

**DUMPSBOSS**.COM

# Financial Reporting

CPA FR

Version Demo  
Total Questions: 10

<https://dumpsboss.com>  
[support@dumpsboss.com](mailto:support@dumpsboss.com)

**Financial Reporting****QUESTION NO: 1**

During the year ended 30 June 2013, Emily plc spent \$300,000 on the development of a new range of garden machinery. In order to carry out this work, Emily plc purchased some highly specialized equipment on 1 July 2012 at a cost of \$100,000. The equipment is expected to have a useful life of five years and is to be depreciated over that period by the straight-line method.

According to IAS 38 Intangible Assets, what is the maximum amount that Emily plc can carry forward as development expenditure as at 30 June 2013?

- A. \$100,000
- B. \$300,000
- C. \$320,000
- D. \$400,000

Answer: C

**QUESTION NO: 2**

A company is developing a new production process. During 2012, expenditure incurred was \$100,000, of which \$90,000 was incurred before 1 December 2012 and \$10,000 between 1 December 2012 and 31 December 2012. The company can demonstrate that, at 1 December 2012, the production process met the criteria for recognition as an intangible asset. The recoverable amount of the know-how embodied in the process is estimated to be \$50,000.

How should the expenditure be treated?

- A. \$100,000 is recognized as an intangible asset.
- B. \$90,000 is recognized as an intangible asset and \$10,000 is expensed.
- C. \$90,000 is expensed and \$10,000 is recognized as an intangible asset.
- D. \$100,000 is expensed.

Answer: C

### QUESTION NO: 3

For the year ended 31 December 2012, the board of directors of USP Inc. is considering the treatment of the following issues in their financial statements.

- (i) On 1 March 2013 one of the machine used for manufacturing trading goods met the criteria to classify as held for sale. The carrying amount of the machine at 31 December was \$50,000 and its fair value was \$52,000. Costs to sell would amount to \$4,600.
- (ii) On 15 April 2013, USP Inc. settled a court case with a former employee, paying him \$30,000. At the reporting date, the financial statement included a provision of \$20,000 in respect of this case.

The financial statements were approved on 30 April 2013.

How should the issues above be dealt with?

- A. (i) Non-adjusting event. Classified as a non-current asset held for sale at \$47,400 with a disclosure resulting an impairment loss of \$2,600.  
(ii) Adjusting event. Provision should be adjusted to \$30,000, resulting in a charge to profits of \$10,000.
- B. (i) Non-adjusting event. Classified as a non-current asset held at its carrying value of \$50,000 with a disclosure resulting an impairment loss of \$2,600.  
(ii) Adjusting event. Provision should be adjusted to \$30,000, resulting in a charge to profits of \$10,000.
- C. (i) Adjusting event. Classified as a non-current asset held for sale at \$47,400 with a disclosure resulting an impairment loss of \$2,600.  
(ii) Adjusting event. Provision should be adjusted to \$30,000, resulting in a charge to profits of \$10,000.
- D. (i) Non-adjusting event. Classified as a non-current asset held for sale at \$47,400 with a disclosure resulting an impairment loss of \$2,600.

(ii) Non-adjusting event. Provision should be unadjusted. A charge of \$10,000 to profits should be made in the following year end financial statements.

Answer: B

**QUESTION NO: 4**

Arnold Ltd bought an asset on 1 October 20X1 for \$200,000. It was being depreciated over 20 years on the straight-line basis. On 1 October 20X3, the asset was revalued to \$270,000. Subsequently, on 30 September 20X7 the asset was classified as held for sale. Its fair value was estimated at \$190,000 with costs to sell \$5,000.

In accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, what should be the loss recognized in the statement of profit or loss for the year ended 30 September 20X7?

- A. \$Nil
- B. \$5,000
- C. \$20,000
- D. \$25,000

Answer: B

**QUESTION NO: 5**

View-Find Inc. manufactures and sells complex electronic microscope for scientific research projects. It usually produces standard type and customized microscope. The sale contract states that View-find Inc. will undertake the entire installation process. During December 2012, View-find Inc. undertakes a customized offer from State Metallurgical Engineering University of Nowhere. The contract states that View-Find Inc. will manufacture, install and maintain the whole consignment for a period of one year. The total cost of making the changes during the maintenance period cannot be reasonably estimated at the time of the installation.

