

Section 1

OBJECTIVE TEST QUESTIONS

PRINCIPLES OF TAX

- 1 Complete the sentence below by placing one of the following options in the space.

Competent jurisdiction is _____.

the country whose tax laws apply to the entity

the country the income arises in

the country where the parent is incorporated

- 2 Complete the sentence below by placing one of the following options in the space.

A taxable person is _____.

the person or entity who is responsible for completing the tax return

the person or entity who is accountable for the tax payment

the person or entity who has direct contact with the tax authority

- 3 Which TWO of the following are methods used for double tax relief?

A Exemption relief

B Deduction relief

C Tax loss relief

D Withholding relief

E Underlying relief

- 4 Which of the following could be said to be a progressive tax?

A Property sales tax of 1% of the selling price of all properties sold

B Value added tax at a rate of 0%, 10% or 15% depending on the type of goods or services provided

C Corporate wealth tax at 2% of total net assets up to \$10 million then at 0.5% on net assets greater than \$10 million

D Personal income tax of 10% on earnings up to \$10,000, then at 15% from \$10,001 up to \$100,000 and 25% over \$100,000

5 Complete the sentence below by placing one of the following options in the space.

Tax evasion is _____.

- | |
|---|
| a legal way of avoiding paying taxes |
| an illegal way of avoiding paying taxes |

6 An ideal tax system should conform to certain principles. Which of the following statements is NOT generally regarded as a principle of an ideal tax?

- A It should be fair to different individuals and should reflect a person's ability to pay
- B It should not be arbitrary, it should be certain
- C It should raise as much money as possible for the government
- D It should be convenient in terms of timing and payment

7 Complete the sentence below by placing one of the following options in the space.

A direct tax is one that _____.

- | |
|---|
| is passed onto another part of the economy |
| is imposed on the final consumer |
| is levied directly on the person who is intended to pay the tax |

8 Which of the following statements is NOT a source of tax rules in a country?

- A Domestic legislation
- B Directives from a supranational body
- C International treaties
- D International accounting standards

9 CR is resident in Country X. CR makes a taxable profit of \$750,000 and pays an equity dividend of \$350,000. CR pays tax on profits at a rate of 25%.

Equity shareholders pay tax on their dividend income at a rate of 30%.

If CR and its equity shareholders pay a total of \$205,000 tax between them, what method of corporate income tax is being used in Country X?

- A The classical system
- B The imputation system
- C The partial imputation system
- D The split rate system

10 Which of the following is NOT a benefit of pay-as-you-earn (PAYE) method of tax collection?

- A It makes payment of tax easier for the tax payer as it is in instalments
- B It makes it easier for governments to forecast tax revenues
- C It benefits the tax payer as it reduces the tax payable
- D It improves government's cash flow as cash is received earlier

- 11 Which of the following is NOT a reason for governments to set deadlines for filing tax returns and payment of taxes?**
- A To enable governments to enforce penalties for late payments
 - B To ensure tax deducted at source by employers is paid over promptly
 - C To ensure tax payers know when they have to make payment
 - D To ensure that the correct amount of tax revenue is paid
- 12 Which of the following powers is a tax authority least likely to have granted to them?**
- A Power of arrest
 - B Power to examine records
 - C Power of entry and search
 - D Power to give information to other countries' tax authorities
- 13 The OECD model tax convention defines a permanent establishment to include a number of different types of establishments.**
- Which TWO of the following are included in the OECD's list of permanent establishments?**
- A A place of management
 - B A warehouse
 - C A subsidiary
 - D A quarry
 - E A building site that was used for nine months
- 14 In Country Y, A earns \$75,000 profit for the year and receives a tax bill for \$17,000. B earns \$44,000 profit for the year and receives a tax bill for \$4,800.**
- Country Y's income tax could be said to be a:**
- A Regressive tax
 - B Proportional tax
 - C Progressive tax
 - D Fixed rate tax
- 15 Which THREE of the following statements are the main reasons why governments set deadlines for filing returns and/or paying taxes?**
- A The tax authority is more likely to get paid on time
 - B The payment will be more accurate
 - C The costs to collect the tax will be less
 - D The tax administration will be easier
 - E The tax authorities can forecast their cash flows
 - F They can impose penalties for late payment/late filing

16 In 1776, Adam Smith proposed that an acceptable tax should meet four characteristics. Three of these characteristics were certainty, convenience and efficiency.

Identify the FOURTH characteristic.

- A Neutrality
- B Transparency
- C Equity
- D Simplicity

17 Country X uses a Pay-As-You-Earn (PAYE) system for collecting taxes from employees. Each employer is provided with information about each employee’s tax position and tables showing the amount of tax to deduct each period. Employers are required to deduct tax from employees and pay it to the revenue authorities on a monthly basis.

From the perspective of the government, which THREE of the following statements are the main advantages of the PAYE system?

- A Tax is collected regularly throughout the year so easier to forecast spending
- B The administrative costs are largely passed to the employers
- C Tax calculations are more accurate than the self-assessment system
- D The administrative costs are largely passed to the employees
- E Tax is collected regularly throughout the year so easier than making a large payment
- F There is less risk of default as tax is deducted at source

18 Place the THREE of the following options into the highlighted boxes in the table below to correctly reflect the characteristics of a commodity that, from a revenue authority’s point of view, would make that commodity suitable for an excise duty to be imposed.

There are few large producers/suppliers
Demand is elastic with no close substitutes
Sales volumes are large
Demand is inelastic with no close substitutes
Sales volumes are small
There are many large producers/suppliers

Suitable for excise duties

- 19 Tax deducted at source by employers from employees' earnings and paid to government, often called pay-as-you-earn (PAYE) has a number of advantages.
- (i) Most of the administration costs are borne by the employer.
 - (ii) Employers may delay payment or fail to pay over PAYE deducted from employees.
 - (iii) Employers may be inefficient and not deduct any tax or deduct the wrong amount from employees.
 - (iv) Government receives a higher proportion of the tax due as defaults and late payments are fewer.

Which TWO of the above are NOT likely to be seen as an advantage of PAYE by the government?

- A (i) and (ii)
 - B (ii) and (iii)
 - C (ii) and (iv)
 - D (iii) and (iv)
- 20 **What is Hypothecation?**
- A Process of earmarking tax revenues for specific types of expenditure
 - B Estimation of tax revenue made by the tax authorities for budget purposes
 - C Refund made by tax authorities for tax paid in other countries
 - D Payment of taxes due to tax authorities, net of tax refunds due from tax authorities
- 21 **The tax gap is the difference between:**
- A when a tax payment is due and the date it is actually paid
 - B the tax due calculated by the entity and the tax demanded by the tax authority
 - C the amount of tax due to be paid and the amount actually collected
 - D the date when the entity was notified by the tax authority of the tax due and the date the tax should be paid
- 22 Developed countries generally use three tax bases. One tax base widely used is income.
- What are the other TWO widely used tax bases?**
- A Assets
 - B Profit
 - C Consumption
 - D Salary
 - E Earnings

23 Which TWO of the following are most likely to encourage an increase in incidence of tax avoidance or tax evasion?

- (i) High penalties for tax evasion.
- (ii) Imprecise and vague tax laws.
- (iii) A tax system that is seen as fair to everyone.
- (iv) Very high tax rates.

- A (i) and (ii)
- B (ii) and (iii)
- C (ii) and (iv)
- D (iii) and (iv)

24 Which of the following is NOT an advantage for the tax authority of deduction of tax at source?

- A The total amount of tax due for the period is easier to calculate
- B Tax is collected earlier
- C Administration costs are borne by the entity deducting tax
- D Tax is deducted before income is paid to the taxpayer

25 HD sells office stationery and adds a sales tax to the selling price of all products sold. A customer who purchases goods from HD has to pay the cost of the goods plus the sales tax. HD pays the sales tax collected to the tax authorities.

From the perspective of HD the sales tax would be said to have:

- A formal incidence
- B effective incidence
- C informal incidence
- D ineffective incidence

26 Which of the following defines the meaning of tax gap?

- A The difference between the tax an entity expects to pay and the amount notified by the tax authority
- B The difference between the total amount of tax due to be paid and the amount actually collected by the tax authority
- C The difference between the due date for tax payment and the date it is actually paid
- D The difference between the amount of tax provided in the financial statements and the amount actually paid

27 Which of the following would be considered to be an example of an indirect tax?

- A An entity assessed for corporate income tax on its profit
- B An individual purchases goods in a shop, the price includes VAT
- C An employee has tax deducted from salary through the PAYE system
- D An individual pays capital gains tax on a gain arising on the disposal of an investment

28 Country Z has the following tax regulations in force for the years 20X5 and 20X6 (each year January to December):

- Corporate income is taxed at the following rates:
 - \$1 to \$10,000 at 0%
 - \$10,001 to \$25,000 at 15%
 - \$25,001 and over at 25%.
- When calculating corporate income tax, Country Z does **not** allow the following types of expenses to be charged against taxable income:
 - entertaining expenses
 - taxes paid to other public bodies
 - accounting depreciation of non-current assets.
- Tax relief on capital expenditure is available at the following rates:
 - buildings at 4% per annum on straight line basis
 - all other non-current tangible assets are allowed tax depreciation at 27% per annum on reducing balance basis.

