800,000 – CU180,000) sale of goods component.

Chapter 6

Question 1 - A & B

The correct answers are trade discounts (deduct these from purchase costs) and storage costs for part-finished (but not finished) goods.

See IAS2 paras 11 and 16.

Question 2 - B & D

The correct answers are "Import duties…" and "Trade discounts…".

IAS2 paras 11 and 16 define the inclusions and exclusions in measuring inventories.

Question 3 - A & D

The correct answers are "Transport costs for raw materials" and "Fixed production overheads" per IAS2 paras 11-12.

IAS2 para 16 defines exclusions from the cost of inventory.

Question 4 - A

Import duties should be added to cost. See IAS2 para 11.

Question 5 - B

Prompt payment discount should be ignored, because only trade discounts are taken into account, per IAS2 para11. Prompt payment discount is dealt with as financing income rather than as a trading item.

Question 6 - C

Sales staff commission should be deducted in arriving at NRV. See IAS2 para 6.

Question 7 - D

Trade discounts should be deducted from cost. See IAS2 para 11.

Question 8 - D

IAS2, paras 6, 12 and 16 define the costs of and exclusions from inventories.

The cost of factory management and maintenance expenses for an item of equipment used in the manufacturing process should both be included in the cost of inventory.

Question 9 - B

The correct answer is materials plus purchase taxes.

Storage and selling costs are excluded under IAS2 para 16. Irrecoverable purchase taxes are included per para 11.

Question 10 - D

CU2.40 is the correct answer.

IAS2 paras 11-12 define costs of purchase and conversion of inventories. In this example the cost includes direct materials and labour, variable production overheads and fixed production costs. Factory administration can be included (per IAS2 para 12) but general administration would not have been included.

Question 11 - C

CU75 is the correct answer.

IAS2 paras 10-12 define the cost of inventory. In this example the cost includes materials, production labour and production overheads, but not general administration or marketing costs.

Question 12 - D

IAS2 para 6 states that NRV is the selling price less estimated costs to completion and costs incurred in making the sale, i.e. selling costs and transport costs to customers.

Question 13 - B

NRVs are selling prices less selling costs, per IAS2 para 6.

Costs are just materials and conversion, per IAS2 para 10.

The inclusion of general administration costs in inventory values is not permitted under IAS2 even if included in internally-reported values. So product Y is valued on the basis of cost.

Chapter 7

Question 1 - A

The correct definition of residual value is the estimated amount currently obtainable if the asset were at the end of its useful life. This definition is in IAS16 para 6 and in the IASB Glossary.

Question 2 - D

The cost of an asset less its residual value is its "depreciable amount".

See IAS16 para 6 for definitions.

Question 3 - B

The correct answer is "The amount … in the statement of financial position … after accumulated depreciation and … impairment losses".

IAS16 para 6 defines the carrying amount.

Question 4 - A

"Derecognition" is the correct answer.

See IAS16 paras 67 onward.

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Question 5 - A

"The systematic allocation of an asset's cost…" is the correct answer.

See IAS16 para 6 for definitions.

Question 6 - D

Both statements are true. IAS16 para 6 defines the cost of an asset.

Question 7 - A

The correct answer is "Depreciation".

IAS16 para 6 and IAS36 para 6 define depreciation, which is calculated by reference to the depreciable amount (the cost of an asset, or other amount substituted for cost, less its residual value).

Question 8 - A

The correct answer is "Fair value", as defined in the *Glossary* and in many IFRSs.

Question 9 - A & B

The correct answers are "Assets are depreciated even if their fair value exceeds their carrying amount" and "Land and buildings are accounted for separately, even when acquired together".

See IAS16 paras 24, 52, 58 and 68.

Question 10 - B & D

The correct answers are "Cost of testing whether the asset works correctly" and "Cost of preparing the site for installation".

IAS16 paras 16-20 define elements of cost.

Question 11 - A & D

The correct answers are "Initial delivery and handling costs" and "Installation and assembly costs".

IAS16 para 16(b) states that costs include those directly attributable to bringing the asset to the condition and location necessary for it to be capable of operating in the manner intended by management.
IAS17 para 17(c) and (d) specifically mention initial delivery and handling costs and installation and assembly costs as directly attributable costs.
IAS16 para 19 states that training and general overheads are not part of the cost of an item of PPE.

Question 12 - A & D

The correct answers are "The existence and amounts of restrictions on title" and "The measurement bases used for determining the gross carrying amount".

See IAS16 paras 73-74.

Question 13 - D

If the residual value exceeds the carrying amount, there is no depreciable amount so there cannot be a depreciation charge.

See IAS 16 para 54

Question 14 - A & C

The principles in IAS16 paras 13 and 17 only permit installation costs and the roof replacement to be capitalised.

Question 15 - B

The correct answer includes all the costs listed since they are all required to bring the machine into working condition.

See IAS16 paras 16-17.

Question 16 - A

The correct answer is CU47,750, calculated as the list price less discount plus installation costs.

See IAS16 paras 16 and 17.

Question 17 - B

The correct answer is CU21,875.

See IAS16 para 56, which indicates that assets are consumed principally through their use. In this example the answer is calculated as (the original cost less the residual value) divided by total units produced in 3 years multiplied by total units produced in 20X2.

Question 18 - A

The correct answer is CU200,000 i.e. the carrying amount of the replaced part.

See IAS16 para 70.

Question 19 - A

CU8,750 is the correct answer.

Depreciation for each separate part of equipment should be calculated separately per IAS16 para 43. The original machine would have been depreciated in each of the years ended 30 September 20X6 and 20X7. Therefore the asset had two years' useful life remaining when the upgrade was purchased.

The expense for the current year is CU6,250 plus CU2,500.

Question 20 - A

The correct answer is CU483,333, calculated as (CU6.5million less CU0.7million) / 12.

The residual value is the estimated amount "currently" obtainable, so it does not include inflation. See IAS16 para 6.

Chapter 8

Question 1 - A & D

IAS23 para 5 limits qualifying assets to those taking a substantial period of time to get ready. This would include investment property and power generation facilities. See IAS23 para 7.

Question 2 - A

IAS23 para 14 requires the use of the weighted average cost for general borrowing.

IAS23 paras 17 and 22 determine the periods for capitalisation of borrowing costs.

Question 3 - D

Treatment (2) is required by the 2007 version of IAS23, in para 8.

Question 4 - C

All relevant conditions in IAS23 para 17 are fulfilled by the date when expenditures on the project start to be incurred.

Question 5 - C

The period for capitalisation commences when borrowing costs and expenditures are both being incurred and activities have commenced (per IAS23 para 17).

The period for capitalisation of borrowing costs ceases when the activities are substantially complete (IAS23 para 22).

Question 6 - B

See IAS23 para 12. The asset's carrying amount in this example is the CU6 million construction cost plus the interest charged on the loan for the 11 months of construction (CU6 million x 10% x 11/12 = CU550,000, less the CU80,000 interest earned prior to using the loan to finance construction.

Question 7 - D

CU1,986,667 is the correct answer.

See IAS23 para 12. In this example the answer is the loan interest cost for 10 months (CU26 million × 10% × 10/12 = CU 2,166,667) less the CU180,000 income received on the parts of the loan not yet used for the renovation.

Question 8 - C

The answer is CU81,000.

The weighted average is calculated as follows, per IAS23 para 12.

$$\frac{(800{,}000 \times 0.06) + (1{,}000{,}000 \times 0.066) + (3{,}000{,}000 \times 0.07)}{(800{,}000 + 1{,}000{,}000 + 3{,}000{,}000)} = 6.75\%$$

Borrowing costs to be capitalised:

Cost of asset 1,800,000 x 6.75% x 8/12 = CU81,000

Chapter 9

Question 1 - A

Both statements are false.

The definition of government assistance in IAS20 para 3 excludes both infrastructure provision and the imposition of constraints on competitors.

Question 2 - C

IAS20 para 20 requires grants for expenditure already incurred to be recognised immediately. Para 12 requires grants such as that for the software to be matched against the related costs, so that grant would be recognised over the five-year period.

Question 3 - D

IAS20 para 24 permits both the deferred income and the reduction of asset cost methods.

