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| **AZƏRBAYCAN DÖVLƏT İQTİSAD UNİVERSİTETİ** |
| **BEYNƏLXALQ İQTİSADİYYAT MƏKTƏBİ** |
| **BEYNƏLXALQ İQTİSADİYYAT (İNGİLİS DİLLİ) KAFEDRASI**  Fənn: Maliyyə hesabatı  Müəllim: İbrahim Ağayev  Qrup: 1042  **İMTAHAN SUALLARI** |

## Data for Questions 1 and 2

Trade receivables as at 31 December 20X1 were $ . The bad debt provision as at 1 January 20X1 was $ .

During the year, bad debts of $ have been written off to administrative expenses. After the year-end, but before the accounts had been completed, the entity discovered that a major customer had gone into liquidation and that their outstanding balance of

$ was unlikely to be paid.

Furthermore, as a result of the recent bad debt experience, the directors have decided to increase the bad debt provision at 31 December 20X1 to per cent of outstanding trade receivables.

## Question 1

What is the correct balance for trade receivables, net of bad debt provision, as at 31 December 20X1?

## Question 2

What is the correct charge to the statement of comprehensive income for bad debts and bad debt provisions for the year to 31 December 20X1?

## Question 3

The following is an extract from the trial balance of CE at 31 March 2008:

$’000 $’000

Administration expenses Cost of sales

Interest paid

Interest bearing borrowings Inventory at 31 March 2008 Property, plant and equipment at cost

Property, plant and equipment, depreciation to 31 March 2007 Distribution costs

Revenue

*Notes*:

1. Included in the closing inventory at the end of the reporting period was inventory at a cost of $ , which was sold during April 2008 for $ .
2. Depreciation is provided for on property, plant and equipment at per cent per year using the reducing balance method. Depreciation is regarded as cost of sales.
3. A member of the public was seriously injured while using one of CE’s products on 4 October 2007. Professional legal advice is that CE will probably have to pay $

### Requirement

Prepare CE’s Statement of Comprehensive income for the year ended 31 March 2008 down to the line ‘profit before tax’.

## Question 4-5

While Presario was preparing its financial statements for the year to 30 June 20X 2, they discovered that goods with a cost of $ , which had been sold during 20X1, had been incorrectly included in inventory at 30 June 20X1.

The draft figures for 20X2 and the actual reported figures for 20X1 are given below:

*20X2 (draft) 20X1*

$’000 $’000

Sales

Cost of sales ( ) ( ) Gross profit

Administrative expenses ( ) ( )

Distribution costs ( ) ( ) Profit before tax

Income tax (at 30%) ( ) ( ) Profit

The opening retained earnings at 1 July 20X0 was $ and closing retained earnings at 30 June 20X1 totalled $ .

The directors have decided that this amounts to a material misstatement in the reported financial statements and wish this to be corrected immediately.

### Requirements

1. Redraft the 20X2 statement of comprehensive income and restate the 20X1 figures where necessary to take account of this prior period error
2. Prepare the statement of changes in equity for inclusion in the published financial statements of Presario for the year ended 30 June 20X2.

## Question 6

Accrued income tax payable, balance at 31 March 2002 $ . Accrued income tax payable, balance at 31 March 2003 $ .

Taxation charge to the statement of comprehensive income for the year to 31 March 2003 $ .

Deferred tax balance at 31 March 2002 $ . Deferred tax balance at 31 March 2003 $ .

How much should be included in the statement of cash flows for income tax paid in the year?

## Question 7-8

It has been suggested that ‘cash is king’ and that readers of an entity’s accounts should pay more attention to information concerning its cash flows and balances than to its profits

and other assets. It is argued that cash is more difficult to manipulate than profit and that cash flows are more important.

### Requirements

1. Explain whether you agree with the suggestion that cash flows and balances are more difficult to manipulate than profit and non-cash assets.
2. Explain why it might be dangerous to concentrate on cash to the exclusion of profit when analysing a set of financial statements.

## Question 9

On 31 December 20X4 AB acquired 100% of the ordinary share capital of its subsidiary, CD for $ . The statements of financial positions of the individual entities at that date were:

**Non-current assets**

Property, plant and equipment

*AB CD*

$ $

Investment –

**Net current assets**

**Equity**

Share capital Retained earnings

### Requirement

Prepare the consolidated statement of financial position for the AB Group at 31 December 20X4 .

