**The conceptual framework**

1. How does the Conceptual Framework define an asset? What is the difference between current and non-current assets? Provide an example of current and non-current asset. How does the Conceptual Framework define a liability? Provide an example.
2. How many qualitative characteristics of financial information exist? What are the qualitative characteristics of useful financial information? Explain 2 qualitative characteristics.
3. What are the related party disclosures and why are they important? Who can be qualified as a Related party according to IFRS? Please provide an example

**Tangible Non-current Assets**

1. What is Investment property? What are the models which can be used for Investment property? Is a property intended for sale in the ordinary course of business an Investment property? Give an example of Investment property.
2. What are the differences between Revaluation Model for PP&E and Fair Value Model for Investment Property? What are the similarities?
3. Although most items in financial statements are shown at their historical cost, increasingly the IASB is requiring or allowing current cost to be used in many areas of financial reporting. Drexler acquired an item of plant on 1 October 2012 at a cost of $X It has an expected life of five years (straight-line depreciation) and an estimated residual value of 10% of its historical cost or current cost as appropriate. As at 30 September 2014, the manufacturer of the plant still makes the same item of plant and its current price is $Y. What is the correct carrying amount to be shown in the statement of financial position of Drexler as at 30 September 2014 under historical cost and current cost?
4. Leclerc has borrowed $X million to finance the building of a factory. Construction is expected to take two years. The loan was drawn down and incurred on 1 January 20X9 and work began on 1 March 20X9. $Y million of the loan was not utilised until 1 July 20X9 so

Leclerc was able to invest it until needed.

Leclerc is paying 8% on the loan and can invest surplus funds at 6%.

Calculate the borrowing costs to be capitalised for the year ended 31 December 20X9 in respect of this project. NO point will be given to an answer without a solution

1. On 1 October 20X1, Bash Co borrowed $Xm for a term of one year, exclusively to finance the construction of a new piece of production equipment. The interest rate on the loan is 6% and is payable on maturity of the loan. The construction commenced on 1 November 20X1 but no construction took place between 1 December 20X1 to 31 January 20X2 due to employees taking industrial action. The asset was available for use on 30 September 20X2 having a construction cost of $6m. What is the carrying amount of the production equipment in Bash Co’s statement of financial position as at 30 September 20X2?

1. Metric owns an item of plant which has a carrying amount of $A as at 1 April 2014. It is being depreciated at 12½% per annum on a reducing balance basis. The plant is used to manufacture a specific product which has been suffering a slow decline in sales. Metric has estimated that the plant will be retired from use on 31 March 2017. The estimated net cash flows from the use of the plant and their present values are:

Net cash flows Present values

$ $

Year to 31 March 2015 B C

Year to 31 March 2016 D E

Year to 31 March 2017 F G

 X Z

On 1 April 2015, Metric had an alternative offer from a rival to purchase the plant for $W.

At what value should the plant appear in Metric’s statement of financial position as at 31 March 2015?

1. Tibet acquired a new office building on 1 October 2014. Its initial carrying amount consisted of

**$’000**

Land A

Building structure B

Air conditioning system C

–––––––

D

The estimated lives of the building structure and air conditioning system are 25 years and 10 years respectively. When the air conditioning system is due for replacement, it is estimated that the old system will be dismantled and sold for $X. Depreciation is time apportioned where appropriate.

At what amount will the office building be shown in Tibet’s statement of financial position as at 31 March 2015?

1. On 1 October 20X5 Dearing acquired a machine under the following terms.

$

Manufacturer's base price X

Trade discount (applying to base price only) 10%

Early settlement discount taken (on the payable amount of the base cost only) 5%

Freight charges Y

Electrical installation cost Z

Staff training in use of machine K

Pre-production testing G

Purchase of a three-year maintenance contract L

On 1 October 20X7 Dearing decided to upgrade the machine by adding new components at a cost of $XX. This upgrade led to a reduction in the production time per unit of the goods being manufactured using the machine.

What amount should be recognised under non-current assets as the cost of the machine? List other costs which can be capitalised.

1. Y purchased some plant on 1 January 20X0 for $X. The payment for the plant was correctly

entered in the cash book but was entered on the debit side of the plant repairs account.