Question 4 - A & C

IAS20 para 32 treats grant repayments to be accounted for as a change in accounting estimate.

Para 8 requires recognition when there is reasonable assurance that any conditions will be complied with and that the grant will be received (so recognition only when the grant is received is not permitted).
Para 37 does not allow the imputation of interest on zero-rate loans.

Question 5 - A

Carrying amount CU75,000, Deferred income CU6,750 is the correct answer.

See IAS20 para 26, where the grant is recognised as income on a systematic and rational basis over the life of the asset. The deferred income in the statement of financial position is reduced each year by the amount credited to profit or loss.

The asset is depreciated over its useful life per IAS16.

Question 6 - D

The correct answer is CU38,125, calculated as (the original cost less the grant less the residual value) divided by the asset life.

See IAS20 para 24.

Question 7 - C

CU19,440 is the correct answer.

At the acquisition date, the asset will have a carrying amount of CU121,500, so the depreciation expense in 20X7 will be 20% thereof, i.e. CU24,300. The depreciation expense in 20X8 is calculated as the carrying amount at the start of the year, CU97,200, multiplied by 20%.

Chapter 10

Question 1 - A

Both statements are false.

IFRS5 para 8 requires an expectation that the sale will be completed within 12 months of the date of classification as held for sale, and not of the end of the financial year. Para 12 prohibits adjustment to the carrying amount of an asset classified as held for sale after the year end.

Question 2 - C

IFRS5 para 27 in effect requires an entity ceasing to classify an asset as held for sale to remeasure it as if it had never been held for sale, subject to an impairment test (the recoverable amount test) at that date.

Question 3 - B & C

IFRS5 para 5 excludes deferred tax assets and financial assets from its measurement provisions.

Question 4 - A & D

IFRS5 para 7 specifies that the asset must be available for immediate sale in its present condition and that the sale should be highly probable.

Question 5 - C

Classification as held for sale is made when all of a number of conditions have been met. In this case, the last condition to be met is that the asking price should be reasonable in relation to current fair value, which is on 31 July when the price is reduced to that for similar transactions. See IFRS5 paras 7-8.

Question 6 - B

IFRS5 para 15 requires assets classified as held for sale to be measured at the time of classification at the lower of (i) the carrying amount and (ii) the fair value less costs to sell.

Para 20 requires recognition of the resulting impairment loss. The gain or loss on ultimate disposal is treated separately per para 24.

Question 7 - D

CU300 is the correct answer, calculated as fair value less costs to sell at the date classified as held for sale less net proceeds.

See IFRS5 para 24. Per IFRS5 para 20 the write down at the date of classification of the carrying amount to fair value less costs to sell is an impairment loss.

Question 8 - D

IFRS5 para 15 requires that a non-current asset held for sale should be stated at the lower of (i) the carrying amount and (ii) the fair value less costs to sell.

Question 9 - D

The correct answer is CU19,000.

IFRS5 para 18 requires assets accounted for under the revaluation model to be remeasured immediately before classification as held for sale. The additional revaluation surplus is fair value at classification date less carrying amount at that date. This is added to the revaluation reserve balance at that date. The costs to sell are recognised in profit or loss at the classification date.

Question 10 - C

All held-for-sale non-current assets are to be measured at fair value less cost to sell, so at CU300,000 (CU325,000 – CU25,000). See IFRS5 para 15.

Chapter 11

Question 1 - B & D

The correct answers are "Property held for use in the production and supply of goods or services" and "Property held for administrative purposes".

IAS40 para 5 defines owner-occupied property.

Question 2 - D

The correct answer is "Investment property".

See IAS40 para 5.

Question 3 - A

The fair value of the property is the correct answer.

See IAS40 para 79(e).

Question 4 - D

The correct answer is "Net gains or losses from fair value adjustments".

See IAS40 para 76 for disclosures required. The other options relate to the cost model.

Question 5 - A & D

The correct answers are "Land held for long-term capital appreciation" and "A building owned by an entity and leased under an operating lease".

IAS40 paras 8 and 9 give examples of types of investment property.

Question 6 - A

The correct answer is the CU290,000 net disposal proceeds less the CU203,500 (CU220,000 less 3/40ths thereof) carrying amount.

See IAS40 para 69.

Question 7 - B

The correct answer is the sum of the changes in the fair value of each of the properties in 20X8.

See IAS40 para 35.

Question 8 - D

Under the cost model an investment property is measured at cost less accumulated depreciation and impairment losses, so CU900,000 less CU30,000 (CU900,000/30 years) depreciation = CU870,000. The depreciation charge is recognised in profit or loss. See IAS40 para 56 and IAS16 para 48.

Question 9 - B

IAS40 para 35 requires changes in fair value to be recognised in profit or loss, while para 56 requires depreciation under the cost model to be measured according to IAS16.

Question 10 - A

The answer is CU40,000.

Investment properties are initially recognised at cost including the purchase price, transfer taxes and professional fees, per IAS40 paras 20-21. Under the fair value model they are subsequently remeasured to fair value and any gain or loss arising is recognised in profit or loss per IAS40 para 35.

Chapter 12

Question 1 - D

Both statements are true.

See IAS38 para 8 which defines cost as including the fair value of consideration other than cash or cash equivalents.

Question 2 - B

"The products being developed should have already been put into commercial production or use" is false. "Development involves the application of research findings" is true.

See IAS38 para 8.

Question 3 - A & C

IAS38 para 90 sets out the conditions for determining the useful life of an intangible asset. Obsolescence and expected usage are both relevant criteria.

Question 4 - C

IAS38 para 97 requires amortisation to begin when the intangible asset is available for use.

Question 5 - D

IAS38 para 24 states that an intangible asset should be recognised initially at cost.

Question 6 - B & C

IAS38 para 21 requires that there must be reliable measurement and probable future economic benefits. Cost is part of measurement rather than recognition.

Question 7 - A

IAS38 para 88 permits intangible assets to have an indefinite useful life.

IAS38 para 97 requires intangible assets with a finite life to be amortised.

Question 8 - B

IAS38 para 54 requires research expenditure to be recognised as an expense as it is incurred.

IAS38 para 57 requires development expenditure to be capitalised where appropriate conditions are met.

Question 9 - D

Both factors are relevant, per IAS38 paras 97-98.

Question 10 - A

Recognition in the financial statements of the acquired entity is not required, per IAS38 para 34.

Acquired intangibles are recognised separately from goodwill, per IAS38 para 34.

Question 11 - B

IAS38 paras 27-29 specify the costs attributable to a separately acquired intangible asset. This requires the trademark costs and costs of testing to be included.

Chapter 13

Question 1 - A

Value in use is the present value of future cash flows as defined in IAS36 para 6.

Question 2 - A

"Recoverable amount" is the correct answer.

Recoverable amount is defined in IAS36 para 6 as the difference between fair value less costs to sell and value in use.

Question 3 - D

Both statements are true. IAS36 para 6 defines an active market.

Question 4 - B

Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

See IAS36 para 6.

Question 5 - D

IAS36 para 6 defines a cash-generating unit in these terms.

Question 6 - D

IAS36 para 2 identifies the scope of the standard. Only non-current assets at cost are not excluded.

Question 7 - A & D

IAS36 para 30 defines value in use. Expected future cash flows and the time value of money are relevant. The carrying amount is not relevant, and depreciation is not a cash flow.

Question 8 - D

It is necessary to identify a CGU where the cash flows from a single asset are not independent. See IAS36 paras 66 and 67(b).

The need to identify a CGU results from an item's cash flows not being independent, not from their size.

Question 9 - B

IAS36 paras 60-61 state that impairment losses on assets that have not been revalued are recognised in profit or loss. Impairment losses on revalued assets are treated as a revaluation decrease.

Question 10 - D

Per IAS36 para 63 depreciation expense in future periods is measured so as to allocate the revised carrying amount on a systematic basis over the asset's remaining useful life.

Question 11 - A

Per IAS36 para 104 an impairment loss is to be recognised for a cash-generating unit by first reducing any goodwill allocated to the cash-generating unit. As the impairment loss is less than the carrying amount of goodwill, there is no reduction in the carrying amount of plant and machinery.