## Question 10

### Draft statements of comprehensive income of H and its subsidiary S for the year ended 31 December 20X4

Revenue

*H S*

$’000 $’000

Cost of sales ( ) ( )

Gross profit

Distribution costs ( ) ( )

Administrative expenses ( ) ( )

Investment income –

Profit before tax

Income tax expense ( ) ( )

Profit for the period

H purchased 100% of the shares in S when S’s equity (share capital plus retained earnings) was $ .

Goodwill of $ was fully written off to consolidated retained earnings at 31.12. X3, following impairment review.

### Requirement

Prepare the consolidated statement of comprehensive income of the H group for the year ended 31 December 20X4.

# Question 11

A company’s statement of profit or loss for the year ended 31 December 20X5 showed a net profit of

$ . It was later found that $ paid for the purchase of a motor van had been debited to the motor expenses account. It is the company’s policy to depreciate motor vans at 25% per year on the straight line basis, with a full year’s charge in the year of acquisition.

**Question 12**

Which of the following statements is true?

A The interpretation of an entity’s financial statements using ratios is only useful for potential investors B Ratios based on historical data can predict the future performance of an entity

C The analysis of financial statements using ratios provides useful information when compared with previous performance or industry averages

D An entity’s management will not assess an entity’s performance using financial ratios

# Question 13

At 30 June 20X5 a company’s allowance for receivables was $ . At 30 June 20X6 trade receivables totalled $ . It was decided to write off debts totalling $ and to adjust the allowance for receivables to the equivalent of 5% of the trade receivables based on past events. **What figure should appear in the statement of profit or loss for the year ended 30 June 20X6 for receivables expense?**

# Question 14

Prisha has not kept accurate accounting records during the financial year. She had opening inventory of

$ and purchased goods costing $ during the year. At the year end she had $ left in inventory. All sales are made at a mark up on cost of 20%. What is Prisha’s gross profit for the year?

# Question 15

Alana is not registered for sales tax purposes. She has recently received an invoice for goods for resale which cost $ before sales tax, which is levied at 15%. The total value was therefore $ . What is the correct entry to be made in Alana’s general ledger in respect of the invoice?

# Question 16

A business commenced with capital in cash of $ . Inventory costing $ plus sales tax is purchased on credit, and half is sold for $ plus sales tax, the customer paying in cash at once. The sales tax rate is 20%. What would the accounting equation after these transactions show?

# Question 17

Which of the following costs may be included when arriving at the cost of finished goods inventory for inclusion in the financial statements of a manufacturing company?

1. Carriage inwards
2. Carriage outwards
3. Depreciation of factory plant 4 Finished goods storage costs 5 Factory supervisors' wages

# Question 18

The closing inventory at cost of a company at 31 January 20X3 amounted to $ . The following items were included at cost in the total:

* 1. 400 coats, which had cost $ each and normally sold for $ each. Owing to a defect in manufacture, they were all sold after the reporting date at 50% of their normal price. Selling expenses amounted to 5% of the proceeds.
  2. 800 skirts, which had cost $20 each. These too were found to be defective. Remedial work in February 20X3 cost $ per skirt, and selling expenses for the batch totalled $ . They were sold for $ each.

What should the inventory value be according to IAS 2 Inventories after considering the above items?

# Question 19

X Co acquired 80% of the equity share capital in Y Co on 31 July 20X6. Extracts from the two companies' statements of profit or loss for the year ended 30 September 20X6 were as follows:

|  |  |  |
| --- | --- | --- |
|  | X Co | Y Co |
| $'000 | $'000 |
| Revenue |  |  |
| Cost of sales | 1 500 | 1 800 |

During the year ended 30 September 20X6, Y Co sold goods for $ each month to X Co, at a mark up of 25%. At the end of the year X Co had 50% of these goods left in inventory. What is the group gross profit for the year ended 30 September 20X6?

# Question 20

P owns 80% of the equity share capital of S The profit after tax of S for the year ended 31 December 20X6 was $ million. During 20X6, P sold goods to S for $4 million at cost plus 20%. At the year end 50% of these goods were left in the inventory of S. What is non-controlling interest share of the after-tax profit of S for the year ended 31 December 20X6?

# Question 21

Luis sold goods to Pedro in May 20X9 with a list price of $ ,000. Luis allowed a trade discount of 10%. Pedro returned goods with a list price of $ ,000 on 31 May and returned a further $ ,000 of goods at list price on 6 June as they were found to be unsuitable. How much should Luis record in the sales returns account at 31 May?