DB commenced business on 1 January 20X5 when all assets were purchased. No first year allowances were available for 20X5.

Non-current assets cost at 1 January 20X5

	\$
Land	27,000
Buildings	70,000
Plant and equipment	80,000

On 1 January 20X6, DB purchased another machine for \$20,000. This machine qualified for a first year tax allowance of 50%.

DB's Statement of profit or loss for the year to 31 December 20X6

	\$
Gross profit	160,000
Administrative expenses	(81,000)
Entertaining	(600)
Tax paid to local government	(950)
Depreciation on buildings	(1,600)
Depreciation on plant and equipment	(20,000)
Distribution costs	(20,000)
	<hr/>
	35,850
Finance cost	(1,900)
	<hr/>
Profit before tax	33,950
	<hr/>

Calculate DB's corporate income tax due for the year to 31 December 20X6.

\$ _____. (Your answer should be rounded down to the nearest \$.)

- 29** CFP, an entity resident in Country X, had an accounting profit for the year ended 31 December 20X1 of \$860,000. The accounting profit was after charging depreciation of \$42,000 and amortisation of development costs of \$15,000 which should be treated as disallowable expenses.

CFP was entitled to a tax depreciation allowance of \$51,000 for the year to 31 December 20X1.

Tax is charged at 25%.

CFP's tax payable for the year ended 31 December 20X1 is:

- A \$202,250
 - B \$206,500
 - C \$212,750
 - D \$216,500
- 30 Which of the following defines the meaning of hypothecation?**
- A A new tax law has to be passed each year to allow taxes to be legally collected
 - B The difference between the total amount of tax due to be paid and the amount actually collected by the tax authority
 - C Tax is deducted from amounts due before they are paid to the recipient
 - D The products of certain taxes are devoted to specific types of public expenditure

31 Which of the following would NOT normally be considered a principle of a modern tax system?

- A Efficiency
- B Equity
- C Economic impact
- D Raise revenues

32 Complete the sentence below by placing one of the following options in the space.

Under the OECD model tax convention an entity will generally have residence for tax purposes in _____.

- | |
|---|
| the country of effective management |
| the country of incorporation |
| the country where most revenue is generated |

33 An entity earns a profit of \$60,000 for the year to 31 March 20X2. The entity is assessed and owes \$15,000 tax for the year.

Which of the following types of tax would best describe the tax due?

- A Capital tax
- B Income tax
- C Wealth tax
- D Consumption tax

34 Place the TWO of the following options into the highlighted boxes in the table below to correctly reflect TWO possible powers that a tax authority may be granted to enable it to enforce tax regulations.

- | |
|---|
| Power to review and query filed returns |
| Power to arrest |
| Power to enforce changes |
| Power to remove directors |
| Power to exchange information with tax authorities in other jurisdictions |

Powers of the tax authority

- 35** Taxes commonly used by many countries include:
- (i) import duty payable on specific types of imported goods
 - (ii) individual income tax, usually deducted at source
 - (iii) corporate income tax
 - (iv) value added tax.

Which of the above would normally be defined as direct taxation?

- A (i) and (ii)
 - B (i) and (iv)
 - C (ii) and (iii)
 - D (ii) and (iv)
- 36** An entity makes a taxable profit of \$500,000 and pays corporate income tax at 25%.
The entity pays a dividend to its shareholders. A shareholder receiving \$5,000 dividend then pays the standard personal income tax rate of 15% on the dividend, paying a further \$750 tax.

The tax system could be said to be:

- A A classical system
 - B An Imputation system
 - C A partial imputation system
 - D A split rate system
- 37** Tax authorities use various methods to reduce tax avoidance and tax evasion.
- (i) Increase tax rates to compensate for losses due to evasion.
 - (ii) Make the tax structure as complicated as possible.
 - (iii) Increase the perceived risk by auditing tax returns.
 - (iv) Simplify the tax structure, minimising allowances and exemptions.

Which of the above methods could be used to help reduce tax evasion and avoidance?

- A (i) and (ii)
 - B (i) and (iv)
 - C (ii) and (iii)
 - D (iii) and (iv)
- 38** Complete the sentence below by placing one of the following options in the space.

Tax avoidance is _____.

- | |
|---|
| a legal way of avoiding paying taxes |
| an illegal way of avoiding paying taxes |

- 39 Accounting depreciation is usually disallowed when calculating tax due by an entity and a deduction for tax depreciation is given instead.

Which of the following statements explains the reason why accounting depreciation is replaced with tax depreciation in a tax computation?

- A Tax depreciation gives the tax payer more relief than accounting depreciation
 B Tax depreciation gives the tax payer less relief than accounting depreciation
 C To ensure that all entities are allowed the same rates of depreciation for tax purposes
 D To ensure that the tax authority raises as much tax as possible
- 40 **A customer purchases goods for \$115, inclusive of VAT. From the customer's point of view the VAT could be said to be:**
- A a direct tax with formal incidence
 B an indirect tax with formal incidence
 C a direct tax with effective incidence
 D an indirect tax with effective incidence

- 41 Country X has the following tax regulations in force:

- The tax year is 1 May to 30 April.
- All corporate profits are taxed at 20%.
- When calculating corporate taxable income, depreciation of non-current assets cannot be charged against taxable income.
- Tax depreciation is allowed at the following rates:
 - buildings at 5% per annum on straight line basis
 - all other non-current tangible assets are allowed tax depreciation at 25% per annum on a reducing balance basis.

No tax allowances are allowed on land or furniture and fittings.

FB commenced trading on 1 May 20X5 when it purchased all its non-current assets.

FB's non-current asset balances were:

	<i>Cost</i> <i>1 May 20X5</i>	<i>Carrying value</i> <i>1 May 20X7</i>	<i>Tax written down value</i> <i>1 May 20X7</i>
	\$	\$	\$
Land	20,000	20,000	–
Buildings	80,000	73,600	72,000
Plant and equipment	21,000	1,000	11,812
Furniture and fittings	15,000	5,000	–

FB did not purchase any non-current assets between 1 May 20X5 and 30 April 20X7. On 2 May 20X7, FB disposed of all its plant and equipment for \$5,000 and purchased new plant and equipment for \$30,000. The new plant and equipment qualified for a first year tax allowance of 50%.

FB’s Statement of profit or loss for the year ended 30 April 20X8

	\$
Gross profit	210,000
Administrative expenses	(114,000)
Gain on disposal of plant and equipment	4,000
Depreciation – furniture and fittings	(5,000)
Depreciation – buildings	(3,200)
Depreciation – plant and equipment	(6,000)
Distribution costs	(49,000)
	36,800
Finance cost	(7,000)
	29,800

Calculate FB’s corporate income tax due for the year ended 30 April 20X8.

\$ _____. (Your answer should be rounded down to the nearest \$.)

42 Governments use a range of specific excise duties as well as general sales taxes on goods.

Which of following don NOT explain a reason why a government might apply a specific excise duty to a category of goods?

- A It may want to raise extra revenue from luxury products that people will buy regardless of cost
- B To discourage use of harmful substances by making them expensive to buy, i.e. tobacco and alcohol
- C To pay for the healthcare that harmful substances cause, i.e. medical treatment from smokers
- D It may want to raise extra revenue from elastic products

43 Place the following options into the highlighted boxes in the table below to correctly show the difference between a single stage and a multi-stage sales tax. The options cannot be used more than once.

Tax at one level of production
This could be VAT
This could be cascade tax
Tax at each level of production
Single stage
Multi-stage

Type of tax		
Characteristic		
Characteristic		
Characteristic		

44 Once registered for VAT an entity must abide by the VAT regulations.

Which THREE of the following are typical requirements of VAT regulations?

- A Complete a quarterly VAT return
- B Charge VAT on all supplies to customers
- C Keep appropriate VAT records
- D Make payments to VAT authority and be able to claim back VAT when due
- E Recover VAT on all purchases from suppliers
- F Complete a monthly VAT return

45 Trading losses in any period can be carried back and set off against profits in the previous 12-month period, and any unrelieved losses should be carried forward to set against profits in future years. Trading losses cannot be set off against capital gains. Capital losses should be set off against capital gains in the same tax year, but unrelieved capital losses cannot be carried back. Unrelieved capital losses should be carried forward and set against capital gains in future years.

QWE had the following taxable profits, gains and losses in years 1 to 4.