Question 12 - A

Per IAS36 para 60 an impairment loss in respect of an IAS16 revalued asset is to be treated as a revaluation decrease under IAS 16. Under IAS16 para 40 a revaluation decrease is charged in other comprehensive income to the extent of any attributable revaluation surplus, with the remainder being recognised in profit or loss.

Question 13 - B

The recoverable amount is CU60 million, the greater of (i) value in use and (ii) fair value less costs to sell, per IAS36 para 6.

The carrying amount is only reduced when it is higher than the recoverable amount, per IAS36 para 8.

Question 14 - A

IAS36 para 59 requires the asset to be stated at the lower of its current carrying amount and its recoverable amount. The recoverable amount is CU210, being the higher of value in use (CU205) and fair value less costs to sell (CU210 = CU220 – CU10) as per IAS36 para 6.

The asset is not impaired, as the recoverable amount is higher than the current carrying amount.

Chapter 14

Question 1 - B

"A liability of uncertain timing or amount" is the correct answer.

IAS37 para 10 defines a provision.

Question 2 - A & B

The correct answers are "a contract" and "legislation", per IAS37 para 10.

Question 3 - B

The one correct answer is "A present obligation that arises from past events but cannot be reliably measured".

See IAS37 para 10.

Question 4 - A

The correct answer is "a provision".

See IAS37 para 10.

Question 5 - C

IAS37 paras 80-82 require provisions to be made for costs necessarily incurred by the restructuring, but not those relating to the future conduct of the business.

Question 6 - C

IAS37 para 66 makes specific reference to onerous contracts – future payments on vacant leasehold premises are an example of this. The other choices are excluded by IAS37 paras 1, 2 and 5.

Question 7 - C

IAS37 para 14 requires a provision to be made when an outflow of resources is probable.

Question 8 - B

20X5 is correct. IAS37 para 10 defines a contingent liability by reference to a "possible" obligation.

Question 9 - D

The correct answer is "Obligations for plant decommissioning costs". See IAS37 para 19.

Financial instruments and insurance contracts are specifically excluded from the scope of IAS37 under IAS37 paras 2 and 5. Under IAS37 para 63 provisions cannot be made for future losses.

Question 10 - B & C

The correct answers relate to the restructuring and rectification costs, because there are present obligations arising out of past events. No obligation has yet arisen in relation to the divisional closure (not yet announced) and the refurbishment costs (avoidable by not introducing the new computer).

Examples are given in IAS37 Appendix C.

Question 11 - D

The published policy creates a constructive obligation as defined by IAS37 para 10. The spill is a past event which gives rise to a present obligation and the need for a provision under para 14.

The government plans and any chemical spill relate to future events, while the "possible" damage to wildlife gives rise to a contingent liability which should be disclosed.

Question 12 - C

A loss under the legal case is a possible, but not probable, obligation which falls within the definition of a contingent liability in IAS37 para 10. Provisions should be made for unfair dismissal claims accepted and warranty claims.

Question 13 - C

A provision can only be used for the expenditure for which it was originally recognised (IAS37 para 61).

If a provision is no longer required, it should be reversed (IAS37 para 59).

Question 14 - B

Provision must be made for estimated future claims by customers for goods already sold. The expected value ((CU5 million x 3%) plus (CU3 million x 5%)) is the best estimate of this amount (IAS37 para 39).

Chapter 15

Question 1 - C

Deferred tax liabilities are correctly defined but deferred tax assets relate to temporary differences, not permanent differences.

See IAS12 para 5.

Question 2 - A & C

The correct answers are "the carryforward of unused tax losses" and "deductible temporary differences".

IAS12 para 5 defines deferred tax assets.

Question 3 - B & D

IAS12 para 81 sets out the disclosures required.

Question 4 - D

Both are deductible temporary differences as the tax base is greater than the carrying amount.

See IAS12 para 25.

Question 5 - B

"Development costs …" gives rise to a deferred tax liability. "The tax base …" gives rise to a deferred tax asset.

IAS12 para 5 defines these items.

Question 6 - D

Both statements are true.

See IAS12 para 5 for definitions.

Question 7 - C

CU100,000 is correct.

IAS12 para 7 Examples 2 and 3 show that for interest receivable the tax base is nil and that the tax base for trade receivables is equal to their carrying amount.

Question 8 - D

At 31 December 20X7 the carrying amount of the item is CU90,000 (CU100,000 less 10% thereof), while the tax base is CU80,000 (CU100,000 less 20% thereof). There is a taxable temporary difference of CU10,000 and the deferred tax liability should be measured at the 15% rate which will apply to trading profits when the difference will be reversed. See IAS12 paras 5, 15 and 47.

Question 9 - B

CU4,500 deferred tax asset is the correct answer.

The carrying amount of the asset in the financial statements is CU120,000 (CU150,000 less (5% × 4 years). The tax base is CU138,000 (CU150,000 less (2% × 4 years). The CU18,000 difference is a deductible timing difference which results in a deferred tax asset to be measured at the 25% tax rate.

See IAS12 para 25.

Question 10 - C

Taxable temporary differences result in amounts being taxable in the future. The CU200,000 royalties receivable will be taxed when they are received, so they are taxable temporary differences. Deductible temporary differences result in amounts being deducted for tax purposes in the future. The CU250,000 interest payable will be deducted when they are paid, so they are deductible temporary differences. The net result is CU50,000 deductible temporary differences

See IAS 12 para 5.

Question 11 - B

CU2,700 liability is the correct answer.

IAS12 para 16 covers taxable temporary differences, including where the carrying amount of an asset exceeds its tax base. The difference is then multiplied by the tax rate to measure the deferred tax liability.

Chapter 16

Question 1 - A & D

Title does not have to transfer under a lease (either operating or financing) and it is not necessary for all provisions of the lease to be agreed to. The correct answer revolves around commitment to the principal provisions and the date of the lease agreement.

See IAS17 para 4.

Question 2 - C & D

The correct answers are the required payments and guarantees by a party related to the lessee. Contingent rents and costs for services and taxes are specifically excluded.

See IAS17 para 4.

Question 3 - B

IAS17 para 20 states that such costs should be added to the amount recognised as an asset only.

Question 4 - A & C

The correct answers are: "The total of future minimum sub-lease payments receivable" and "Restrictions imposed by lease arrangements".

See IAS17 para 35.

Question 5 - C

A land and buildings lease should be separated into its two components: the land component which will usually be classified as an operating lease; and the buildings component which in this case extends to the end of the building's estimated useful life and should be classified as a finance lease.

The annual rental is split between the two leases in proportion to the relative fair values of the two leasehold interests. 20% ((CU7.5 million – CU6.0 million) as a % of CU7.5 million) of the rental is attributable to the land, so CU160,000. See IAS17 paras 14-16.

Question 6 - D

CU13,930 is correct.

Under IAS17 para 20, assets held under finance leases are capitalised at the fair value or, if lower, the present value of the minimum lease payments.

Question 7 - D

This is a finance lease, because the lease term is the same as the asset's useful life. The lease liability for a finance lease is the fair value of the lease item at the start of the lease, reduced by lease payments made and increased by finance charges at a constant periodic rate, i.e. the interest rate implicit in the lease. See IAS17 paras 20 and 25.

With lease payments being made in advance, the end-20X7 calculation is (CU490,000 – CU70,000) = CU420,000 + (CU420,000 × 9%) = CU457,800.

Question 8 - C

IAS17 para 20 requires the asset to be stated initially at the lower of fair value and the present value of the minimum lease payments.

Para 28 states that if it is reasonably certain that ownership will be obtained, then depreciation is charged over the useful life if that is longer than the lease term.

The correct answer is obtained by dividing the present value of the minimum lease payments by the asset's useful life.

Question 9 - D

This is an operating lease because the lease term is only half the useful life of the building. The rent-free period is an incentive which should be recognised as a reduction in the rental expense over the lease term. See SIC15.

The rent-free period is 2 years, so the total of the lease payments is CU28.8 million (CU1.6 million × 18). Spread over the 20 years of the lease term, the net expense is CU1.44 million.