Y charges depreciation on the straight line basis at Y% per year, with a proportionate charge in the years of acquisition and disposal, and assuming no scrap value at the end of the life of the asset.

How will Y's profit for the year ended 31 March 20X0 be affected by the error?

**Revenue**

1. Briefly discuss “The Five-Step Model” for recognition of Revenue. What are performance Obligations? What is a “stand-alone selling price”
2. Who is a principal and who is an agent? What are the indicators that an entity is acting as an agent.
3. Derringdo also sells a package which gives customers a free laptop when they sign a two-year contract for provision of broadband services. The laptop has a stand-alone price of $Y and the broadband contract is for $X per month.

In accordance with IFRS 15 *Revenue from contracts with customers*, what amount will be recognised as revenue on each package in the first year?

1. Yling entered into a construction contract on 1 January 2014 which is expected to last 24 months. The agreed price for the contract is $X million. At 30 September 2014, the costs incurred on the contract were $Y million and the estimated remaining costs to complete were $Y million. On 20 September 2014, Yling received a payment from the customer of $Z million which was equal to the full amount of the progress billings. Yling calculates the stage of completion of its construction contracts on the basis of progress billings to the contract price. What amount would be reported in Yling’s statement of financial position as at 30 September 2014 for the amount due from the customer for the above contract?
2. On 1 January 20X6, Gardenbugs Co received a $Y government grant relating to equipment which cost $XX and had a useful life of six years. The grant was netted off against the cost of the equipment. On 1 January 20X7, when the equipment had a carrying amount of $Z, its use was changed so that it was no longer being used in accordance with the grant. This meant that the grant needed to be repaid in full but by 31 December 20X7, this had not yet been done.

Which journal entry is required to reflect the correct accounting treatment of the government grant and the equipment in the financial statements of Gardenbugs Co for the year ended 31 December 20X7?

1. A company receives a government grant of $X on 1 April 20X7 to facilitate purchase on the same day of an asset which costs $Y. The asset has a five year useful life and is depreciated on a 30% reducing balance basis. Company policy is to account for all grants received as deferred income.

What amount of income will be recognised in respect of the grant in the year to 31 March 20X9?

1. Bridgenorth has undertaken a $X million contract to repair a railway tunnel. The contract was signed on 1 April 20X8 and the work is expected to take two years. This is a contract where performance obligations are satisfied over time and progress in satisfying performance obligations is to be measured according to % of work completed as certified by a surveyor. Bridgenorth has an enforceable right to payment for performance completed to date.

At 31 December 20X9 the details of the contract were as follows:

20X9 20X8

 $ $

Total contract value X X

Costs to date Y Z

Estimated costs to completion A B

Work invoiced to date C D

Cash received to date E F

% certified complete M% L%

What is the profit recognised for the year ended 31 December 20X8? What amount would have been included in trade receivables at 31 December 20X8? What is the contract asset to be recognised at 31 December 20X9?

**Intangible Assets**

1. How R&D is treated in IFRS? What are criteria for capitalisation of R&D costs.
2. What are methods of depreciation for intangible and tangible non-current assets? Can we depreciate current assets? Can we ignore depreciation for non-current assets tangible assets? Can we ignore depreciation for non-current intangible assets?

**Impairment of Assets**

1. What is impairment? How impairment is calculated? Please explain in details.
2. What is value in use? What is fair value? How recoverable amount is calculated?
3. What is a cash generating unit? How impairment of cash generating unit should be allocated?
4. Mention two external and two internal indicators of impairment. Provide an example
5. The net assets of A Company, a cash generating unit (CGU) are:

 $

Property, plant and equipment W

Allocated goodwill X

Product patent Y

Net current assets (at net realisable value) Z

B

As a result of adverse publicity, Fyngle has a recoverable amount of only $X.

What would be the value of Fyngle's property, plant and equipment after the allocation of the impairment loss?

**Leasing**

1. What is the difference between operating and finance lease?
2. What are the criteria for recognition of finance lease?
3. On 1 January 20X6 Fellini hired a machine under a finance lease. The cash price of the machine was $X million and the present value of the minimum lease payments was $Y million. Instalments of $700,000 are payable annually in advance with the first payment made on 1 January 20X6. The interest rate implicit in the lease is 6%.