	<i>Trading profits/(losses)</i>	<i>Capital gains/(losses)</i>
	\$	\$
Year 1	50,000	6,000
Year 2	(90,000)	(8,000)
Year 3	30,000	5,000
Year 4	70,000	6,000

Place the following options into the highlighted boxes in the table below to correctly reflect QWE's taxable profits and gains in each year. The options can be used more than once and not all options have to be used.

\$ nil
\$3,000
\$6,000
\$10,000
\$60,000

Year	Taxable profits	Taxable gains
1		
2		
3		
4		

46 What is the nature of group loss relief?

- A Profits and losses of all companies in the same group are consolidated and taxed at the same rate
- B Losses of subsidiaries must be set off against the profits of the parent company in the group
- C Members of the group may surrender their losses to any other member of the group
- D Companies in the same group are required by the tax authorities to surrender their losses to any other subsidiary in the group

47 Country B has a corporate income tax system that treats capital gains/losses separately from trading profits/losses. Capital gains/losses cannot be offset against trading profits/losses. All losses can be carried forward indefinitely, but cannot be carried back to previous years. Trading profits and capital gains are both taxed at 20%.

BD had no brought forward losses on 1 October 20X2. BD’s results for 20X3 to 20X5 were as follows:

	<i>Trading profit/(loss)</i>	<i>Capital gains/(loss)</i>
	\$000	\$000
Year to September 20X3	200	(100)
Year to September 20X4	(120)	0
Year to September 20X5	150	130

Place the following options into the highlighted boxes in the table below to correctly reflect BD’s corporate income tax and capital tax due for each of the years ended 30 September 20X3 to 20X5. The options can be used more than once and not all options have to be used.

\$ nil	\$6,000
\$14,000	\$30,000
\$16,000	\$70,000
\$40,000	\$80,000

Year	Corporate income tax due	Capital tax due
30 September 20X3		
30 September 20X4		
30 September 20X5		

48 Which TWO of the following statements are reasons why a group of entities might want to claim group loss relief rather than use the loss in the entity to which it relates?

- A Relief can be claimed as earlier because the surrendering entity does not expect to make a profit in the foreseeable future
- B Tax can be saved because the entity the loss is surrendered to pays a lower rate of tax than the surrendering entity
- C The surrendering entity will receive a tax refund for their loss if it is surrendered to another group entity
- D Tax can be saved because the entity the loss is surrendered to pays a higher rate of tax than the surrendering entity
- E The entity receiving the loss will receive a tax refund for the loss

- 49 BCF purchased an asset for \$600,000 on 1 September 20X4. BCF incurred additional purchase costs of \$5,000.

Indexation of the cost of BCF's asset is allowed in Country X. The relevant index increased by 60% in the period from 1 September 20X4 to 31 August 20Y1.

BCF sold the asset on 1 September 20Y1 for \$1,200,000. BCF incurred selling costs of \$9,000.

Assume all purchase and selling costs are tax allowable.

Tax is charged at 25%.

How much tax was due from BCF on disposal of its asset?

- A \$55,750
B \$56,500
C \$64,250
D \$146,500
- 50 EG purchased a property for \$630,000 on 1 September 20X0. EG incurred additional costs for the purchase of \$3,500 surveyors' fees and \$6,500 legal fees. EG then spent \$100,000 renovating the property prior to letting it. All of EG's expenditure was classified as capital expenditure according to the local tax regulations.

Indexation of the purchase and renovation costs is allowed on EG's property. The index increased by 50% between September 20X0 and October 20X7. Assume that acquisition and renovation costs were incurred in September 20X0. EG sold the property on 1 October 20X7 for \$1,250,000, incurring tax allowable costs on disposal of \$2,000.

Calculate EG's tax due on disposal assuming a tax rate of 30%.

\$ _____. (Your answer should be rounded down to the nearest \$.)

- 51 CG purchased an asset on 1 April 20X6 for \$650,000, exclusive of import duties of \$25,000. CG is resident in Country X where the indexation factor increased by 50% in the period from 1 April 20X6 to 31 March 20Y3.

CG sold the asset on 31 March 20Y3 for \$1,200,000 incurring transaction charges of \$17,000.

Capital gains are taxed at 25%.

Calculate the capital gains tax due from CG on disposal of the asset.

\$ _____. (Your answer should be rounded down to the nearest \$.)

- 52 RS purchased an asset on 1 April 20X0 for \$375,000, incurring legal fees of \$12,000. RS is resident in Country X. There was no indexation allowed on the asset.

RS sold the asset on 31 March 20X3 for \$450,000 incurring transaction charges of \$15,000.

Tax is charged at 25%.

Calculate the capital gains tax due from RS on disposal of the asset.

\$ _____. (Your answer should be rounded down to the nearest \$.)

53 The OECD Model tax convention defines a permanent establishment.

Which of the following is NOT specifically listed as a permanent establishment by the OECD Model tax convention?

- A An office
- B A factory
- C An oil well
- D A site of an 11 month construction project

54 Where a resident entity runs an overseas operation as a branch of the entity, certain tax implications arise.

Which of the following does NOT usually apply in relation to an overseas branch?

- A Assets can be transferred to the branch without triggering a capital gain
- B Corporate income tax is paid on profits remitted by the branch
- C Tax depreciation can be claimed on any qualifying assets used in the trade of the branch
- D Losses sustained by the branch are immediately deductible against the resident entity's income

55 **A withholding tax is:**

- A tax withheld from payment to the tax authorities
- B tax paid less an amount withheld from payment
- C tax deducted at source before payment of interest or dividends
- D tax paid on increases in value of investment holdings

56 **Place the following options into the highlighted boxes in the table below to correctly show the difference between cascade sales tax and value added tax (VAT). The options can be used more than once and not all options have to be used.**

No refunds are provided by local government on purchase tax
Refunds are provided on purchase tax provided the purchases are used for a taxable supply
Tax at one level of production
Tax at each level of production
Single stage
Multi-stage

Type of tax	Cascade tax	VAT
Characteristic		
Characteristic		
Characteristic		

- 57 JK, an entity operating in Country X, purchased land on 1 March 20X6 for \$850,000. JK incurred purchase costs of surveyor's fees \$5,000 and legal fees \$8,000. JK spent \$15,000 clearing the land and making it suitable for development. Local tax regulations classified all of JK's expenditure as capital expenditure.

JK sold the land for \$1,000,000 on 1 February 20X9, incurring tax allowable costs of \$6,000.

Tax is charged at a rate of 25%.

No indexation is allowable on the sale of land.

Calculate the capital tax payable by JK on the disposal of the land.

\$ _____. (Your answer should be rounded down to the nearest \$.)

- 58 **Complete the sentence below by placing one of the following options in the space.**

The Organisation of Economic Co-operation and Development's (OECD) model tax convention defines corporate residence.

Under the OECD model an entity will have residence in _____.

the country of incorporation
the country where the directors reside
the country of effective management
the country where most production arises

- 59 Corporate residence for tax purposes can be determined in a number of ways, depending on the country concerned.

Which of the following is NOT normally used to determine corporate residence for tax purposes?

- A The country from which control of the entity is exercised
- B The country of incorporation of the entity
- C The country where the management of the entity holds its meetings
- D The country where most of the entity's products are sold

- 60 The following details relate to EA:

- it was incorporated in Country A
- it carries out its main business activities in Country B
- its senior management operate from Country C and effective control is exercised from Country C.

Assume countries A, B and C have all signed double tax treaties with each other, based on the OECD model tax convention.

In which country will EA be deemed to be resident for tax purposes?

- A Country A
- B Country B
- C Country C
- D Both Countries B and C

- 61** EB has an investment of 25% of the equity shares in XY, an entity resident in a foreign country.

EB receives a dividend of \$90,000 from XY, the amount being after the deduction of tax amounting to \$10,000 deducted at source in the foreign country.

The \$10,000 can be explained as what type of tax?

- A Corporate tax
- B Underlying tax
- C Capital tax
- D Withholding tax

- 62 Double tax relief is used to:**

- A ensure that you do not pay tax twice on any of your income
- B mitigate taxing overseas income twice
- C avoid taxing dividends received from subsidiaries in the same country twice
- D provide relief where a company pays tax at double the normal rate

- 63** The following details are relevant:

- HC carries out its main business activities in Country A
- HC is incorporated in Country B
- HC's senior management exercise control from Country C, but there are no sales or purchases made in Country C
- HC raises its finance and is quoted on the stock exchange in Country D

Assume Countries A, B, C and D have all signed double taxation treaties with each other, based on the OECD model tax convention.

Which country will HC be deemed to be resident in for tax purposes?

- A Country A
- B Country B
- C Country C
- D Country D

- 64** AB made a profit of \$320,000 for the year ended 31 December 20X2 and paid \$80,000 tax on its profits. AB pays a gross dividend of \$150,000 to its holding company, which operates in a foreign country. When AB pays the dividend it deducts a 10% tax.