Question 10 - B

CU159,650 is the right answer. The amount recognised is the lower of fair value and the present value of the minimum lease payments, plus any initial direct costs incurred by the lessee.

See IAS17 paras 20 and 24.

Question 11 - D

This is a sale and finance leaseback, because the lease term is the item's remaining useful life. The excess of the sales proceeds over the carrying amount is deferred and amortised over the lease term. See IAS17 paras 5 and 59. No profit is recognised on 1 January 20X7.

The total finance cost is CU50,000 calculated as the difference between the total lease payments (5 x CU35,000) and the fair value of CU125,000.

Question 12 - D

The correct answer is CU251,000.

See IAS17 paras 14-16, which treat a lease of land as an operating lease since the risks and rewards of ownership are not transferred.

Question 13 - D

A manufacturer/dealer should recognise the normal selling profit of CU15,000 (CU75,000 – CU60,000) at the commencement of the lease term. The CU2,000 lease negotiation/arrangement costs should be recognised at the commencement of the lease term. See IAS17 para 42.

Question 14 - C

CU5,920 is the correct answer.

See IAS17 paras 20 and 27. In this example the answer is calculated as the present value of the minimum lease payments divided by the lease term.

Chapter 17

Question 1 - C

The correct answer is "Termination benefits".

See IAS19 para 7. Termination benefits arise either because of an employer's decision to terminate an employee's employment before normal retirement date or because of the employee's decision to take voluntary redundancy.

Question 2 - A

The correct answer is "Benefits not falling due wholly within twelve months of the end of the period in which the service is rendered".

IAS19 para 7 defines this.

Question 3 - D

The correct answer is that both items should be included in plan assets per IAS19 para 7.

Question 4 - A

Actuarial gains and lump sum benefit both relate to defined benefit plans, per IAS19 paras 92 to 93A and 64 and 65.

Question 5 - B

The correct answer is an equity-settled share-based payment transaction.

IFRS2 Appendix A determines that equity-settled share-based payment transactions include the settlement of services by the use of equity instruments.

Question 6 - D

The correct answer is "Should recognise in profit or loss".

See IFRS2 para 30.

Question 7 - D

The correct answer is that cash-settled share-based payments will increase liabilities.

See IFRS2 para 30.

Question 8 - D

Both statements are true, per IFRS2 para 30.

Question 9 - A

Share options granted to employees are classified as equity-settled share-based payment transactions. It is not possible to estimate reliably the fair value of services provided by employees, so the services received should be measured by the fair value of the share options granted.

Fair value should be measured at the grant date, not the vesting date.

Both statements are false. See IFRS2 paras 10-12.

Question 10 - C

The correct answer is cash-settled share-based payment transaction.

IFRS2 Appendix A defines cash-settled share-based payment transactions as one where the liability is settled for an amount that is based on the price of an entity's equity.

Question 11 - C

The amounts to be recognised as an expense in profit or loss are the current service cost less the expected return on plan assets. See IAS19 para 61.

Note that the difference between the expected and the actual return on plan assets is an actuarial loss, while the employer contributions increase plan assets.

Question 12 - C

The correct answer is based on 9/12 of the total bonus payable in March.

See IAS19 paras 17 and 20.

Question 13 - A

The losses to be recognised are the excess of opening actuarial losses over the greater of 10% of opening plan assets and 10% of opening plan liabilities, this excess being divided by the average remaining working lives of participating employees. See IAS19 paras 92 and 93.

The amount to be recognised is (CU120,000 less (10% × CU900,000))/20 years = CU1,500.

Question 14 - D

The correct answer is that the plan assets and unrecognised actuarial loss are deducted from the plan liability.

See IAS19 para 54.

Question 15 - D

The defined benefit liability is the CU40 million defined benefit obligation plus the CU8 million unrecognised actuarial gains less the CU6 million past service cost not recognised less the CU10 million plan assets = CU32 million. See IAS19 para 54.

Chapter 18

Question 1 - C

15 July 20X8 is the correct answer.

IAS10 para 7 states that the cut-off date re adjusting and non-adjusting events is the date on which the financial statements are authorised for issue, even if this is after a public announcement of profit. Para 5 confirms that it is not the date on which the shareholders approve the financial statements.

Question 2 - B

Statement (1) is false. Statement (2) is true, as non-adjusting events should be disclosed per IAS10 para 21.

Question 3 - A

Both statements are false.

See IAS10 paras 8 to 11 for definitions and examples.

Question 4 - A & B

"The Citril Company announced the discontinuation of its assembly operation" and "The Citril Company entered into an agreement to purchase the freehold of its currently leased office buildings" are the correct answers.

IAS10 para 22 specifically gives discontinuance of operations and asset purchases as non-adjusting events.

The other two events are adjusting events.

Question 5 - A

IAS10 para 3 explains that IAS10 deals with events between the end of reporting period and the date on which the financial statements are authorised for issue.

Question 6 - C

The interim dividend paid during the year should be presented in the statement of changes in equity.

The final dividend declared after the end of the reporting period is not recognised but only disclosed in the notes (per IAS10 paras 12 - 13).

Question 7 - B & C

The correct answers are CU35,000 bonus and CU34,000 allowance.

See IAS10 paras 9, 12 and 22. Also, dividends are recognised in the statement of changes in equity, not profit or loss

Question 8 - B

Adjust CU80,000 is the correct answer. Only the extra amount needs to be adjusted for, as the original provision is already recognised in the statement of financial position.

IAS10 para 9 gives examples of adjusting events.

Question 9 - B

See IAS10 para 22(d).

This is a non-adjusting event after the end of the reporting period and thus the profit before taxation is unchanged from the draft financial statements.

Chapter 19

Question 1 - B

Functional currency is the correct answer.

See IAS21 para 8 for definitions.

Question 2 - B

The correct answer is "The closing rate" per IAS21 para 39(a). See para 8 for definitions.

Question 3 - C

The exchange differences on settlement of monetary items should be recognised in profit or loss, per IAS21 para 28.

The exchange difference on translation of a monetary item at a rate different from that used at initial recognition should be recognised in profit or loss, per IAS21 para 28.

Question 4 - C

The correct answer is CU134,823 (175,000 / 1.298). Goodwill is translated at the closing rate.

See IAS21 IN15 and para 47.

Question 5 - B

IAS21 para 47 requires fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation to be treated as assets and liabilities of the foreign operation. Therefore they are translated at the closing rate of exchange ($50,000 / 1.56).

Question 6 - C

The answer is CU66,667 ($160,000/2.40).

IAS21 para 23(a) requires the foreign currency monetary items, such as trade payables, of an entity to be retranslated at the closing rate at the end of a reporting period.

Chapter 20

Question 1 - C

Para 11 of IAS32 defines equity as a residual interest.

Question 2 - B

IAS39 para 10 gives the definition of an embedded derivative.

Question 3 - A

The answer is "Liquidity risk" as defined in IFRS7 Appendix A.

Question 4 - A

The answer is "The risk that one party to a financial instrument will cause a financial loss for the other party…" as defined in IFRS7 Appendix A.

Question 5 - A

Treasury shares are an entity's holding of its own shares. They must be deducted from equity on acquisition and no gain or loss is recognised.

See IAS32 para 33.

Question 6 - B

Transaction costs of issuing equity instruments are **not** charged against income but deducted from equity. The components of a compound financial instrument **are** classified separately.

See IAS32 paras 15, 28 and 35.

Question 7 - B

It is a financial liability.

The contract is structured in such a way that a variable number of shares is to be issued to satisfy a fixed monetary amount and as such it is a financial liability. See IAS32 para 11.

Question 8 - A & D

The types of hedging relationship are identified in IAS39 para 86.

Question 9 - A

Held-for-trading financial assets are measured at fair value and held-to-maturity investments are measured at amortised cost.

See IAS39 para 46.

Question 10 - C

The answer is liquidity risk as defined in IFRS7 Appendix A.

Question 11 - B & C

Currency risk and interest rate risk (together with other price risk) are the three components of market risk (IFRS7 Appendix A).

Question 12 - B & D

The correct answer is that both trade receivables and trade payables are classified as financial instruments.

See IAS32 para 11, AG4 and AG10.