What amount will appear under non-current liabilities in respect of this lease in the statement of financial position of Fellini at 31 December 20X7?

1. A company acquired an item of plant under a finance lease on 1 April 20X7. The present value of the minimum lease payments was $X million and the rentals are $Y million per annum paid in arrears for three years on 31 March each year.

The interest rate implicit in the lease is 8% per annum.

What amount will appear under current liabilities in respect of this lease in the statement of financial position at 31 March 20X8?

1. On 1 October 20X3, Fresco acquired an item of plant under a five-year finance lease agreement. The plant had a cash purchase cost of $X million. The agreement had an implicit finance cost of 10% per annum and required an immediate deposit of $Z million and annual rentals of $Y million paid on 30 September each year for five years.

What would be the current liability for the leased plant in Fresco's statement of financial position as at 30 September 20X4?

1. During the year ended 30 September 20X4 Hyper entered into two lease transactions:

On 1 October 20X3 a payment of $X, being the first of five equal annual payments of a finance lease for an item of plant which has a five-year useful life. The lease has an implicit interest rate of 10% and the fair value (cost to purchase) of the leased equipment on 1 October 20X3 was $Y

On 1 January 20X4 a payment of $Z for a one-year lease of an item of excavation equipment.

What amount in total would be charged to Hyper's statement of profit or loss for the year ended 30 September 20X4 in respect of the above transactions?

1. On 1 January 20X6 Platinum entered into a finance lease agreement. The cash price of the asset was $Y and the terms of the lease were a deposit of $X payable on 1 January 20X6 and three further instalments of $Z payable on 31 December 20X6, 31 December 20X7 and 31 December 20X8. The rate of interest implicit in the lease is 12%.

What will be the amount of the finance charge arising from this lease which will be charged to profit or loss for the year ended 31 December 20X7?

**Consolidation**

1. Micro Co acquired 90% of the $X ordinary share capital of Minnie Co for $Y on

1 January 20X9 when the retained earnings of Minnie Co were $Z. At the date of acquisition the fair value of plant held by Minnie Co was $Y higher than its carrying value. The fair value of the non-controlling interest at the date of acquisition was $W.

What is the goodwill arising on the acquisition of Minnie Co?

1. What is the difference between significant influence and control?
2. Who is a subsidiary? How can control arise?
3. How can we evidence the existence of significant influence?

**Provisions and events after reporting period**

1. What is a constructive obligation?
2. Candel is being sued by a customer for $X million for breach of contract over a cancelled order. Candel has obtained legal opinion that there is a 20% chance that Candel will lose the case. Accordingly Candel has provided $Y ($A million × 20%) in respect of the claim. The unrecoverable legal costs of defending the action are estimated at $X. These have not been provided for as the case will not go to court until next year.

What is the amount of the provision that should be made by Candel in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets*?

1. During the year Peterlee acquired an iron ore mine at a cost of $Y million. In addition, when all the ore has been extracted (estimated ten years' time) the company will face estimated costs for landscaping the area affected by the mining that have a present value of $Z million. These costs would still have to be incurred even if no further ore was extracted.

How should this $X million future cost be recognised in the financial statements?

1. Under which circumstances can we create a provision for restructuring? Which costs cannot be included in restructuring provision?
2. On 1 October 20X3 Xplorer commenced drilling for oil from an undersea oilfield. The extraction of oil causes damage to the seabed which has a restorative cost (ignore discounting) of $Z per million barrels of oil extracted. Xplorer extracted X million barrels in the year ended 30 September 20X4.

Xplorer is also required to dismantle the drilling equipment at the end of its five year licence. This has an estimated cost of $Z million on 30 September 20X8. Xplorer's cost of capital is 8% per annum and $1 has a present value of 68 cents in five years' time.

What is the total provision (extraction plus dismantling) which Xplorer would report in its statement of financial position as at 30 September 20X4 in respect of its oil operations?

 **Taxation**

1. What is the difference between accounting profit and taxable profit?
2. What is deferred tax? Provide an example.
3. A company's trial balance shows a debit balance of $X million brought forward on current tax and a credit balance of $A million on deferred tax. The tax charge for the current year is estimated at $Z million and the carrying amounts of net assets are $Y million in excess of their tax base. The income tax rate is 30%

What amount will be shown as income tax in the statement of profit or loss for the year?

