

MULTIPLE CHOICE (30%)

1. Which of the following statements is true regarding the International Accounting Standards Board (IASB)?
- The IASB is a regulatory agency with enforcement powers for its International Financial Reporting Standards (IFRS).
 - The IASB is a public organization, funded by taxpayer dollars from member countries.
 - Is comprised of 14 members from 9 countries.
 - All of the choices are correct regarding the IASB.
2. Which of the following statements is true?
- Over 115 countries require or permit use of International Financial Reporting Standards (IFRS).
 - Canada is the most significant holdout from use of International Financial Reporting Standards (IFRS).
 - Nearly 50% of investors in the United States own foreign securities, either directly or through funds.
 - To facilitate efficient capital allocation, investors need relevant information stated in a common currency.
3. The second level in the International Accounting Standards Board's (IASB's) Conceptual Framework
- Identifies the objective of financial reporting.
 - Identifies recognition, measurement, and disclosure concepts used in establishing and applying accounting standards.
 - Provides the elements of financial statements.
 - Includes assumptions, principles, and constraints.
4. In the International Accounting Standards Board's (IASB's) Conceptual Framework, a fundamental qualitative characteristic is
- Materiality.
 - Faithful representation.
 - Decision usefulness.
 - Neutrality.
5. Using IFRS, which of the following items is matched correctly with its basis of valuation for purposes of reporting on the statement of financial position?
- | <u>Item</u> | <u>Basis of Valuation</u> |
|----------------------|--|
| I. Inventories | A. Cost |
| II. Prepaid expenses | B. Estimated amount collectible |
| III. Receivables | C. Lower-of-cost-or net realizable value |
- I and A
 - II and C
 - III and B
 - II and B

6. In preparing a statement of cash flows, sale of treasury stock at an amount greater than cost would be classified as a(n)

- a. operating activity.
- b. financing activity.
- c. extraordinary activity.
- d. investing activity.

7. Under IFRS Morley Manufacturing will derecognize its receivables in all of the following cases except

- a. When Morley elects to use the fair value option for a receivable.
- b. When the contractual rights to the cash flows of the receivable no longer exist; for example when one of Morley's customers declares bankruptcy.
- c. When Morley collects a receivable when due.
- d. All of the choices require Morley Manufacturing to derecognize its receivables.

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8. Oats Company offers a trade discount to its customers as a reward for large orders.

According to the International Accounting Standards Board (IASB) how should the customers of Oats Company account for these trade discounts?

- As an expense.
- As a revenue.
- As a reduction in the cost of inventory.
- The IASB allows any of these treatments so long as the company applies it consistently.

9. Each of the following are included in both the current ratio and the acid-test ratio except

- cash.
- short-term investments.
- net receivables.
- inventory.

10. Long-term debt that matures within one year and is to be converted into shares should be reported

- as a current liability.
- in a special section between liabilities and equity.
- as part current and part non-current.
- as non-current.

PROBLEMS

1. The trial balance before adjustment of Risen Company reports the following balances:

	Dr.	Cr.
Accounts receivable	\$100,000	
Allowance for doubtful accounts		\$ 2,500
Sales (all on credit)		750,000
Sales returns and allowances	40,000	

Instructions

- Prepare the entries for estimated bad debts assuming that doubtful accounts are estimated to be (1) 6% of gross accounts receivable and (2) 1% of net sales. (10%)
- Assume that all the information above is the same, except that the Allowance for Doubtful Accounts has a debit balance of \$2,500 instead of a credit balance. How will this difference affect the journal entries in part (a)? (10%)

2. Gott Company adopted the dollar-value LIFO inventory method on 12/31/09. On this date, its inventory consisted of the following items.

<u>Item</u>	<u>Number of Units</u>	<u>Cost Per Unit</u>	<u>Total Cost</u>
X	200	\$2.00	\$ 400
Y	600	4.50	<u>2,700</u>
			<u>\$3,100</u>

Additional information:

	<u>December 31</u>	
	<u>2010</u>	<u>2011</u>
1. Units of X in inventory	300	400
2. Cost of each X unit	\$3.00	\$3.25
3. Units of Y in inventory	800	1,200
4. Cost of each Y unit	\$5.50	\$6.00

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Instructions

- (a) Compute the price index for 2010. Round to 2 decimal places. (5%)
- (b) Calculate the 12/31/10 inventory. Label all numbers. (5%)
- (c) Compute the price index for 2011. Round to 2 decimal places. (5%)
- (d) Calculate the 12/31/11 inventory. Label all numbers. (5%)

3. Freeze Corporation is having financial difficulty and therefore has asked Manhattan National Bank to restructure its \$3 million note outstanding. The present note has 3 years remaining and pays a current rate of interest of 10%. The present market rate for a loan of this nature is 12%. The note was issued at its face value.

Instructions

Prepare below are three independent situations. Prepare the journal entry that Halvor would make for each of these restructurings.

- (a) Manhattan National Bank agrees to take an equity interest in Halvor by accepting ordinary shares valued at \$2,200,000 in exchange for relinquishment its claim on this note. The ordinary shares have a par value of \$1,000,000. (10%)
- (b) Manhattan National Bank agrees to accept land in exchange for relinquishing its claim on this note. The land has a book value of \$1,950,000 and a fair value of \$2,400,000. (10%)
- (c) Manhattan National Bank agrees to modify the terms of the note, indicating that Halvor does not have to pay interest on the note over the 3-year period. (3 years at 12% present value = 0.65752) (10%)