Question 13 - C

The correct answer is "Warranty provision".

See IAS32 para 11 and AG11.

Question 14 - C

Dividends in respect of ordinary shares **are** debited directly in equity. Dividends in respect of redeemable preference shares are **not** debited directly in equity.

IAS32 para 35 states that dividend payments on shares classified as liabilities (such as redeemable preference shares) are recognised as expenses. Para 35 also states that distributions to holders of equity instruments shall be debited directly in equity.

Question 15 - A

The convertible bonds are a compound financial instrument as they contain both an equity and liability component, per IAS32 para 28. The preference shares are only redeemable at the option of Freemantle and no notice of redemption has been given. As such there is no obligation to redeem them and the preference shares are in substance equity.

Question 16 - D

The preference shares should be classified according to the substance of the transaction. The obligation to redeem them in 20X9 is evidence that these instruments are financial liabilities. See IAS32 para 18.

IAS32 para 35 requires that dividends on financial instruments classified as financial liabilities are recognised as an expense.

Question 17 - B

An equity investment cannot be classified under loans and receivables, or under held-to-maturity investments (there is no fixed maturity date). This investment is being held for the long term, not for trading, so under IAS39 para 9 it should be classified as available for sale.

Question 18 - B & C

Investments in equity shares cannot be classified as held to maturity (there is no date of maturity) or loans and receivables (no fixed or determinable payments). The other two categories are potentially available depending on the detailed conditions. See IAS39 para 9.

Question 19 - D

See IAS39 para 9. Not intending to sell is not a positive intention to hold until maturity. There is no evidence of short-term trading and so the investments should be classified as available for sale.

Question 20 - A

Both statements are false. The amounts may be disclosed in the respective primary statement or in the notes (IFRS7.8 and IFRS7.20).

Question 21 - C

The first statement is true (IFRS7.34(a)). The second statement is false, because the disclosures for liquidity risk should be based upon the remaining contractual maturities (IFRS7.39(a)).

Question 22 - A

IAS32 para 42 allows the offset of financial assets and financial liabilities in restricted circumstances where there is both a legally enforceable right of set-off and an intention to settle on a net basis.

Question 23 - A

Own equity issued falls within the scope of IAS32 (see para 11). The warrants are a derivative on Humphreys's own shares, settled by the delivery of a fixed number of shares for a fixed amount of cash.

The amount received of CU20,000 (20,000 x CU2) is recognised in equity. Subsequent changes in the fair value of the warrants are not recorded by Humphreys because they generate gains or losses for the holder and not Humphreys.

Question 24 - B

CU2,400 is the correct answer.

IAS39 para 95(b) states that the ineffective portion (10%) of the gain or loss on the hedging instrument shall be recognised in profit or loss.

Question 25 - A

IAS32 para 28 requires compound financial instruments to be classified separately as financial liabilities and equity instruments according to their substance.

The fair value of a similar instrument that does not have the convertibility option is used as an estimate of the liability component, with the equity instrument being the difference between this and the fair value of the compound instrument as a whole. See IAS32 para 31.

The equity component of CU4,000 is calculated as ((200 x CU20) – (200 x CU18)).

Question 26 - B

Transaction costs should be deducted from equity, net of any related income tax benefit, per IAS32 para 35. Transaction costs only include incremental costs that would otherwise have been avoided, per IAS32 para 37.

The answer is CU332 ((200 x CU1.80) - (CU40 x (100% - 30%))). The professional fees, net of the tax benefit, are deductible from equity.

Question 27 - A

CU1,900 (CU4,000 – (10% × (CU20,000 + CU1,000))) is the correct answer.

IAS39 para 27 states that on derecognition of part of a financial instrument:
(a) there shall be an allocation of the carrying amount between the part derecognised and the part retained
(b) the difference between the consideration received and the carrying amount allocated to the part derecognised shall be recognised in profit or loss.

The previous gains had already been recognised in profit or loss and so are not included in the calculation.

Question 28 - D

The gain will be the CU110 fair value at 31 December 20X8 less the sum of the CU14 acquisition costs and the CU80 cost of the instrument itself. No account is taken of disposal costs.

See IAS39 para 46 and AG67.

Question 29 - C

The general rule is that transaction costs, such as brokers fees, are included in the initial carrying amount. The exception is that for a financial asset classified as 'at fair value through profit or loss' they are recognised as an expense in profit or loss.

See IAS39 para 43.

Question 30 - B

The prolonged decline below cost and the financial difficulty of the issuer are objective evidence of impairment. See IAS39 paras 59 and 61.

The loss previously recognised in other comprehensive income (CU40) should be recognised in profit or loss, together with the current year loss (CU140). See IAS39 para 67.

Chapter 21

Question 1 - B & D

The only cash flows arise from the loan interest received and proceeds of loan issue. The other two items do not meet the definition of cash flows per IAS7 para 6.

Question 2 - D

Development costs capitalised are cash flows from investing activities per IAS7 para 16(a).

Employee costs are cash flows from operating activities per IAS7 para 14(d).
Property revaluation does not appear in the cash flow statement as it does not involve an inflow or outflow of cash.
Redemption of debentures appears in cash flows from financing activities per IAS7 para 17(c).

Question 3 - C

Redemption of debentures are cash flows from financing activities per IAS7 para 17(c).

Employee costs are cash flows from operating activities per IAS7 para 14(d).
Development costs capitalised are cash flows from investing activities per IAS7 para 16(a).
Property revaluation does not appear in the cash flow statement as it does not involve an inflow or outflow of cash.

Question 4 - A

Employee costs are cash flows from operating activities per IAS7 para 14(d).

Redemption of debentures appears in cash flows from financing activities per IAS7 para 17(c).
Development costs capitalised are cash flows from investing activities per IAS7 para 16(a).
Property revaluation does not appear in the cash flow statement as it does not involve an inflow or outflow of cash.

Question 5 - B & D

The bank overdraft is negative cash. Cash equivalents include items of short maturity (loan notes *held* are assets).

See IAS7 paras 6-8.

Question 6 - A

The definition in IAS7 para 6 of operating activities includes "other activities that are not investing or financing", so will include disaster settlements.

Question 7 - B

Cash flows re acquisitions and disposals of subsidiaries are investing activities per IAS7 para 39.

Question 8 - B

Sales proceeds from non-current assets come under investing activities per IAS7 para 16(b).

Chapter 22

Question 1 - B

"… the operation shall retrospectively be separately presented…" is false. "The net cash flows … of a discontinued operation shall be separately presented" is true.

See IFRS5 paras 12 and 33(c).

Question 2 - D

The correct answer is that it must have been a CGU or a group of CGUs while being held for use.

IFRS5 para 32 requires that a discontinued operation must be a component of an entity, and para 31 defines a component of an entity as a CGU or a group of CGUs.

Question 3 - D

Both statements are true. See IFRS8 paras 23 and 29.

Question 4 - C

Re-presentation as the results from discontinued operations in the comparative figures is required by IFRS5 para 34.

Re-presentation as assets held for sale in the comparative figures is prohibited by IFRS5 para 40.

Question 5 - A

Both statements are false. Under IFRS8 para 23 a measure of segment profit or loss and segment total assets are to be reported, but there is no definition of profit or loss and no requirement for it to relate to the assets of the segment.

Question 6 - B

The definition of a major customer is made by reference to an entity's revenue, i.e. external revenue. Major customers need not be identified. See IFRS8 para 34.

Question 7 - A

The profit/loss for the period and the gain/loss on remeasurement should be presented as a single figure, and in the separate income statement. See IFRS5 paras 33 and 33A.

Question 8 - B

The correct answer is profit, because it is the only criterion out of profits, revenue and assets that exceeds 10% of the total for all segments. The number of employees is not one of the criteria.

See IFRS8 para 13.

Question 9 - B

Segments 1, 2 and 3 are reportable because the total revenue of each is greater than 10% of total (external plus internal) revenue. These segments generate exactly 75% ((35 + 14 + 5) as % of 72) of external revenue, so no additional segment has to be reported under the "at least 75% of external revenue" test. See IFRS8 paras 13 and 15.

Chapter 23

Question 1 - D

Both answers are true.