This 10% tax is called:

- A underlying tax
- B corporate income tax
- C foreign tax
- D withholding tax

65 Which TWO of the following are methods of giving double taxation relief?

- A Tax credit relief
- B Deduction relief
- C Tax loss relief
- D Withholding relief
- E Underlying relief

66 Which of the following gives the meaning of rollover relief?

- A Trading losses can be carried forward to future years
- B Inventory can be valued using current values instead of original cost
- C Capital losses made in a period can be carried forward to future years
- D Payment of tax on a capital gain can be delayed if the full proceeds from the sale of an asset are reinvested in a replacement asset

67 Place the following options into the highlighted boxes in the table below to correctly the difference between exempt and zero rated supplies. The options cannot be used more than once.

- Entity must register for VAT purposes
- Entity does not register for VAT purposes
- VAT can be claimed back on purchases
- VAT cannot be claimed back on purchases

Type of supply	Zero rated	Exempt
Characteristic		
Characteristic		

68 Complete the sentence below by placing one of the following options in the space.

A capital gain is _____.

- the trading profit of an entity transferred to equity
- the profit made on the disposal of a chargeable asset
- the taxable profit of an entity

69 Complete the sentence below by placing one of the following options in the space.

Capital tax is _____.

- the tax charged on the trading profit of an entity before it is transferred to equity
- the tax charged on the profit made on the disposal of a chargeable asset
- the tax charged on the taxable profit of an entity

- 70** On 31 March 20X6, CH had a credit balance brought forward on its corporate income tax account of \$31,000, representing an over-provision of the tax charge for the year ended 31 March 20X5.

CH's taxable profit for the year ended 31 March 20X6 was \$946,000 and the applicable income tax rate for the year to 31 March 20X6 as 22%.

Calculate the income tax expense that CH will charge in its statement of profit or loss for the year ended 31 March 20X6, as required by IAS 12 *Income Taxes*.

\$ _____. (Your answer should be rounded down to the nearest \$.)

- 71** DZ recognised a tax liability of \$290,000 in its financial statements for the year ended 30 September 20X5. This was subsequently agreed with and paid to the tax authorities as \$280,000 on 1 March 20X6. The directors of DZ estimate that the tax due on the profits for the year to 30 September 20X6 will be \$320,000.

What is DZ's statement of profit or loss tax charge for the year ended 30 September 20X6?

- A \$310,000
- B \$320,000
- C \$330,000
- D \$600,000

- 72** Complete the sentence below by placing one of the following options in the space.

A tax base represents _____.

the tax written down value of an asset
what is being taxed
the taxable profit of an entity

- 73** The tax year runs from 1 May to 30 April. An individual's accounting year ends on 31 December. AB's taxable profits for the year to 31 December 20X4 were \$75,000.

The rate of tax chargeable on AB's profits is as follows:

Year to 30 April 20X4	20%
Year to 30 April 20X5	25%

On the basis of this information, calculate the tax payable for the year to 31 December 20X4.

\$ _____. (Your answer should be rounded down to the nearest \$.)

- 74** Which THREE of following are examples of the different tax bases regularly used by governments?

- A Income
- B Equity
- C Capital
- D Benefits
- E Consumption
- F Losses

- 75** EF has an accounting profit before tax of \$95,000. The tax rate on trading profits applicable to EF for the year is 25%. The accounting profit included non-taxable income from government grants of \$15,000 and non-tax allowable expenditure of \$10,000 on entertaining expenses.

Calculate the tax payable by EF for the year.

\$ _____. (Your answer should be rounded down to the nearest \$.)

- 76** Complete the sentence below by placing one of the following options in the space.

Benefits in kind represent _____.

all benefits given to an employee as part of their remuneration package

cash benefits given to an employee as part of their remuneration package
--

non-cash benefits given to an employee as part of their remuneration package
--

- 77** For the year ended 30 September 20X2 KQ's income statement included a profit before tax of \$147,000. KQ's expenses included political donations of \$9,000 and entertaining expenses of \$6,000.

KQ's statement of financial position at 30 September 20X2 included plant and machinery with a carrying value of \$168,500. This is comprised of plant purchased on 1 October 20X0 at a cost of \$180,000 and machinery purchased on 1 October 20X1 at a cost of \$50,000.

KQ depreciates all plant and machinery on the straight line basis at 15% per year.

All expenses other than depreciation, amortisation, entertaining, taxes paid to other public bodies and donations to political parties are tax deductible.

Tax depreciation is deductible as follows:

- 50% of additions to property, plant and equipment in the accounting period in which they are recorded
- 25% per year of the written-down value (i.e. cost minus previous allowances) in subsequent accounting periods except that in which the asset is disposed of.

The corporate tax on profits is at a rate of 25%.

Calculate the tax payable by KQ for the year to 30 September 20X2.

\$ _____. (Your answer should be rounded down to the nearest \$.)

- 78** Which THREE of the following statements are true regarding excise duties?

- A Suitable for inelastic products
- B They are a unit tax
- C Suitable for elastic products
- D Suitable when there are few producers
- E They are an ad valorem tax
- F Suitable when there are many producers

79 EE reported accounting profits of \$822,000 for the period ended 30 November 20X7. This was after deducting entertaining expenses of \$32,000 and a donation to a political party of \$50,000, both of which are disallowable for tax purposes.

EE’s reported profit also included \$103,000 government grant income that was exempt from taxation. EE paid dividends of \$240,000 in the period.

Assume the tax rate is 25%.

Calculate EE’s tax payable be on its profits for the year to 30 November 20X7.

\$ _____. (Your answer should be rounded down to the nearest \$.)

80 Place the following options into the highlighted boxes in the table below to correctly the difference between tax avoidance and tax evasion. The options cannot be used more than once.

An illegal way of reducing your tax bill
A legal way of reducing your tax bill
For example AB does not declare his income from his night security job
For example AB invests surplus income into tax-free securities to avoid paying tax on the interest

	Tax avoidance	Tax evasion
Characteristic		
Characteristic		

81 An underlying tax is:

- A the tax deducted at source from the foreign income before it is distributed
- B the tax on the profits out of which a dividend is paid
- C the amount of tax relief that can be claimed for double tax relief purposes
- D the tax paid in the country of residency on foreign income

82 Which TWO of the following are statutory powers that a tax authority may be granted to ensure compliance with tax regulations?

- (i) Power to arrest individuals
 - (ii) Power of entry and search of premises
 - (iii) Power to exchange information with other tax authorities
 - (v) Power to confiscate assets of the entity
- A (i) and (iii)
 - B (i) and (iv)
 - C (ii) and (iii)
 - D (ii) and (iv)

- 83 Which of the following is the correct meaning of rollover relief?**
- A A trading loss can be carried forward and used to reduce tax in a future profitable year
 - B A capital loss incurred on the disposal of an asset can be carried forward to a future tax year
 - C An entity ceasing to trade, carrying back a trading loss to set off against previous years' profits
 - D A gain arising from the sale of an asset is deferred provided the entity reinvests the proceeds of the sale in a replacement asset
- 84 SB operates in Country X and is considering starting business activities in a foreign country. An entity may conduct a foreign operation through a branch or a subsidiary. Which of the following is an advantage of SB operating its foreign operation as a subsidiary?**
- A A loss made by the foreign operation will be available to the SB group
 - B SB will only pay tax on dividends received from its foreign operation
 - C All profits/losses overseas will be subject to tax in Country X
 - D SB can claim tax depreciation on its foreign operation's assets
- 85 The government of Country X has estimated the following for the year ended 31 December 20X4:**
- Total income tax due \$166 billion
 - Total income tax expected to be collected \$135 billion
 - Income tax that will not be collected due to tax evasion \$10 billion
 - Income tax that will not be collected due to tax avoidance \$15 billion
- The tax gap for the year to 31 December 20X4 is expected to be:**
- A \$6 billion
 - B \$16 billion
 - C \$21 billion
 - D \$31 billion
- 86 AB, incorporated in Country X, purchased a non-depreciable asset for \$55,000 on 1 January 20X2. AB incurred additional purchase costs of \$5,000.**
- The asset was eventually sold for \$210,000 on 31 December 20X5.
- The indexation factor from 1 January 20X2 to 31 December 20X5 was 15%.
- Tax is charged at 25% on gains.
- Calculate the capital tax payable by AB on the disposal of the asset.**
- \$ _____ . (Your answer should be rounded down to the nearest \$.)

87 Which of the following is regarded as a direct tax?

- A Value added tax
- B Capital gains tax
- C Excise duties
- D Property tax

88 UI has the following details:

- (i) Incorporated in Country A.
- (ii) Senior management hold regular board meetings in Country B and exercise control from there, but there are no sales or purchases made in Country B.
- (iii) Carries out its main business activities in Country C.

Assume all three countries have double taxation treaties with each other, based on the OECD model tax convention.

In which country/countries will UI be deemed to be resident for tax purposes?

- A Country A
- B Country B
- C Country C
- D Countries B and C

89 UV purchased an asset for \$50,000 on 1 October 20X6, incurring import duties of \$8,000. UV depreciated the asset at 10% per year on a straight line basis.