1. A company's trial balance at 31 December 20X3 shows a debit balance of $700,000 on current tax and a credit balance of $X on deferred tax. The directors have estimated the provision for income tax for the year at $Y million and the required deferred tax provision is $B million, $A million of which relates to a property revaluation.

What is the profit or loss income tax charge for the year ended 31 December 20X3?

1. The trial balance of Highwood at 31 March 20X6 showed credit balances of $A on current tax and $B million on deferred tax. A property was revalued during the year giving rise to deferred tax of $X million. This has been included in the deferred tax provision of $L million at 31 March 20X6. The income tax charge for the year ended 31 March 20X6 is estimated at $X million.

What will be shown as the income tax charge in the statement of profit or loss of Highwood at

31 March 20X6?

**Inventories and Biological Assets**

1. What is an inventory?
2. What should the cost of inventory include according to IAS 2?
3. What is Net Realisable Value and why do we need it?
4. In preparing financial statements for the year ended 31 March 20X6, the inventory count was carried out on 4 April 20X6. The value of inventory counted was $X million. Between 31 March and 4 April goods with a cost of $Y million were received into inventory and sales of $Z million were made at a mark-up on cost of 30%.

At what amount should inventory be stated in the statement of financial position as at 31 March 20X6?

**The conceptual framework**

1. How would you define and describe the net realizable value? Give an example
2. How does the Conceptual Framework define a liability? What is the difference between current and non-current liabilities? Provide an example of current and non-current liabilities. Provide an example
3. The *Conceptual Framework* identifies an **underlying assumption** in preparing financial statements. What is that assumption? Please explain

**Tangible non-current assets**

1. Capita had the following bank loans outstanding during the whole of 20X8:

$m

X% loan repayable 20X9 B

Y% loan repayable 20Y2 A

Capita began construction of a qualifying asset on 1 April 20X8 and withdrew funds of $A million on that date to fund construction. On 1 August 20X8 an additional $X million was withdrawn for the same purpose.

Calculate the borrowing costs which can be capitalised in respect of this project for the year ended 31 December 20X8.

1. An aircraft requires a planned overhaul each year at a cost of $X. This is a condition of being allowed to fly. How should the cost of the overhaul be treated in the financial statements?
2. Gusna Co purchased a building on 31 December 20X1 for $X. At the date of acquisition, the useful life of the building was estimated to be 25 years and depreciation is calculated using the straight-line method. At 31 December 20X6, an independent valuer valued the building at $1,000,000 and the revaluation was recognised in the financial statements. Gusna’s accounting policies state that excess depreciation arising on revaluation of non-current assets can be transferred from the revaluation surplus to retained earnings.

What is the depreciation charge on the building for the year ended 31 December 20X7? Explain the answer.

1. Gusna Co purchased a building on 31 December 20X1 for $X. At the date of acquisition, the useful life of the building was estimated to be Y years and depreciation is calculated using the straight-line method. At 31 December 20X6, an independent valuer valued the building at $A000 and the revaluation was recognised in the financial statements. Gusna’s accounting policies state that excess depreciation arising on revaluation of non-current assets can be transferred from the revaluation surplus to retained earnings.

What is the journal entry to record the transfer of excess depreciation from the revaluation surplus to retained earnings? Explain the answer

1. What is the difference between capital expenditure and revenue expenditure? Provide an example
2. Every five years the machine will need a major overhaul in order to keep running. How should this be accounted for? Please explain each of the following statements

**Intangible Assets**

1. A company had $X million of capitalised development expenditure at cost brought forward at 1 October20X7 in respect of products currently in production and a new project began on the same date. The research stage of the new project lasted until 31 December 20X7 and incurred $Y million of costs. From that date the project incurred development costs of $A per month. On 1 April 20X8 the directors became confident that the project would be successful and yield a profit well in excess of costs. The project was still in development at 30 September 20X8. Capitalised development expenditure is amortised at A% per annum using the straight line method.

What amount will be charged to profit or loss for the year ended 30 September 20X8 in respect of research and development costs? Explain the steps you take.