IAS34 Paras 8-9 permit either complete or condensed interim financial statements.

Question 2 - B

IAS34 para 41 accepts that interim reports will require a greater use of estimation methods than annual reports. IAS34's non-binding Appendix C para C1 allows inventories not to be physically counted at the interim date. IAS34 para 28 requires the same accounting policies to be used in interim reports as in the annual reports. Non-binding Appendix B para B26 requires NRV to be determined by reference to selling prices at the interim date.

Question 3 - B & C

IAS34 para 20 requires the presentation of the statement of financial position at the end of the preceding financial year and the statement of comprehensive income for the comparable interim period in the preceding financial year.

Question 4 - C

There is a legal obligation to allocate profits to the bonus pool. An allocation should be made at the half-way stage if it is expected that the required annual profit will be earned and there is a way of calculating the amount of the allocation reliably.

It is expected that profit will be more than CU50 million. The business is obviously seasonal, but revenue and costs can only be deferred (smoothed) at the interim stage if they would be deferred at the end of the year. So the allocation is 5% of the CU40 million interim profits.

See IAS34 paras 37 and 39 and Appendix B.5.

Question 5 - A

IAS34 para 30(c) describes the treatment of income taxes in interim reports. The 35% tax rate expected for the entire year is applied to the profits for the interim period.

Question 6 - A

Both statements are false.

NRV is determined by reference to the situation at the interim reporting date (see IAS34 Appendix B.26), so inventory should be carried at the lower of CU5.00 and CU4.80.

The cost of the refurbishment does not meet the definition of a liability or provision until 8 July 20X7. See IAS34 Appendix B.11.

Chapter 24

Question 1 - C

A reduction in earnings per share is an example of dilution, but a reduction in loss per share is an example of antidilution.

IAS33 para 5 defines dilution and antidilution.

Question 2 - C & D

IAS33 para 70 requires the earnings figures and the weighted average number of shares to be disclosed.

Question 3 - B

Losses per share should be presented, per IAS33 para 69. EPS for discontinued operations should be presented, per IAS33 para 68.

Question 4 - B

Bonus shares provide no additional consideration to the issuer, so they are related back to the beginning of the earliest period presented. Shares issued for cash provide additional consideration, so they are time-apportioned from the date the cash was receivable. See IAS33 paras 19 and 26.

Question 5 - A

The correct answer is the total earnings CU430,000 divided by the number of shares in issue, 200,000 (100,000/0.50).

See IAS33 para 10.

The redeemable preference share dividend is recognised as a finance cost and deducted at arriving at profit before tax.

Question 6 - A

The correct answer is that last year's EPS figure is adjusted by the bonus issue as if the new number of shares were always in existence, so CU0.850 / ((1/(3 + 1)).

See IAS33 para 26.

Question 7 - D

CU0.188 is the correct answer, being (CU50,000 – CU12,500) / 200,000.

IAS33 paras 10 and 12 require that basic earnings per share is calculated by dividing net profit after tax and preference dividends by the weighted average number of ordinary shares. Note that there are 200,000 shares in issue.

Question 8 - A

IAS33 para 12 defines earnings for basic EPS as the profit after tax and after dividends on irredeemable preference shares. So basic EPS is (CU800,000 – CU200,000 – (6% × CU500,000))/5,000,000.

Question 9 - D

The number of shares to be used is the weighted average in issue through the period. Bonus shares provide no additional consideration to the issuer, so they are related back to the beginning of the earliest period presented. Shares issued for cash provide additional consideration, so they are time-apportioned from the date the cash was receivable. See IAS33 paras 19 and 26.

The weighted average is 100,000 + 20,000 + (28,000 × 3/12) = 127,000.

Chapter 25

Question 1 - B & C

The correct answers are "A post-employment benefit plan…" and "An executive director…".

See IAS24 para 9.

Question 2 - D

Both statements are true, and are specified as compensation in IAS24 para 9.

Question 3 - D

Both statements are true.

The definition in IAS24 para 9 of a related party includes provisions that a party is related to an entity if the party is a joint venture and the entity is a venturer in it or if the party controls the entity.

Question 4 - D

Disclosure is required of transactions with both Harbinger and Thabit.

See IAS24 para 3, which states that disclosure is required in the financial statements of a parent or venturer. Entities under both direct and common control are related parties. The definition in IAS24 para 9 of a related party includes provisions that a party is related to an entity if the party controls the entity or if the party is a joint venture and the entity is a venturer in it.

Question 5 - C

Transaction (2) only is the correct answer.

See IAS24 para 9. The daughter of Druckman's managing director is a close member of the family of key management personnel, but the uncle of Druckman's finance director is not.

Question 6 - B & C

"Details of any guarantees…" and "The provision…" are the correct answers.

See IAS24 para 17.

Question 7 - A & B

Grison (due to the controlling shareholding) and Koala (due to the close family relationship) are the correct answers.

See IAS24 para 9.

Question 8 - A & B

The correct answers are "Transferred goods from inventory to a shareholder owning 40% of the company's ordinary shares" (as such a shareholder would have significant influence over the company), and "Sold a company car to the wife of the managing director" as she is a close member of the family of key management per para 9 of IAS24.

Question 9 - B

Providers of finance are listed in para 11 of IAS24 as not necessarily being related parties. The others are related parties, under IAS 24 para 9.

Chapter 26

Question 1 - B & D

IAS11 para 39 requires contract revenue and the method used to determine revenue to be disclosed. There is no requirement to disclose each construction contract separately.

Question 2 - D

IAS11 paras 36-37 require that anticipated losses, if probable, should be recognised immediately.

Question 3 - D

All three items could be included.

IAS11 para 5 gives examples of costs included in a construction contract.

Question 4 - B

IAS11 para 13 sets out the circumstances in which revenue in respect of a variation can be recognised. Under para 14, claims can only be included when it is probable that the client will accept them.

Question 5 - D

Per para 3 of IAS11 the boat would be a construction contract as it is being built under a specifically negotiated contract.

The office block should be accounted for under IAS16 until construction is complete, while the warehouse should be accounted for under IAS16 until it is disposed of – see IAS40 para 9.

The item of plant and machinery should be accounted for under IAS2.

Question 6 - A

IAS11 para 21 requires costs to accumulate over the period from securing the contract to final completion of the contract.

Question 7 - A & C

IAS11 para 12 specifies the basic situations in which increases in revenue may arise. These include variations and escalation clauses. Para 15 allows the inclusion of incentives only when the contract is sufficiently advanced.

Question 8 - B

IAS11 para 30 permits contract revenue to be recognised on the basis of costs incurred as a percentage of total estimated costs. The amount recognised is calculated as CU20.0 million × (CU6.0 million/CU16.0 million)

Question 9 - C

CU2,450,000 is the correct answer.

See IAS11 paras 17-18. In this example the answer is calculated as: CU1,800,000 for labour and materials + (CU600,000 – CU50,000) machinery cost + CU100,000 design costs.

Question 10 - D

CU870,000 is the correct answer.

See IAS11 paras 12-13. In this example the answer is calculated as CU800,000 fixed contract price + CU100,000 variation in the contract – CU30,000 penalties.

Question 11 - A

CU480,000 is the correct answer.

IAS11 para 43 states that the gross amount due from a customer is the cost incurred plus recognised profits less the sum of recognised losses and progress billings.

Chapter 27

Question 1 - B

The actuarial present value of promised retirement benefits does not apply to defined contribution plans as there is no guarantee of future retirement benefits.

See IAS26 para 35(d).

Question 2 - D

IAS26 para 1 outlines the scope and application of the standard. Per *Preface* para 7, IFRSs only apply to general purpose financial statements.

Question 3 - B

IAS26 para 32 requires investments to be stated at fair value.

Chapter 28

Question 1 - A & B

The cost and revaluation models are allowed, per IFRS6 para 12.

Question 2 - A

IFRS6 does not apply to either type of expenditure.

IFRS6 para 3 clearly states that the standard only applies to exploration and evaluation expenditures incurred. These expenditures occur either before or after the exploration and evaluation phase (IFRS6 para 5).

Question 3 - C

The answer is "Oil production and gas production cash-generating units combined".