UV sold the asset for \$80,000 on 30 September 20X9, incurring costs of \$2,000. The asset was subject to capital gains tax of 25% and the indexation factor from 1 October 20X6 to 30 September 20X9 was 14%.

Calculate the capital tax payable by UV on the disposal of the asset.

\$ _____. (Your answer should be rounded down to the nearest \$.)

90 YZ, incorporated in Country X, purchased a non-depreciable asset for \$45,000 on 1 January 20X1. YZ incurred additional purchase costs of \$5,000.

The asset was eventually sold for \$110,000 on 31 December 20X3.

The indexation factor from 1 January 20X1 to 31 December 20X3 was 35%.

Tax is charged on gains at 25%.

Calculate the capital tax payable by YZ on the disposal of the asset.

- A \$10,625
- B \$16,250
- C \$42,500
- D \$60,000

91 Complete the sentence below by placing one of the following options in the space.

An indexation allowance _____.

increases a chargeable gain
reduces a chargeable gain
increases a taxable profit
reduces a taxable profit

92 In Country Y, A earns \$75,000 profit for the year and receives a tax bill for \$15,000.
B earns \$40,000 profit for the year and receives a tax bill for \$8,000.

Country Y's income tax could be said to be a:

- A Regressive tax
- B Proportionate tax
- C Progressive tax
- D Fixed rate tax

93 Place TWO of the following options into the highlighted boxes in the table below to correctly explain the characteristics of transfer pricing.

This results in transactions not taking place at 'arm's length' and profits being effected by the group members
This does not have an effect on individual entity profits for tax purposes
This arises in group situations when either goods are sold inter-company or loans take place at a favourable price
This effect the calculation of the group profit for tax purposes

	Transfer pricing
Characteristic	
Characteristic	

THE REGULATORY ENVIRONMENT OF FINANCIAL REPORTING

94 The IASB's *The Conceptual Framework for Financial Reporting* defines elements of financial statements.

Complete the sentence below by placing one of the following options in the space.

An asset is a _____.

resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity
present economic resource controlled by the entity as a result of past events.

- 95 According to the IASB's *The Conceptual Framework for Financial Reporting*, what is the objective of financial statements?

Complete the sentence below by placing one of the following options in the space.

The objective of financial reporting is _____.

to prepare ledger accounts for every transaction to enable financial statements to be prepared
to provide information about the reporting entity that is useful to users in making decisions relating to providing resources to the entity.
to record transactions in order to produce a trial balance and financial statements
to present the results so that management can make economic decisions and decide how to allocate resources

- 96 **Which of the following is an enhancing qualitative characteristic according to the IASB's Framework?**

- A Relevance
- B Verifiability
- C Prudence
- D Accruals

- 97 **What is the main function of the IFRS Interpretations Committee?**

- A Issuing International Financial Reporting Standards
- B Withdrawing International Financial Reporting Standards
- C Overseeing the development of International Financial Reporting Standards
- D Interpreting the application of International Financial Reporting Standards

- 98 **In the organisation structure for the regulation and supervision of International Accounting Standards, which of the bodies listed below acts as the overall supervisory body?**

- A IFRS Foundation
- B International Accounting Standards Board
- C IFRS Advisory Council
- D IFRS Interpretations Committee

- 99 **Which TWO of the following is NOT a topic included in the International Accounting Standards Board's (IASB) *The Conceptual Framework for Financial Reporting*?**

- A The objective of financial statements
- B Concepts of capital maintenance
- C Regulatory bodies governing financial statements
- D Measurement of the elements of financial statements
- E The standard setting process

- 100** The IASB's *The Conceptual Framework for Financial Reporting* defines five elements of financial statements.

Complete the sentence below by placing one of the following options into each of the two spaces.

The elements are assets, liabilities, income, _____ and _____.

expenses	equity
capital	expenditure
losses	profit

- 101** Which THREE of the following are functions of the IFRS Committee Foundation?

- A Issuing International Accounting Standards
- B Approving the annual budget of the IASB and its committees
- C Enforcing International Accounting Standards
- D Reviewing the strategy of the IASB
- E Publishing an annual report on the activities of the IASB
- F Interpreting International Accounting Standards

- 102** Complete the sentence below by placing one of the following options into each of the two spaces.

The IASB's *Framework* identifies two methods of capital maintenance which are the _____ concept and the _____ concept.

physical	accruals
going concern	financial
prudence	consistency

- 103** Complete the sentence below by placing one of the following options into the space.

The IASB's *Framework* identifies the underlying assumption as the _____ concept.

matching	accruals
going concern	faithful representation
prudence	consistency

- 104** Which of the following gives the best description of the objectives of financial statements as set out by the IASB's *The Conceptual Framework for Financial Reporting*?

- A To explain to providers of financial capital how an entity creates value over time.
- B To enable an entity to be scrutinised by shareholders and regulators through auditing
- C To present the assets, liabilities, income, expenses and equity of an entity for utilisation by the users of the financial statements
- D To provide information about the reporting entity that is useful to users in making decisions relating to providing resources to the entity.

105 The IASB's *Conceptual Framework for Financial Reporting* defines a liability as:

- A an amount owed to another entity
- B a present obligation arising as a result of past events, the settlement of which is expected to result in an outflow of economic benefits
- C expenditure that has been incurred but not yet charged to the statement of profit or loss
- D a present obligation of the entity to transfer an economic resource as a result of past events

106 Under the IASB's *The Conceptual Framework for Financial Reporting* the threshold quality of useful financial information is:

- A relevance
- B reliability
- C materiality
- D understandability

107 The IASB's *The Conceptual Framework for Financial Reporting* provides definitions of the elements of financial statements. One of the elements defined by the Framework is expenses.

Complete the sentence below by placing one of the following options in the space.

Expenses are decreases in assets or increases in liabilities that result in _____ in equity, other than those relating to distributions to equity participants.

increases
decreases

108 Which of the following is NOT a function of the IASB?

- A Enforcing international financial reporting standards
- B Issuing international financial reporting standards
- C Approving International Financial Reporting Interpretations Committee's interpretations of international financial reporting standards
- D Issuing exposure drafts for public comment

109 Which TWO of the following does the IASB's *Conceptual Framework* NOT cover?

- A The format of financial statements
- B The objective of financial statements
- C Concepts of capital maintenance
- D The elements of financial statements
- E The users of the financial statements

110 According to the IASB's *The Conceptual Framework for Financial Reporting*, equity is described as:

- A the amount paid into the enterprise by the owner
- B accumulated profits less amounts withdrawn
- C the residual interest in the assets of the entity after deducting all its liabilities
- D owner's capital investment in the enterprise

111 The IASB's *The Conceptual Framework for Financial Reporting* lists two fundamental qualitative characteristics of financial statements, one of which is faithful representation.

Which of the following is NOT a characteristic of faithful representation?

- A Completeness
- B Neutrality
- C Free from error
- D Accruals

112 E, a trainee management accountant, prepares an annual analysis of the performance of all staff, including her own. The analysis is used by the financial director to calculate staff bonuses each year.

According to the CIMA code of ethics for professional accountants which of the threats listed below would apply to E?

- A Advocacy threat
- B Intimidation threat
- C Familiarity threat
- D Self-interest threat

113 Accounting and information disclosure practices are influenced by a variety of factors around the world.

Place THREE of the following options into the highlighted boxes in the table below to correctly identify these factors.

Social
Environmental
Economic
Political
Auditors

Factors influencing accounting and disclosure

114 Which of the following is a function of the IFRS Foundation?

- A Complete responsibility for the preparation and publication of International Financial Reporting Standards (IFRSs)
- B Approving annually the budget and determining the funding of the International Accounting Standards Board (IASB)
- C To inform the IASB of the views of organisations and individuals on major standard setting projects
- D To review new financial reporting issues not yet covered by an IFRS

115 R, a trainee management accountant is employed by JH. R has prepared the draft annual financial statements for JH and presented them to JH’s Chief Executive prior to the executive board meeting. The Chief Executive has told R that the profit reported in the financial statements is too low and must be increased by \$500,000 before the financial statements can be approved by the executive board.

Which of the threats listed below would apply to R in this situation, according to the CIMA code of ethics for professional accountants?

- A Advocacy threat
- B Self-review threat
- C Intimidation threat
- D Self-interest threat

116 Place THREE of the following options into the highlighted boxes in the table below to correctly explain the functions of the IFRS Advisory Council.

Approving annually the budget and determining the funding of the IASB
To give advice to the IASB on agenda decisions
Review, on a timely basis, new financial reporting issues not specifically addressed in IFRSs
To give advice to the IASB on the priorities in its work
To give any other advice to the IASB or the Trustees
Reviewing annually the strategy of the IASB and its effectiveness

Functions of the IFRS Advisory Council

117 Complete the sentence below by placing one of the following options into each of the two spaces.

The IASB’s *The Conceptual Framework for Financial Reporting* splits qualitative characteristics of useful information into two categories, fundamental and enhancing.