# Question 22

The increase in net assets is $ , drawings are $ and capital introduced is $ . What is the net profit for the year?

# Question 23

Catt sells goods at a margin of 50%. During the year to 31 March 20X3 the business made purchases totalling $ and sales totalling $ . Inventories in hand at 31 March 20X3, valued at cost,

was $11,385 higher than the corresponding figure at 1 April 20X2. What was the cost of the goods Catt had drawn out?

# Question 24

When a company makes a rights issue of equity shares which of the following effects will the issue have? 1 Working capital is increased

1. Liabilities are increased
2. Share premium account is reduced 4 Investments are increased

# Question 25

You are preparing the financial statements for a business. The cost of the items in closing inventory is

$ . This includes some items which cost $ and which were damaged in transit. You have estimated that it will cost $ to repair the items, and they can then be sold for $ . What is the correct inventory valuation for inclusion in the financial statements?

**Question 26**

Construction of Bazar Store’s new store began on 1 April 2009. The following costs were incurred on the construction:

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| --- |
| $000 |
| Freehold land |
| Architect fees |
| Site preparation |
| Materials |
| Direct labour costs |
| Legal fees |
| General overheads |

The store was completed on 1 January 2010 and brought into use following its grand opening on the 1 April 2010. Bazar Store issued unsecured loan on 1 April 2009 to aid construction of the new store (which meets the definition of a qualifying asset per IAS 23). The loan carried an interest rate of % per annum and is repayable on 1 April 2012.

# Required

Calculate the amount to be included as property, plant and equipment in respect of the new store and state what impact the above information would have on the income statement (if any) for the year ended 31 March 2010.

# Question 27

An item of plant was purchased on 1 April 2008 for $ and is being depreciated at % on a reducing balance basis.

Prepare the extracts of the financial statements for the year ended 31 March 2010.

# Question 28

A machine was purchased on 1 April 2007 for $ . It was estimated that the asset had a residual value of $ and a useful economic life of years at this date. On 1 April 2009 (two years later) the residual value was reassessed as being only $ and the useful economic life remaining was considered to be only years.

How should the asset be accounted for in the years ending 31 March 2008/2009/2010?

# Question 29

At 1 April 2009 Real Madrid LLC carried its office block in its financial statements at its original cost of $ less depreciation of $ (based on its original life of 50 years). RM LLC decided to revalue the office block on 1 October 2009 to its current value of $ . The useful economic life remaining was reassessed at the time of valuation and is considered to be years at this date. It is the company’s policy to charge depreciation proportionally.

How will the office block be accounted for in the year ended 31 March 2010?

# Question 30

Discuss about fair value model and cost model. Provide brief explanation with relevant examples.

# Question 31

Discuss the nature of internally generated and purchased intangibles.

# Question 32

Distinguish between goodwill and other intangible assets.

# Question 33

Describe the criteria for the initial recognition and measurement of intangible assets

# Question 34

Define an impairment loss.

# Question 35

Identify the circumstances that may indicate impairments to assets

# Question 36

A company has an asset that has a carrying value of $ . The asset has not been revalued. The asset is subject to an impairment review. If the asset was sold then it would sell for $ and there would be associated selling costs of $ . The estimate of the present value of the future cash flows to be generated by the asset if it were kept is $ . Required:- Determine the outcome of the impairment review.

# Question 37

UNEC acquired a non-current asset on 1 October 2009 at a cost of $ which had a useful economic life of years and a nil residual value. The asset had been correctly depreciated up to 30 September 2014. At that date the asset was damaged and an impairment review was performed. On 30 September 2014, the fair value of the asset less costs to sell was $ and the expected future cash flows were $ per annum for the next five years. The current cost of capital is % and a five year annuity of $ per annum at % would have a present value of $ . What amount would be charged to profit or loss for the impairment of this asset for the year ended 30 September 2014?

# Question 38

Apply the requirements of relevant accounting standards for biological assets

# Question 39

As at 31 December 20X1, a plantation consists of 100 feijoa trees that were planted 10 years earlier. Feijoa takes 30 years to mature, and will ultimately be processed into building material for houses or furniture. The enterprise’s weighted average cost of capital is % p.a. Only mature trees have established fair values by reference to a quoted price in an active market.

The fair value (inclusive of current transport costs to get logs to market) for a mature tree of the same grade as in the plantation is: As at 31 December 20X1: As at 31 December 20X2: Required: Calculate the aggregate gain or loss arising during the current period, according to IAS 41.