Strider does not have to apply IAS36 in allocating exploration assets to cash-generating units. Each unit or group of units to which they are allocated shall not be larger than an operating segment under IFRS8 (IFRS6 paras 21 and 22).

Question 4 - A

The answer is CU200.

Exploratory drilling is an example of expenditure that can be related to the finding of specific mineral resources (IFRS6 para 9). Infrastructure costs should not be recognised as infrastructure assets but as property, plant and equipment in accordance with IAS16. Development expenditures should not be recognised as exploration assets (IFRS6 para 10).

Question 5 - B

The answer is CU130.

Trenching and sampling expenditure is an example of intangible assets. The depreciation relating to a tangible asset used to develop an intangible asset is presented as an intangible asset. However, the remaining carrying amount of the tangible asset is still classified as a tangible asset (IFRS6 para 16).

Chapter 29

Question 1 - D

The correct answer is "Reinsurance contracts issued by the entity".

IFRS4 paras 2-6 define the scope (i.e. inclusions and exclusions) of the standard.

Question 2 - C & D

Undiscounted liabilities and non-uniform accounting policies may continue as per IFRS4 para 25. Prohibited policies are listed in para 14 of IFRS4.

Question 3 - B

The effect of IFRS4 para 13 is not to require the application of the *IASB Framework* but IFRS4 para 15 requires a test for the adequacy of recognised liabilities.

Question 4 - B & C

IFRS4 para 15 requires a liability adequacy test and para 14 requires an impairment test for reinsurance assets. Both the offset of reinsurance assets against insurance liabilities and the recognition of future claims are prohibited by IFRS4 para 14.

Question 5 - D

"Continuing to use non-uniform accounting policies…" is the correct answer.

IFRS4 para 25(c) allows this approach. The use of equalisation provisions is prohibited by IFRS4 para 14, the recognition of liability deficiencies in the statement of changes in equity by para 15 and the introduction of excessive prudence by para 26.

Chapter 30

Question 1 - A

Changes in fair value should be recognised in profit or loss only.

See IAS41 para 26.

Question 2 - D

The correct answer is "Cheese". All of the others are agricultural produce.

See IAS41 para 4.

Question 3 - A & B

The correct answer is based on controlling the asset as a result of past events and the probability that economic benefits will flow to the entity.

See IAS41 para 10.

Question 4 - A & C

Commissions to brokers and transfer taxes and duties are recognised point-of-sale costs in the standard.

See IAS41 para 14.

Question 5 - D

"Apple" is the correct answer, being the harvested product required by the IAS 41 para 5 definition.

IAS41 para 4 gives examples of biological assets, agricultural produce and products that are the result of processing after harvest.

Question 6 - B & D

The correct answers are "Chickens" and "Trees".

IAS41 para 5 defines a biological asset as a living animal or plant.

Question 7 - B

IAS41 para 4 lists sugar as a product that is processed after harvesting and wool as agricultural produce.

Chapter 31

Question 1 - C

The correct answer is "Separate financial statements".

See IAS27 para 4.

Question 2 - C

In IAS27 para 24 it states that uniform accounting policies shall be used in the consolidated financial statements. The statement about preparation of consolidated financial statements is therefore true.

In para 27 it states that the non-controlling interest shall be presented in the consolidated statement of financial position within equity. The statement about non-controlling interest is therefore false.

Question 3 - D

CU1,185,000 is the correct answer.

See IAS27 paras 20-21. In this example the answer is calculated as (Cavy's trade receivables less CU30,000 due from Haldenby) plus (Haldenby's trade receivables less CU40,000 due from Cavy).

Question 4 - A

CU720,000 is the correct answer.

See IAS27 para 26. This is the parent company's share of the post acquisition retained earnings of the subsidiary. This is determined by deducting (i) the parent company's share of the retained earnings of the subsidiary at the date of acquisition from (ii) the parent company's share of the retained earnings of the subsidiary at the end of the current reporting period.

Question 5 - C

CU190,000 is the correct answer.

See IAS27 para 18. This answer was calculated as the non-controlling interest % of the current (share capital plus revaluation reserve plus retained earnings).

Question 6 - D

The correct answer is: non-controlling interest, reduce by CU13,500; retained earnings, reduce by CU31,500.

See IAS27 paras 18, 20 and 21. In this example the answer is calculated as: non-controlling interest (NCI) reduced by the purchase price of inventory x margin % x the NCI %. Retained earnings are reduced by the purchase price of inventory x margin% x the parent company's interest %.

Note: the cost-plus % (CP%) needs to be converted to a margin % as follows: CP/(100+CP) %.

Question 7 - B

The correct answer is: non-current assets, reduce by CU40,000; retained earnings, reduce by CU26,000.

IAS27 paras 20-21 require the profit on intragroup assets to be eliminated in full. Only the group share of the profits of the subsidiary are taken to group retained earnings.

Question 8 - C

The correct answer is: retained earnings, reduce by CU30,000; non-controlling interest, reduce by CU10,000.

This is because the subsidiary sold the asset to the parent. This gain is not realised from a group perspective per IAS27 para 21 and must be removed in full. It is then allocated between the shareholders of the subsidiary, in the form of retained earnings (group share of the gain) and the non-controlling interest.

Question 9 - B

The correct answer is: reduce non-current assets by CU200; no change to non-controlling interest.

The profit on intragroup transactions must be removed in full per IAS27 para 21 and deducted from the carrying amount of the asset. The intragroup profit is the difference between the carrying amount and the sale price.

This profit would originally have been recognised by the parent company, and so there is no impact on the non-controlling interest, who only have a stake in the subsidiary.

Question 10 - D

The correct answer is: depreciation expense, decrease by CU8,000; carrying amount, decrease by CU24,000.

Fair value adjustments under IFRS3 para 36 not reflected in the books must be adjusted for on consolidation. In this example the depreciation is decreased by the difference between Rogers's depreciation expense of CU100,000 (CU800,000 / 8) and Mulberry's fair value depreciation expense of CU92,000 (CU460,000 / 5). The carrying amount is decreased by the difference between Rogers's carrying amount at 31 December 20X8 of CU300,000 (CU800,000 less 5/8 thereof) and Mulberry's carrying amount at the same date of CU276,000 (CU460,000 less 2/5 thereof).

Chapter 32

Question 1 - B & D

IAS29 para 3 sets out indicators of a hyperinflationary economy. These include keeping wealth in non-monetary form and inflation exceeding 100% over three years.

Question 2 - D

"People prefer to keep their wealth in non-monetary assets…" is the correct answer.

IAS29 para 3 states that this "maintains purchasing power".

Question 3 - C

Where monetary assets exceed liabilities, there will be a monetary loss, per IAS29 para 27.

Gains or losses on the net monetary position should be recognised in profit or loss, per IAS29 para 9.

Question 4 - A & D

Monetary items are to be received (or settled) in fixed monetary terms (per IAS29 para 12). This includes trade payables and loans to be repaid at par value.

Chapter 33

Question 1- B & D

The non-controlling interest shall be measured either at fair value or at its proportionate share of the acquiree's identifiable net assets, which are measured at fair value.

See IFRS3 para 19.

Question 2 - C

This situation concerns a bargain purchase (negative goodwill). The correct answer is to reassess the recognition and measurement of the net assets acquired and the consideration transferred, then recognise any excess as a gain immediately in profit or loss.

See IFRS3 paras 34 and 36.

Question 3 - A

All acquisition-related costs should be recognised as expenses in the periods in which they are incurred.

See IFRS3 para 53.

Question 4 - C

IFRS3 para 23 states that the acquirer **shall** recognise contingent liabilities if certain conditions are met. There is no mention of contingent assets in IFRS3, so they should not be recognised.

Question 5 - C

Any pre-existing equity interest should be remeasured when control is achieved, per IFRS3 para 42.

Pendle's net assets are not remeasured, because they are not part of the acquisition transaction.

Question 6 - A

The consideration transferred should be compared with the fair value of the net assets acquired, per IFRS3 para 32.