The TWO fundamental qualitative characteristics are _____ and _____.

comparability	faithful representation
relevance	neutral
materiality	understandability

- 118** The IASB's *Conceptual Framework* sets out measurement bases to use to quantify the value of assets and liabilities. Which of the following is not an acceptable measurement basis outlined by the framework?
- A Historical cost
 - B Value-in-use
 - C Fair value
 - D indexed unit value
- 119** Which of the following bodies is responsible for the approval of interpretations of international financial reporting standards before they are issued?
- A IASB
 - B IFRS Advisory Council
 - C IFRS Foundation
 - D IFRS Interpretations Committee
- 120** The IASB's *The Conceptual Framework for Financial Reporting* identifies qualitative characteristics of financial statements.
- Characteristics*
- (i) Relevance
 - (ii) Reliability
 - (iii) Faithful representation
 - (iv) Comparability
- Which of the above characteristics are NOT fundamental qualitative characteristics according to the IASB's Framework?**
- A (i) and (ii)
 - B (i) and (iii)
 - C (iii) and (iv)
 - D (ii) and (iv)

121 C is a small developing country which passed legislation to create a recognised professional accounting body two years ago. At the same time as the accounting body was created, new regulations governing financial reporting requirements of entities were passed. However, there are currently no accounting standards in C.

C’s government has asked the new professional accounting body to prepare a report setting out the country’s options for developing and implementing a set of high quality local accounting standards. The government request also referred to the work of the IASB and its International Financial Reporting Standards.

Place the following options into the highlighted boxes in the table below to correctly explain ONE advantage and ONE disadvantage of each of the following options. The options cannot be used more than once.

Any standards developed will be specific to C’s requirements
Quick to implement
It will not be quick to implement
Standards may not take into account any specific local traditions or variations
Standards should be more relevant to local needs and compliant with International Standards
It will take longer to implement and requires an adequate level of expertise to exist within the country

	Adopting International Financial Reporting Standards (IFRS) as its local standards	Modelling local accounting standards on the IASB’s IFRSs, but amending them to reflect local needs and conditions	Develop its own accounting standards with little or no reference to IFRSs
Advantage			
Disadvantage			

122 Place TWO of the following options into the highlighted boxes in the table below to correctly explain the purpose of The Conceptual Framework for Financial Reporting.

Assist the IASB on agenda decisions and priorities in its work
Assist all parties to understand and interpret the Standards.
Assist the IASB in the development of future IFRSs and in its review of existing IFRSs
Assist directors when preparing budgets and allocating resources

The purpose of the Framework

123 Generally accepted accounting practice (GAAP) in a country can be based on legislation and accounting standards that are either:

- Very prescriptive in nature; or
- Principle-based.

Place the following options into the highlighted boxes in the table below to correctly explain principle-based accounting standards and prescriptive standards.

The standard would require a certain treatment to be used, regardless of the situation
The standard would be applied using professional judgement
Flexible
Less flexible
Standards should ensure the spirit of the regulations are adhered to
Standards more likely to lead to the letter of the law being followed rather than the spirit

Principle-based accounting standards	Prescriptive accounting standards

124 The IASB’s *The Conceptual Framework for Financial Reporting* provides definitions of the elements of financial statements. One of the elements defined by the Framework is income.

Complete the sentence below by placing one of the following options into the spaces provided. Options can be used more than once.

Income is _____ in assets or _____ in liabilities that result in increases in equity, other than those relating to contributions from equity participants.

increases
decreases

125 Criteria must be met for assets and liabilities to be recognised in an entity’s financial statements.

Complete the sentence below by placing one of the following options into each of the spaces.

element	qualitative characteristic
relevant	reasonable
fair value	faithful representation

In order to recognise items in the statement of financial position or statement of profit or loss, The Framework states the following criteria should be satisfied:

- it meets the definition of an _____ of the financial statements
- provides _____ information regarding the particular element
- provides a _____ of the particular element

126 CX, a professional accountant is facing a dilemma. She is working on the preparation of a long term profit forecast required by the local stock market listing regulations prior to a new share issue of equity shares.

At a previous management board meeting, her projections had been criticised by board members as being too pessimistic. She was asked to review her assumptions and increase the profit projections.

She revised her assumptions, but this had only marginally increased the forecast profits.

At yesterday’s board meeting the board members had discussed her assumptions and specified new values to be used to prepare a revised forecast. In her view the new values grossly overestimate the forecast profits.

The management board intends to publish the revised forecasts.

Which TWO of following ethical threats does CX face?

- A Self interest
- B Advocacy
- C Familiarity
- D Intimidation
- E Self review

127 Place the following options into the highlighted boxes in the table below to correctly show the order a professional accountant should deal with an ethical dilemma.

Report internally to immediate management
Report externally
Remove herself from the situation
Gather evidence and document the problem
Report internally to higher management

	Dealing with an ethical dilemma
1	
2	
3	
4	
5	

- 128** RS, an employee, prepares monthly management accounting information for XYZ which includes detailed performance data that is used to calculate staff bonuses. Based on information prepared by RS this year's bonuses will be lower than expected.

RS has had approaches from another staff member, who RS has never met before, offering various incentives to make accruals for additional revenue and other reversible adjustments, to enable all staff (including RS) to receive increased or higher bonuses.

Which of the following ethical threats best describes the threat to RS?

- A Advocacy threat
- B Self-review threat
- C Familiarity threat
- D Self-interest threat

- 129** There are the four main entities that are involved in developing and implementing International Accounting Standards.

Place the following options into the highlighted boxes in the table below to correctly show one role of each of the four entities.

Provides timely guidance on the application and interpretation of IFRSs
Provides strategic advice to the IASB and informs the IASB of public views on major standard setting projects
Governance and fund raising
Responsibility for all technical matters including the preparation and publication of international financial reporting standards

IFRS Foundation	International Accounting Standards Board (IASB)	IFRS Advisory Council	IFRS Interpretations Committee

- 130** XQ, an employee of ABC, prepares monthly management accounting information for ABC. This information includes detailed performance data that is used to evaluate managers' performance. The directors are considering the closure of some facilities and XQ's management information will be included in the review.

XQ has had approaches from a number of concerned managers offering various incentives to make adjustments to the management accounting information to improve their performance statistics.

Which THREE of following ethical principles does XQ face?

- A Integrity
- B Confidentiality
- C Professional care and due competence
- D Objectivity
- E Neutrality

131 Ace is a management accountant working as part of a small team that has been set up by ZY, his employer, to evaluate tenders submitted for contracts being awarded by ZY.

He has just discovered that one of the other team members accepted large payments in exchange for information, from an entity at the time it was considering tendering. Ace suspects that this may have influenced the winning tender submitted by the entity.

Ace should document the situation and then report it internally to his line manager. If this is unsuccessful what should he do next?

- A Report it to CIMA
- B Report it externally to shareholders
- C Report it internally to higher management
- D Report it externally to a legal advisor

132 Under the current structure of regulatory bodies, which organisation is responsible for reviewing international reporting standards and issuing revised international reporting standards?

- A IFRS Advisory Council
- B IFRS Interpretations Committee
- C International Accounting Standards Board
- D IFRS Foundation

133 Which ONE of the following is NOT a fundamental principle of the CIMA Code of Ethics?

- A Objectivity
- B Integrity
- C Confidentiality
- D Responsibility

134 Which of the following are responsibilities of the IFRS Advisory Council?

- (i) Give advice to the IASB on agenda decisions and priorities in its work
 - (ii) Annually review the strategy of the IASB
 - (iii) Inform the IASB of the views of the members of the Council on proposed new standards
 - (iv) Appoint the members of the IASB
- A (i) and (ii)
 - B (ii) and (iv)
 - C (i) and (iii)
 - D (iii) and (iv)

- 135** The IASB's *Conceptual Framework for Financial Reporting* identifies the fundamental and enhancing qualitative characteristics of financial statements.

Place the following options into the highlighted boxes in the table below to correctly show which are the fundamental and enhancing characteristics.

Relevance	Understandability
Comparability	Verifiability
Timeliness	Faithful representation

Fundamental	Enhancing

- 136** Which of the following is NOT listed as an element of financial statements by the IASB *Conceptual Framework for Financial Reporting*?

- A Asset
- B Equity
- C Profit
- D Expenses

- 137** The IASB's *Conceptual Framework for Financial Reporting* identifies faithful representation as a fundamental qualitative characteristic of financial information.

Which of the following is NOT a characteristic of faithful representation?

- A Free from error
- B Verifiable
- C Neutral
- D Complete

- 138** Complete the sentence below by placing one of the following options into the space.

The purpose of corporate governance is to protect the _____.

directors
employees
shareholders

- 139** Complete the sentence below by placing one of the following options into each of the spaces.