1. Dempsey's year end is 30 September 20X4. Dempsey commenced the development stage of a project to produce a new pharmaceutical drug on 1 January 20X4. Expenditure of $40,000 per month was incurred until the project was completed on 30 June 20X4 when the drug went into immediate production. The directors became confident of the project's success on 1 March 20X4. The drug has an estimated life span of five years; time apportionment is used by Dempsey where applicable.

What amount will Dempsey charge to profit or loss for development costs, including any amortisation, for the year ended 30 September 20X4?

1. The following information relates to an item of plant.

Its carrying amount in the statement of the financial position is $X million.

The company has received an offer of $A million from a company in Japan interested in buying theplant.

The present value of the estimated cash flows from continued use of the plant is $A million.

The estimated cost of shipping the plant to Japan is $B.

What is the amount of the impairment loss that should be recognised on the plant?

**Consolidation**

1. IFRS 10 Consolidated financial statements provides a definition of control and identifies three separate elements of control. What are they? Explain each of them
2. Explain situations when a company obtains control over another company. Provide 3 examples and explain them.
3. Witch acquired 70% of the 200,000 equity shares of Wizard, its only subsidiary, on 1 April 20X8 when the retained earnings of Wizard were $A. The carrying amounts of Wizard's net assets at the date of acquisition were equal to their fair values apart from a building which had a carrying amount of $B and a fair value of $X. The remaining useful life of the building at the acquisition date was 40 years. Witch measures non-controlling interest at fair value, based on share price. The market value of Wizard shares at the date of acquisition was $A. At 31 March 20X9 the retained earnings of Wizard were $Y.

At what amount should the non-controlling interest appear in the consolidated statement of financial position of Witch at 31 March 20X9? Explain the steps you take.

1. Cloud obtained a 60% holding in the 100,000 $1 shares of Mist on 1 January 20X8, when the retained earnings of Mist were $A. Consideration comprised $X cash, $Y payable on 1 January 20X9 and one share in Cloud for each two shares acquired. Cloud has a cost of capital of 8% and the market value of its shares on 1 January 20X8 was $2.30.

Cloud measures non-controlling interest at fair value. The fair value of the non-controlling interest at 1 January 20X8 was estimated to be $X.

What was the goodwill arising on acquisition? Explain your steps.

1. Crash acquired 70% of Bang's 100,000 $1 ordinary shares for $X when the retained earnings of Bang were $X and the balance in its revaluation surplus was $A. Bang also has an internally developed customer list which has been independently valued at $B. The non-controlling interest in Bang was judged to have a fair value of $A at the date of acquisition.

What was the goodwill arising on acquisition? Explain your answers.

1. Which one of the following would be treated as a change of accounting policy?

A) Tunshill has received its first government grant and is applying the deferred income method.

B) Tunshill has revalued its properties. Up to now they had all been carried at historical cost.

C) Tunshill has reclassified development costs from other operating expenses to cost of sales.

D) Tunshill has increased its irrecoverable debt allowance from 10% to 12%.

Explain your answer.

**Cash flow statement**

1. List 4 main financial statements. Explain why cash flow statements are useful?
2. What is the requirement of IAS 7 regarding the presentation requirements of Cash flow statement?
3. Explain the difference between Investing and Financing activities in details.
4. Explain the difference between direct and indirect method in details.
5. Which of the following items could appear in a company's statement of cash flows?

1 Surplus on revaluation of non-current assets

2 Proceeds of issue of shares

3 Proposed dividend

4 Irrecoverable debts written off

5 Dividends received

Explain your answer in details.

1. Boggis Co had the following transactions during the year.

(a) Purchases from suppliers were $X, of which $A was unpaid at the year end. Brought

forward payables were $Z.

(b) Wages and salaries amounted to $A, of which $750 was unpaid at the year end. The accounts for the previous year showed an accrual for wages and salaries of $1,500.

(c) Interest of $A on a long-term loan was paid in the year.

(d) Sales revenue was $X, including $C receivables at the year end. Brought forward receivables were $P.

(e) Interest on cash deposits at the bank amounted to $K.

Calculate the cash flow from operating activities using the direct method.