When provisional fair values have been identified at the first reporting date after the acquisition, adjustments arising within the measurement period (a maximum of 12 months from the acquisition date) should be related back to the acquisition date. Subsequent adjustments are recognised in profit or loss, unless they can be classified as errors under IAS8 *Accounting policies, changes in accounting estimates and errors*. See IFRS3 paras 45 and 50.

The final amount of goodwill is CU160 million consideration transferred less CU135 million fair values at 31 May 20X8 = CU25 million.

Question 7 - A

CU1,470,000 is the correct answer. Goodwill is calculated as the CU1.96 million consideration transferred plus the CU210,000 (30% x CU700,000) non-controlling interest less the CU700,000 fair value at the acquisition date of the assets and liabilities acquired.

See IFRS3 para 32.

Question 8 - D

Under IFRS3 para 32 goodwill is measured at the consideration transferred plus the non-controlling interest (however measured) less net assets acquired. The non-controlling interest may be measured at its share of net assets or its fair value, per IFRS3 para 19.

The non-controlling interest is 20%. Its share of net assets is 20% × CU85 million = CU17 million. Its fair value is 20/80 × (the consideration for 80% less the control premium), so 20/80 × (CU100 million – CU24 million) = CU19 million.

The goodwill calculations are:

	NCI at share of net assets	**NCI at fv**
Consideration transferred	CU100 million	CU100 million
NCI	CU17 million	CU19 million
	CU117 million	CU119 million
Net assets	CU85 million	CU85 million
Goodwill	**CU32 million**	**CU34 million**

Question 9 - D

The correct answer is: Goodwill: CU580,000, Gains on the bargain purchases: Nil.

The calculations are:

	Swain	**Hadji**
Consideration transferred	1,420,000	300,000
Non-controlling interest		
(30% × CU1.2 million, 35% × CU640,000)	360,000	224,000
	1,780,000	524,000
Net assets acquired	1,200,000	640,000
Goodwill/(gain)	580,000	(116,000)

Goodwill is carried as an asset in the consolidated statement of financial position but a gain on a bargain purchase is recognised in profit or loss.

See IFRS3 paras 32 and 34.

Question 10 - A

The consideration transferred should be compared with the fair value of the net assets acquired, per IFRS3 para 32.

The contingent consideration should be measured at its fair value at the acquisition date; any subsequent change in this cash liability comes under IAS39 *Financial instruments: recognition and measurement* and should be recognised in profit or loss, even if it arises within the measurement period. See IFRS3 paras 39, 40 and 58.

Goodwill is the CU210 million (CU200 million + CU10 million acquisition date fair value of contingent consideration) less CU116 million fair value of net assets = CU94 million.

Question 11 - A

The answer is CU4.00 million.

Goodwill is calculated by reference to the consideration transferred plus non-controlling interest (nil in this case) plus the fair value of any shares in Raukatau already held by Sweet (nil in this case). Professional fees should be recognised in profit or loss and the issue costs deducted from the fair value of the shares issued.
The consideration transferred is CU4 million (500,000 x CU8). See IFRS3 paras 37 and 53.

Question 12 - C

The consideration transferred should be compared with the fair value of the net assets acquired, per IFRS3 para 32.

The gain of CU8 million results from a bargain purchase and should be recognised in profit or loss, per IFRS3 para 34.

Chapter 34

Question 1 - C

The correct answer is "The power to participate in the financial and operating policy decisions of an entity", per IAS28 para 2.

Question 2 - C

The only investment that is not an associate is an investment held by a venture capital organisation and measured at fair value with changes in fair value recognised in profit or loss.

See IAS28 para 1(a).

Question 3 - A

Both statements are false.

Under the equity method Tatai only recognises its share of Southall's profit or loss, not its revenue. See IAS28 para 11.

Profit or loss is measured in after-tax terms but included in consolidated pre-tax profit. See IAS28 para 38.

Question 4 - D

CU760,000 is the correct answer.

IAS27 para 18 combines parent and subsidiary amounts, but the definition of the equity method in IAS28 para 2 does not allow this for associates. In this example the answer is calculated as 100% of the tax of the parent company and 100% of the tax of the subsidiary.

Question 5 - A

IAS28 para 13 requires the use of the equity method in the investor's consolidated financial statements. The individual statement of financial position amounts of Berger are not included in the consolidated statement of financial position. Hence the receivables and payables between Champlain and Berger cannot be eliminated.

Question 6 - C

The correct answer is: reduce inventories by CU350,000, reduce retained earnings by CU350,000.

See IAS28 para 22. The reduction in inventories is the parent company's interest % x profit on inventory earned by Saimaa. Retained earnings should be reduced by the same amount.

Question 7 - B

The correct answer is: reduce non-current assets by CU80,000, reduce retained earnings by CU80,000.

See IAS28 para 22. The reduction in non-current assets is the difference between the sales value and the carrying amount x the parent company's interest %. Retained earnings should be reduced by the same amount.

Question 8 - B

Under the equity method the investment in Northfield is increased (decreased) by Hanwell's share of Northfield's retained profit (loss). Any share of dividend will be reflected in Hanwell's cash, not the carrying amount of the investment. See IAS28 para 11.

The carrying amount is CU400,000 cost plus 30% of (CU80,000 profit less CU32,000 loss less CU10,000 dividend) = CU411,400.

Chapter 35

Question 1 - D

All three methods are available to account for a jointly controlled entity per IAS31 paras 30, 34 and 38.

Question 2 - A

The agreement whereby the strategic decisions in respect of Hoophorn are to be taken with the unanimous agreement of both Fluming and Talgarth means that Hoophorn is a joint venture. See IAS31 para 3.

Both Fluming and Talgarth should account for their investments as venturers in a joint venture.

Question 3 - C

Because of the signed agreement between Apple and Berry, Damson is a joint venture. Cherry is not a party to this agreement, so it is an investor in this joint venture. See IAS31 para 3.

Apple is a venturer in the jointly controlled entity joint venture. It should account for its share of the joint venture's profits by proportionate consolidation or the equity method. See IAS31 paras 3, 30 and 38.

Question 4 - C

The conditions for a joint venture include the need for a contractual agreement between the venturers whereby strategic decisions require the unanimous consent of all signatories to the agreement. See IAS31 para 3.

Question 5 - C

Both methods of accounting require Wyndale's consolidated retained earnings to include its share of Flask's post-acquisition retained earnings. Under proportionate consolidation, but not under the equity method, Wyndale's share of Flask's debt will be included in Wyndale's consolidated statement of financial position.

See IAS31 paras 3 and 33.

Question 6 - C

It is true that an impairment loss should be recognised in full by the venturer.

It is false that the whole of any gain arising should be recognised.

See IAS31 para 48.

Question 7 - C

The answer is CU1,400.

Consolidation of parent and subsidiary is achieved by adding together like items, such as the trade receivables in Smart (CU800,000) and Krnov (CU500,000). Under proportionate consolidation, the investor includes its share of the assets, such as trade receivables, it jointly controls, so one third of CU300,000 = CU100,000 for Truman. See IAS27 para 18 and IAS31 para 33.

Question 8 - B

Using proportionate consolidation, Wigwam should recognise 25% of Tepee's inventories, under IAS31 para 3. Wigwam should only recognise the proportion of the gain it has made on the sale that is attributable to the other venturers. See IAS31 para 48.

Wigwam should recognise CU40,000 (25% of CU160,000) less CU15,000 (25% of the CU60,000 profit it made on the sale to Tepee) = CU25,000.

Chapter 36

Question 1 - C

The correct answer is "a first-time adopter" as defined in IFRS1 Appendix A.

Question 2 - C

The correct answer is "opening IFRS statement of financial position" as defined in IFRS1 Appendix A.

Question 3 - C

The correct answer is "The beginning of the earliest period for which an entity presents full comparative information under IFRSs in its first IFRS financial statements". See IFRS1 Appendix A. This will be the beginning of the comparative period.

Question 4 - B

"Those IFRSs in existence at 30 June 20X9" is the correct answer.

IFRS1 para 7 states that the IFRSs that are effective at the reporting date should be used for the whole period.

Question 5 - D

20X8 is the correct answer.

IFRS1 para 3 states that it is the year when Monkman explicitly adopts IFRS, and para 7 requires comparatives on the basis of IFRSs at the reporting date.