# Question 40

Define and compute relevant financial ratios. Explain what aspects of performance specific ratios are intended to assess.

# Question 41

Define and compute relevant financial ratios. Discuss how the interpretation of current value based financial statements would differ from those using historical cost based accounts.

# Question 42

Discuss the different approaches that may be required when assessing the performance of specialised, not-for-profit and public sector organisations.

# Question 43

The following information has been taken or calculated from Kapital Bank’s financial statements for the year ended 30 September 2014.

KP’s cash cycle at 30 September 2014 is days. Its inventory turnover is six times.

Year-end trade payables are $ Purchases on credit for the year were $ . Cost of sales for the year was $ .

What is Kapital Bank’s trade receivables collection period as at 30 September 2014? All calculations should be made to the nearest full day. The trading year is 365 days.

# Questions 44

Income statement Balance sheet

Operation Profit $ Shares $

Finance Cost $ Revaluation surplus $

Profit before tax $ Retained earnings $

Income tax $ Loan notes $

Profit for the year $ Liabilities (current)

Total equity and lib $

What is the return on capital employed?

**Question 45**

Discuss why the treatment of investment properties should differ from other properties.

# Question 46

Avromed’s year end is 30 September 2014. Dempsey commenced the development stage of a project to produce a new pharmaceutical drug on 1 January 2014. Expenditure of $ per month was incurred until the project was completed on 30 June 2014 when the drug went into

immediate production. The directors became confident of the project’s success on 1 March 2014. The drug has an estimated life span of five years; time apportionment is used by Avromed where applicable. What amount will Avromed charge to profit or loss for development costs, including any amortisation, for the year ended 30 September 2014?

# Question 47

What happens to the revaluation surplus on disposal of the asset revalued?

# Question 48

A property was purchased on 1 January 20X0 for $2m (estimated depreciable amount $ – useful economic life years). Annual depreciation of $ was charged from 20X0 to 20X4 inclusive and on 1 January 20X5 the carrying value of the property was $ . The property was revalued to $ on 1 January 20X5 (estimated depreciable amount $ – the estimated useful economic life was unchanged). What is the revaluation surplus?

# Question 49

Identify subsequent expenditure that may be capitalised (including borrowing costs), distinguishing between capital and revenue items .

# Question 50

Explain depreciation based on the cost and revaluation models and on assets that have two or more significant parts (complex assets).

1. Identify the circumstances that may indicate impairments to assets. Provide relevant examples.

52.Explain depreciation based on the cost and revaluation models and on assets that have two or more significant parts (complex assets)

1. Define and compute relevant financial ratios. Discuss how the interpretation of current value based financial statements would differ from those using historical cost based accounts.
2. Discuss about fair value model and cost model. Provide brief explanation with relevant examples.
3. Discuss the different approaches that may be required when assessing the performance of specialised, not-for-profit and public sector organisations.
4. Discuss why the treatment of investment properties should differ from other properties.
5. Identify subsequent expenditure that may be capitalised (including borrowing costs), distinguishing between capital and revenue items .
6. Distinguish between goodwill and other intangible assets.
7. What happens to the revaluation surplus on disposal of the asset revalued?
8. Define an impairment loss. Give relevant examples and calculations
9. Explain the concept of a group and the purpose of preparing consolidated financial statements
10. Define mergers and acquisitions, provide examples.
11. Explain and illustrate the effect of the disposal of a parent’s investment in a subsidiary in the parent’s individual financial statements and/or those of the group (restricted to disposals of the parent’s entire investment in the subsidiary)
12. Explain the concept of a group and the purpose of preparing consolidated financial statements
13. What is NPV, how calculate it and what information it can give for us?
14. What is IRR, how to calculate it and what information it can give for us?
15. Difference between IRR and NPV with some reasonable examples.
16. Explain the subsequent accounting treatment, including the principle of impairment tests in relation to purchased goodwill.
17. Distinguish between goodwill and other intangible assets
18. Define the criteria for the initial recognition and measurement of intangible assets
19. Explain the relevance to existing shareholders of the diluted EPS, and describe the circumstances that will give rise to a future dilution of the EPS
20. Explain why the trend of EPS may be a more accurate indicator of performance than a company’s profit trend
21. Pros and cons of preferable and common stocks.
22. Explain the concept of a group and the purpose of preparing consolidated financial statements
23. Explain and apply the definition of subsidiary companies