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Question 1

Question Type: MultipleChoice

VW acquired 240,000 ofthe 300,000 $1 equity shares of EFfor $1,440,000 on 1 January 20X2. Goodwillarising from theacquisition, using the proportionate methodformeasuringnon controlling interest,was $540,000. On 1 January 20X3VW disposed of 30,000of the equityshares in EF for $200,000 cash when thenet assets of EFwere1,200,000. Goodwillarising on the acquisition of EF had not suffered any impairment.

Prepare theaccounting adjustment that will be processed by VW to reflect the disposal of shares in EF when it prepares its consoldiated financial statements.

Options:

A- Option

B- Option

C- Option

Answer:

A

Question 2

Question Type: MultipleChoice

Which of the following actions would be most likely to improve an entity's gross profit margin?

Options:

A- Negotiating with trade suppliers for a bulk purchase discount

B- Offering increased credit to customers

C- Reducing administrative expenses by 10%

D- Writing down the value of obsolete inventories

Answer:

A

Question 3

Question Type: MultipleChoice

GH issued a 6% debenture for $1,000,000 on 1 January 20X4. A broker fee of $50,000 was payable in respect of this issue. The effective interest rate associated with this debt instrument is 7.2%.

The carrying value of the debenture at 31 December 20X4 is:

Options:

A- $958,400

B- $1,065,600

C- $1,012,000

D- $961,400

Answer:

A

Question 4

Question Type: **MultipleChoice**

EF acquired a copy machine under a three-year operating lease. EF will pay nothing in year one and then will pay $6,000 in years two and three. The estimated economic useful life of the machine is six years.

Which THREE of the following statements are true in respect of how EF will account for its use of the machine and the associated operating lease payments?

Options:

A- An asset of $12,000 will be included in EF's property, plant and equipment at the start of the lease.

B- EF will record no expense in year one in respect of the operating lease charges for this machine.

C- EF will record a credit to bank of $6,000 in year two.

D- EF will include an accrual of $4,000 at the end of year one in respect of the lease payments.

E- EF will charge $4,000 to profit or loss in each of the three years in respect of this operating lease.

F- EF will include an accrual of $6,000 at the end of year one in respect of the lease payments.

Answer:

C, D, E

Question 5

Question Type: **MultipleChoice**

XY's investments enable it to exercisecontrol over AB and havesignificant influence over FG and JK.

The Managing Director of XY is a non-executive director of LM. XYdoes not hold any investment inLM.

XYispreparingitsconsolidated financial statements for the year ended 30 September 20X9.

Which of the followingtransactions during the year will be disclosed in these financial statements in accordance with IAS 24 Related Party Disclosures?

Options:

A- Sale of goods with a trade discount to a major customer of XY.

B- Sale of a motor vehicle from XY toa Director of AB'sspouse at its current market value.

C- Sale of non current assets from XY to LM at their current market value.

D- Sale of goods from FG to JK at their current market value.

Answer:

B

Question 6

Question Type: **MultipleChoice**

ST owns 75% of the equity share capital ofGH. GH owns 80% of the equity share capital of RS.

The following balances relate to RS:

	At acquisition	At 31 December 20X9
	$	$
Share capital	100,000	100,000
Retained earnings	150,000	300,000
Total equity	250,000	400,000

The non controlling interest in respect of RS had a fair value of $56,000 at acquisition. There has been no impairment to goodwill since acquisition.

What value should be included inST's consolidated statement of financial positionfor the non controlling interest in RS at 31 December 20X9?

Options:

A- $116,000

B- $86,000

C- $93,500

D- $146,000

Answer:

A

Question 7

Question Type: **MultipleChoice**

AB and CDare separate entities that preparefinancial statements to 31 Mayusing international accounting standards. AB and CDprovidetechnical supportservices to the financial services industry and operate in the same country. The financial statements are identical except for the following:

* ABpurchased alloperatingequipment, paying $100,000,using a 5 year bank loan. The useful life of the equipmentwas 5 years.

* CDsigned an operating lease agreement for alloperatingequipment for 5 years paying $20,000peryear.

Bothentities charge all expenses relating tothe equipment to cost of sales.

From the information provided, whichof the following ratios wouldbereliablycomparable for AB and CD?

Options:

A- Gross profit margin

B- Return on capital employed

C- Non current asset turnover

D- Profit before tax margin

Answer:

A

Question 8

Question Type: **MultipleChoice**

LMis preparing itsconsolidated financial statements for the year ended 30 April 20X5. Duringthe year LM acquired 30% of the equitysharesof AB givingitsignificant influence overAB.

LMconductedratio analysis comparing the financial performance of the group for 30 April 20X4 and 20X5.

Whichof the following ratios wouldnot becomparable as a result of the acquisition of AB?

Options:

A- Operating profit margin.

B- Return on capital employed.

C- Earnings per share.

D- Interest cover.

Answer:

C

Question 9

Question Type: **MultipleChoice**

XYhas a weighted average cost of capital (WACC) of 10% based on its gearing level (measured as debt/debt+equity) of 40%. It is considering a signficant new project.

In which of the following situations would it be appropriate to appraise this project using XY's existing WACC of 10%?

Options:

A- The project is in a different industry to XY's current operations and funded entirely by equity.

B- The project is an extension of XY's current operations and is funded 40% by debt and 60% by equity.

C- The project is an extension of XY's current operations and is funded by equal amounts of debt and equity.

D- The project is in a different industry to XY's current operations and is funded by equal amounts of debt and equity.

Answer:

B

Question 10

Question Type: **MultipleChoice**

UV has raised $100,000 through theissue of two irredeemable financial instruments:

* 6% debentures with a current market value of $101.50 per $100 nominal value; and

* 8% preference shares with a current share price of $2.20 each.

The corporateincometax rate is 20%

What is the post tax cost of debt foreach of theseinstruments?

Debentures	**5.9%**
Preference shares	2.9%

Options:

A- Option A

B- Option B

C- Option C

Answer:

A

Question 11

Question Type: CorrectText

A convertible bond with a nominalvalue of $100can beredeemed at par in 5 years'time orbe converted into1 new equity share for every $5 of bond held.

The current equity share price is $3.50 and it is anticipated that this will grow at a rate of 7% peryear.

What is the value of the conversion option of the bond in 5 years' time?

Give your answer to two decimal places.

$?

Answer:

Question 12

Question Type: MultipleChoice

FG acquired 75% of the equity share capital of HI on 1 September 20X3.

On the date of acquisition, the fair valueof thenet assets wasthe same as thecarrying amount, with the exception of a contingent liability disclosed by HI and relating to a pending legal case. At 1 September 20X3, the contingent liability wasindependentlyvalued at $1.2 million.

At the current year end, 31 March 20X5, the legal case is still outstanding. The fair value ofthe liabilityhas now been estimated at $1.4 million, and the case is expected to be resolved in the forthcoming financial year.

How should this contingent liability be recorded in the consolidated financial statements for the year ended 31 March 20X5?

Options:

A- A current liability of $1.4 million.

B- A non-current liability of $1.4 million.

C- A current liability of $1.2 million.

D- A non-current liability $1.2 million.

Answer:

A