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Advanced Financial Reporting



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Question: 1

Which THREE of the following would typically indicate a finance lease?

- A. An asset with a useful life of ten years is being leased for ten years.
- B. The lessor is responsible for the annual maintenance of the asset.
- C. The lessee has the option to buy the asset at the end of the lease for \$1.
- D. The lease contract for an asset includes an upgrade to the asset every two years.
- E. A leased asset has been specifically modified for the lessee's use.

Answer: A, C, E

Question: 2

LM is a car dealer that is supplied inventory by car manufacturer SQ. Trading between LM and SQ is subject to a contractual agreement. This agreement states the following:

- Legal title of the cars remains with SQ until they are sold by LM to a third party.
- Upon notification of sale to a third party by LM, SQ raises an invoice at the price agreed at the original date of delivery to LM.
- LM has the right to return any car at any time without incurring a penalty.
- LM is responsible for insuring all of the cars on its property.

When considering how these cars should be accounted for, which THREE of the following statements are true?

- A. The most significant risks attached to the cars are held by LM.
- B. The most significant risks attached to the cars are held by SQ.
- C. SQ should recognise the cars as inventory in their financial statements.
- D. LM should recognise the cars as inventory in their financial statements.
- E. SQ should recognise revenue when the cars are delivered to LM.
- F. When LM sells a car to a third party, SQ should recognise the revenue associated with that sale.

Answer: B, C, F

Question: 3

In the year ended 31 December 20X7, FG leased a piece of machinery. The accountant of FG had prepared the financial statements for the year to 31 December 20X7 on the basis of the lease being an operating lease.

However, following the end of year audit it has been agreed that the machinery is in fact held under a finance lease and therefore the financial statements need to be corrected.

The correction will have which THREE of the following effects on the financial statements?

- A. Non-current assets will increase.
- B. Finance costs will increase.
- C. Current liabilities will increase.
- D. Non-current liabilities will decrease.
- E. Depreciation costs will decrease.
- F. Non-current assets will decrease.

Answer: A, B, C

Question: 4

On 1 September 20X3, GH purchased 200,000 \$1 equity shares in QR for \$1.20 each and classified this investment as held for trading.

GH paid a 1% transaction fee to its broker on this transaction. QR's equity shares had a fair value of \$1.35 each on 31 December 20X3.

Which of the following journals records the subsequent measurement of this financial instrument at 31 December 20X3?

- ☐

Debit	Investment	\$30,000
Credit	Other reserves	\$30,000
- ☐

Debit	Investment	\$27,600
Credit	Gain to profit or loss	\$27,600
- ☐

Debit	Investment	\$30,000
Credit	Gain to profit or loss	\$30,000
- ☐

Debit	Investment	\$27,600
Credit	Other reserves	\$27,600

- A. Option A
- B. Option B
- C. Option C
- D. Option D

Answer: A

Question: 5

Which of the following defines the calculation of interest cover?

- A. Profit before interest and tax divided by finance costs
- B. Finance costs divided by profit before interest and tax
- C. Profit after tax divided by finance costs
- D. Finance costs divided by profit after tax

Answer: A

Question: 6

DRAG DROP

On 1 January 20X6 AB, a listed entity, had 10,000,000 \$1 ordinary shares in issue. On 1 April 20X6 AB issued 3,000,000 \$1 ordinary shares at their full market price. AB's profit was reported as \$1,100,000 after charging corporate income tax of \$500,000.

Place the correct values for profit and weighted average number of shares in the boxes below that will be used to calculate AB's earnings per share for the year to 31 December 20X6.

Profit available to ordinary

Weighted average number of shares

1,100,000	1,600,000	600,000	13,000,000
9,750,000	12,250,000	10,750,000	

Answer:

Profit available to ordinary

Weighted average number of shares

1,100,000

12,250,000

Question: 7

Which of the following is NOT an example of an unconsolidated structured entity as defined in IFRS12 Disclosure of Interests in Other Entities?

- A. A post-employment benefit plan
- B. A securitisation vehicle
- C. An asset-backed financing scheme

D. An investment fund

Answer: A

Question: 8

Which THREE of the following statements about preference shares are true?

- A. For an investor, preference shares carry more risk than ordinary shares.
- B. Unlike ordinary shares, preference shares may be cumulative.
- C. The characteristics of preference shares are closer to debt than equity.
- D. Preference shares cannot be issued as redeemable shares.
- E. Preference shareholders receive their dividend entitlement before the equity shareholders.
- F. Preference shareholders rank below the equity shareholders in a winding up.

Answer: B, C, E

Question: 9

KL sells luxury leather handbags and has 3 stores in exclusive shopping areas. Following years of static revenues and margins, in August 20X6 KL opened a fourth store at a busy airport terminal which is proving to be successful.

The revenue and gross profit of KL for the years ended 31 March 20X7 and 20X6 are as follows:

	20X7	20X6
	\$000	\$000
Revenue	2,500	2,000
Cost of sales	(1,125)	(800)
Gross profit	1,375	1,200

Which of the following would be a contributing factor to the movement in the gross profit margin of KL?

- A. A worldwide shortage of leather resulting in increased prices from suppliers.
- B. The opportunity to sell handbags in the airport store at a premium price.
- C. KL locating a new supplier prepared to supply handbags at a cheaper price.
- D. KL locating a new supplier closer to the warehouse, reducing distribution costs.

Answer: A

Question: 10

Which TWO of the following statements about bonds and their issue are true?

- A. Credit rating agencies assign risk categories to bond issues.
- B. Bonds are a form of loan capital, traded on stock exchanges.
- C. Bonds are a risk-free form of investing because they will always be repaid.
- D. All bonds have the same terms and conditions when issued.
- E. A bond issue is never underwritten because the return is fixed and guaranteed.

Answer: A, B

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