Corporate governance is the means by which a company is _____ and _____.

organised	taxed
operated	accounted for
created	controlled

140 The aim of corporate governance initiatives is to ensure that entities are run well in the interests of their shareholders and the wider community.

Which of the following does it NOT include?

- A The necessity for good internal control
- B The necessity for an audit committee
- C Relationships with the external auditors
- D Relationships with the internal auditors

141 There are different approaches to corporate governance, rules-based and principle-approach.

Place the following options into the highlighted boxes in the table below to correctly show the characteristics of each approach.

Comply with the code or explain why	Applied in the UK
Applied in the US	Penalties for transgression
Instils the code into law	Adhere to the spirit rather than the letter of the code

Rules-based	Principle-based

FINANCIAL STATEMENTS

142 In the statement of cash flow of BKS for the year to 31 December 20X5 the net cash flow from operating activities is to be arrived at by the indirect method.

The following information is relevant:

	\$000
Profit before tax	12,044
Depreciation	1,796
Loss on sale of tangible non-current assets	12
Increase in inventories	398
Increase in receivables	144
Increase in payables	468

Calculate the cash generated from operations for the year ended 31 December 20X5.

\$ _____. (Your answer should be rounded down to the nearest \$000.)

- 143** At 30 September 20X5, BY had the following balances, with comparatives:

Statement of financial position extracts

As at 30 September	20X5	20X4
	\$000	\$000
Non-current tangible assets		
Property, plant and equipment	260	180
Equity and reserves		
Property, plant and equipment revaluation reserve	30	10
The statement of profit or loss for the year ended 30 September 20X5 included:		
Gain on disposal of an item of equipment	\$10,000	
Depreciation charge for the year	\$40,000	

Notes to the accounts:

Equipment disposed of had cost \$90,000. The proceeds received on disposal were \$15,000.

Calculate the property, plant and equipment purchases that BY would show in its statement of cash flow for the year ended 30 September 20X5, as required by IAS 7 *Statement of Cash Flows*.

\$ _____. (Your answer should be rounded down to the nearest \$.)

- 144** At 1 October 20X4, BK had the following balance:

Accrued interest payable \$12,000 credit

During the year ended 30 September 20X5, BK charged interest payable of \$41,000 to its statement of profit or loss. The closing balance on accrued interest payable account at 30 September 20X5 was \$15,000 credit.

How much interest paid should BK show on its cash flow statement for the year ended 30 September 20X5?

- A \$38,000
- B \$41,000
- C \$44,000
- D \$53,000

- 145** There follows extracts from the financial statements of BET for the year to 31 March 20X5 (all figures are in \$000).

Extract from the statement of profit or loss

	\$000	\$000
Profit from operations		1,600
Finance cost		
Interest expense	460	
Interest income	(10)	
	—	(450)
		—
		1,150
		—

Extracts from the statement of financial position as at 31 March

	20X5	20X4
Current liabilities – interest accrual	560	460

The amount of interest paid that should be included in BET’s statement of cash flows for the year ended 31 December 20X9 is:

- A \$350,000
- B \$360,000
- C \$370,000
- D \$560,000

146 The following balances were extracted from N’s financial statements:

Extracts from the statement of financial position as at 31 December

	20X9	20X8
	\$000	\$000
Current liabilities		
Interest payable	157	133

Extract from statement of profit or loss and other comprehensive income for the year ended 31 December 20X9

	\$000
Finance costs	122

The amount of interest paid that should be included in N’s statement of cash flows for the year ended 31 December 20X9 is:

- A \$98,000
- B \$109,000
- C \$122,000
- D \$241,000

147 Which TWO of the following would be shown in a statement of cash flow using the direct method but not in a statement of cash flow using the indirect method of calculating cash generated from operations?

- A Cash payments to employees
- B Increase/(decrease) in receivables
- C Depreciation
- D Finance costs
- E Cash receipts from customers

148 IAS 7 *Statement of Cash Flows* sets out the three main headings to be used in a statement of cash flows.

Which THREE of the following items would be included under the heading Cash flows from operating activities according to IAS 7?

- A Tax paid
- B Purchase of investments
- C Loss on disposal of machinery
- D Purchase of equipment
- E Impairment of an asset
- F Proceeds from the sale of intangibles

149 CI purchased equipment on 1 April 20X2 for \$100,000. The equipment was depreciated using the reducing balance method at 25% per year. CI's reporting date is 31 March.

Depreciation was charged up to and including 31 March 20X6. At that date, the recoverable amount was \$28,000.

Calculate the impairment loss on the equipment according to IAS 36 *Impairment of Assets* for the year to 31 March 20X6.

\$ _____. (Your answer should be rounded to the nearest \$.)

150 DOC purchased property for \$320,000 exactly 10 years ago. The land included in the price was valued at \$120,000. The property was estimated to have a useful economic life of 20 years.

DOC has now had the property revalued (for the first time) by a professional valuer. The total value had increased to \$800,000, the land now being valued at \$200,000. The useful economic life remained unchanged.

Calculate the amount that should be credited to DOC's revaluation reserve.

\$ _____. (Your answer should be rounded down to the nearest \$.)

151 Which of the following gives the best definition of Property, Plant and Equipment, based on the provisions of IAS 16?

- A Any assets held by an enterprise for more than one accounting period for use in the production or supply of goods or services, for rental to others, or for administrative purposes
- B Tangible assets held by an enterprise for more than 12 months for use in the production or supply of goods or services, for rental to others, or for administrative purposes
- C Tangible assets held by an enterprise for more than one accounting period for use in the production or supply of goods or services, for rental to others, or for administrative purposes
- D Any assets held by an enterprise for more than 12 months for use in the production or supply of goods or services, for rental to others, or for administrative purposes

152 JT is registered with its local tax authority and can reclaim value added tax paid on items purchased.

During the year JT purchased a large machine from another country. The supplier invoiced JT as follows:

	\$
Cost of basic machine	100,000
Special modifications made to basic design	15,000
Supplier’s engineer’s time installing and initial testing of machine	2,000
Three years’ maintenance and servicing	21,000
	<hr/>
	138,000
Value added tax @ 20%	27,600
	<hr/>
Total	165,600
	<hr/>

Prior to delivery, JT spent \$12,000 preparing a heavy duty concrete base for the machine.

Calculate the amount that JT should debit to non-current assets for the cost of the machine.

\$ _____. (Your answer should be rounded down to the nearest \$.)

153 Which of the following statements is correct?

Statement 1: If the revaluation model is used for property, plant and equipment, revaluations must subsequently be made with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value at each reporting date.

Statement 2: When an item of property, plant and equipment is revalued, there is no requirement that the entire class of assets to which the item belongs must be revalued.

- A Statement 1 only is correct
- B Statement 2 only is correct
- C Both statements are correct
- D Neither statement is correct

- 154** F's year-end is 30 June. F purchased a non-current asset for \$50,000 on 1 July 20X2. Depreciation was provided at the rate of 20% per annum on the straight-line basis. There was no forecast residual value.
- On 1 July 20X4, the asset was revalued to \$60,000 and then depreciated on a straight-line basis over its remaining useful economic life which was unchanged. On 1 July 20X5, the asset was sold for \$35,000.
- In addition to the entries in the non-current asset account and provision for depreciation account, which TWO of the following statements correctly record the entries required on disposal of the non-current asset?**
- A Debit statement of profit or loss with a loss on disposal of \$5,000
 - B Credit statement of profit or loss with a gain on disposal of \$25,000
 - C Transfer \$60,000 from revaluation reserve to retained earnings as a movement on reserves
 - D Transfer \$30,000 from revaluation reserve to retained earnings as a movement on reserves
 - E Transfer \$30,000 from revaluation reserve to statement of profit or loss
- 155** Which of the following items would CM recognise as subsequent expenditure on a non-current asset and capitalise it as required by IAS 16 *Property, Plant and Equipment*?
- A CM purchased a furnace five years ago, when the furnace lining was separately identified in the accounting records. The furnace now requires relining at a cost of \$200,000. When the furnace is relined it will be able to be used in CM's business for a further five years
 - B CM's office building has been badly damaged by a fire. CM intends to restore the building to its original condition at a cost of \$250,000
 - C CM's delivery vehicle broke down. When it was inspected by the repairers it was discovered that it needed a new engine. The engine and associated labour costs are estimated to be \$5,000
 - D CM closes its factory for two weeks every year. During this time, all plant and equipment has its routine annual maintenance check and any necessary repairs are carried out. The cost of the current year's maintenance check and repairs was \$75,000
- 156** DS purchased a machine on 1 October 20X2 at a cost of \$21,000 with an expected useful economic life of six years, with no expected residual value. DS depreciates its machines using the straight line basis.
- The machine has been used and depreciated for three years to 30 September 20X5. New technology was invented in December 20X5, which enabled a cheaper, more efficient machine to be produced; this technology makes DS's type of machine obsolete. The obsolete machine will generate no further economic benefit or have any residual value once the new machines become available. However, because of production delays, the new machines will not be available on the market until 1 October 20X7.
- Calculate how much depreciation DS should charge to its statement of profit or loss for the year ended 30 September 20X6, as required by IAS 16 *Property, Plant and Equipment*.**
- \$ _____ . (Your answer should be rounded down to the nearest \$.)