When should the revenue from sale of this special machine be recognized?

- A. When the machinery is produced.
- B. When the machinery is produced and delivered.
- C. When the installation is complete.

D. When the maintenance period as per the contract of sale expires.

Answer: D

**QUESTION NO: 6**

Kia Co produces cellular phone and first-in first-out (FIFO) method valuation is used for its inventories. At the start of January it had 500 units in inventory. These had cost \$30 each. During January, the following transactions took place:

Receipts		Issues		
Date	Units	Units	Cost per unit	Date
5		230	\$32	
	7	640		
15		380	\$34	
	17	450		

What is the value of Kia Co's inventory at the end of January?

- A. \$600
- B. \$640
- C. \$680
- D. \$720

Answer: C

**QUESTION NO: 7**

Richard Ltd and McMagoo Inc. trades in shares and securities and are close rivals for many years. Richard Ltd accuses McMagoo Inc. of providing false information related to a particular PH plc's share; though Richard Ltd knows it is not true. McMagoo Inc. sues Richard Ltd. for defamation. Richard's and McMagoo Inc's lawyers agree that it is likely that McMagoo Inc. will win the case and receive damages of an amount of \$1.5m. There is no possibility of the case being resolved before the financial statements are finished.

How the above litigation will be represented in the financial statements of both Richard Ltd and McMagoo Inc.?

- A. Richard Ltd should provide for \$1.5m. McMagoo Inc. has a contingent asset and should disclose in the financial statements.
- B. Richard Ltd should provide for \$1.5m. McMagoo Inc. should ignore as this is too remote.
- C. Richard Ltd should ignore as this is too remote. McMagoo Inc. has a contingent asset and should disclose in the financial statements.
- D. Richard Ltd should have a contingent asset and should disclose in the financial statements. McMagoo Inc. should provide for \$1.5m.

Answer: A

**QUESTION NO: 8**

Plateau Co has the following construction contract in progress:

	\$m		
Total contract price			750
Costs incurred to date			225
Estimated costs to completion		340	
Progress payments invoiced and received	290		

Calculate the amounts to be recognized for the contract in the statement of profit or loss and statement of financial position using the proportion of costs incurred method.

	Statement of profit or loss	Statement of financial position	
A.	\$74m		\$9m
B.	\$111m		\$46m
C.	\$9m		\$74m
D.	\$185m		\$120m

Answer: A

**QUESTION NO: 9**

Yisen Co issues 2,000 convertible bonds at the start of 2012. The bonds have a three year term, and are issued at par with a face value of \$1,000 per bond, giving total proceeds of \$2,000,000. Interest is payable annually in arrears at a nominal annual interest rate of 6%. Each bond is convertible at any time up to maturity into 250 common shares.

When the bonds are issued, the prevailing market interest rate for similar debt without conversion options is 9%. At the issue date, the market price of one common share is \$3. The dividends expected over the three year term of the bonds amount to 14c per share at the end of each year. The risk-free annual interest rate for a three year term is 5%.

What is the value of the equity component in the bond?

NB. Discount factor at 9% year 3 is 0.772, Annuity factor is 2.531

- A. \$152,280
- B. \$152,580
- C. \$456,000
- D. \$NIL

Answer: A

**QUESTION NO: 10**

In 2012 Fiona Co had a basic EPS of 105c based on earnings of \$105,000 and 100,000 ordinary \$1 shares. It also had in issue \$40,000 15% Convertible Loan Stock which is convertible in two years' at the rate of 4 ordinary shares for every \$5 of stock. The rate of tax is 30%. In 2012 gross profit of \$200,000 and expenses of \$50,000 were recorded, including interest payable of \$6,000.

What is the dilution in earnings?

- A. 22.3c
- B. 25.5c
- C. 28.6c
- D. 82.7c

Answer: A

QUESTION NO: 11

DUMPSBOSS.COM