- 157** An item of plant and equipment was purchased on 1 April 20X1 for \$100,000. At the date of acquisition its expected useful economic life was ten years. Depreciation was provided on a straight line basis, with no residual value.

On 1 April 20X3, the asset was revalued to \$95,000. On 1 April 20X4, the useful life of the asset was reviewed and the remaining useful economic life was reduced to five years, a total useful life of eight years.

Calculate the carrying amount at 31 March 20X5, as required by IAS 16 *Property, Plant and Equipment*.

\$ _____. (Your answer should be rounded down to the nearest \$.)

- 158** IAS 16 *Property, Plant and Equipment* requires an asset to be measured at cost on its original recognition in the financial statements.

EW used its own staff, assisted by contractors when required, to construct a new warehouse for its own use.

Which of the following costs would NOT be included in attributable costs of the non-current asset?

- A Clearance of the site prior to work commencing
- B Professional surveyors' fees for managing the construction work
- C EW's own staff wages for time spent working on the construction
- D An allocation of EW's administration costs, based on EW staff time spent on the construction as a percentage of the total staff time

- 159** GK purchased a piece of development land on 31 October 20X0 for \$500,000. GK revalued the land on 31 October 20X4 to \$700,000. The latest valuation report, dated 31 October 20X8, values the land at \$450,000.

GK has adjusted the land balance shown in non-current assets at 31 October 20X8.

Which of the following shows the correct debit entry in GK's financial statements for the year ended 31 October 20X8?

- A Dr Revaluation reserve 50,000
Dr Statement of profit or loss \$200,000
- B Dr Revaluation reserve \$250,000
- C Dr Revaluation reserve \$200,000
Dr Statement of profit or loss \$50,000
- D Dr Statement of profit or loss \$250,000

- 160** On 1 July 20X4, Experimenter opened a chemical reprocessing plant at a cost of \$10 million. The plant was due to be active for five years until 30 June 20X9, when it would be decommissioned. At 1 July 20X4, the costs of decommissioning the plant were estimated to be \$4 million. The company considers that a discount rate of 12% is appropriate for the calculation of a present value, and the discount factor at 12% for Year 5 is 0.567.

What is the carrying amount of the plant as at the year ended 30 June 20X5? Answers are quoted in \$000s

- A \$8,000
 B \$9,814
 C \$12,268
 D \$14,000
- 161** An entity purchased an item of property for \$6 million on 1 July 20X3. The value of the land was \$1 million and the buildings \$5 million. The expected life of the building was 50 years and its residual value nil. On 30 June 20X5 the property was revalued to \$7 million (land \$1.24 million, buildings \$5.76 million). On 30 June 20X7, the property was sold for \$6.8 million.

Which TWO of the following are true regarding the treatment of the disposal of the property for the year to 30 June 20X7?

- A Gain on disposal of \$40,000
 B Gain on disposal of \$200,000
 C Gain on disposal of \$84,800
 D Release the revaluation reserve of \$1,240,000
 E Release the revaluation reserve of \$1,200,000
- 162** On 1 January Year 1, an entity purchased an item of equipment costing \$76,000. The asset is depreciated using the reducing balance method, at a rate of 20% each year. After three years, an impairment review establishes that the asset has a value in use of \$30,000 and a disposal value (less selling costs) of \$27,000.

Calculate the amount of the impairment loss that should be written off in the statement of profit or loss for the year to 31 December Year 3.

\$ _____.(Your answer should be rounded down to the nearest \$.)

- 163** The information below refers to three non-current assets of IDLE as at 31 March 20X5:

	A	B	C
	\$000	\$000	\$000
Carrying amount	200	300	240
Net selling price	220	250	200
Value in use	240	260	180

What is the total impairment loss?

- A \$40,000
 B \$80,000
 C \$90,000
 D \$110,000

164 The following measures relate to a non-current asset:

- (i) carrying amount \$20,000
- (ii) net realisable value \$18,000
- (iii) value in use \$22,000
- (iv) replacement cost \$50,000.

The recoverable amount of the asset is:

- A \$18,000
- B \$20,000
- C \$22,000
- D \$50,000

165 Diva has tangible non-current assets in its statement of financial position at 31 December 20X4 and 31 December 20X5 as follows:

The following information is also available:

- 1 During the year, machines were sold for net sales proceeds of \$20,000. The machines originally cost \$125,000 and accumulated depreciation on the assets at the date of disposal was \$111,000.
- 2 Assets under construction refer to a contract, started in November 20X4, to build and supply C with new machinery. The machinery was installed and testing was completed by 31 September 20X5. Production began early October 20X5. The balance on the assets under construction account was transferred to the plant and machinery account on 31 December 20X5. The amount transferred was \$350,000.

Place the following options into the highlighted boxes in the table on the next page to complete the disclosure note for property, plant and equipment for the year ended 31 December 20X5. The options can be used more than once and not all options have to be used.

(20)	0	772	(350)
(125)	(111)	1,459	125
145	403	1,550	111
350	9,876	863	20
1,240	890	297	2,115

Property, plant and equipment note 31 December 20X5

	Land	Buildings	Plant and machinery	Under construction	Total
Cost/valuation	\$000	\$000	\$000	\$000	\$000
Balance at 1 January 20X5	2,743	3,177	1,538	53	7,511
Revaluation of assets	375	–	–	0	375
Disposal of assets	–	–		–	
Transfers	–	–			0
Additions	402	526			
	—	—	—	—	—
Balance at 31 December 20X5	3,520	3,703	2,653		
Depreciation					
Balance at 1 January 20X5	–	612	671	–	1,283
Disposal of assets	–	–		–	
Depreciation for the year	–	75	212	–	287
	—	—	—	—	—
Balance at 31 December 20X5	0	687		0	
	—	—	—	—	—
Carrying amount 31 December 20X5	3,520	3,016	1,881	0	8,417
	—	—	—	—	—
Carrying amount 31 December 20X4	2,743	2,565	867	53	6,228
	—	—	—	—	—

- 166 Neville has only two items of inventory on hand at its reporting date.

Item 1 – Materials costing \$24,000 bought for processing and assembly for a customer under a ‘one off’ order which is expected to produce a high profit margin. Since buying this material, the cost price has fallen to \$20,000.

Item 2 – A machine constructed for another customer for a contracted price of \$36,000. This has recently been completed at a cost of \$33,600. It has now been discovered that, in order to meet certain health and safety regulations, modifications at an extra cost of \$8,400 will be required. The customer has agreed to meet half the extra cost.

Calculate the total value of these two items of inventory in the statement of financial position.

\$ _____.(Your answer should be rounded down to the nearest \$)

- 167 IAS 2 *Inventories* specifies expenses that should be included in year-end inventory values.

Which THREE of the following are allowable by IAS 2 as expenses that should be included in the cost of finished goods inventories?

- A Marketing and selling overhead
- B Variable production overhead
- C General management overhead
- D Accounting and finance overhead allocated to production
- E Cost of delivering raw materials to the factory
- F Abnormal increase in overhead charges caused by unusually low production levels due to the exceptionally hot weather

168 Which of the following would be treated as a non-adjusting event after the reporting date, as required by IAS 10 *Events after the Reporting Period*, in the financial statements of AN for the period ended 31 January 20X5? The financial statements were approved for publication on 15 May 20X5.

- A Notice was received on 31 March 20X5 that a major customer of AN had ceased trading and was unlikely to make any further payments
- B Inventory items at 31 January 20X5, original cost \$30,000, were sold in April 20X5 for \$20,000
- C During 20X4, a customer commenced legal action against AN. At 31 January 20X5, legal advisers were of the opinion that AN would lose the case, so AN recorded a liability of \$200,000 for the damages claimed by the customer. On 27 April 20X5, the court awarded damages of \$250,000 to the customer
- D There was a fire on 2 May 20X5 in AN's main warehouse which destroyed 50% of AN's total inventory

169 Using the requirements set out in IAS 10 *Events after the Reporting Period*, which of the following would be classified as an adjusting event after the reporting period in financial statements ended 31 March 20X4 that were approved by the directors on 31 August 20X4?

- A A reorganisation of the enterprise, proposed by a director on 31 January 20X4 and agreed by the Board on 10 July 20X4
- B A strike by the workforce which started on 1 May 20X4 and stopped all production for 10 weeks before being settled
- C A claim on an insurance policy for damage caused by a fire in a warehouse on 1 January 20X4. No record had been made for the receipt of insurance money at 31 March 20X4 as it was uncertain that any money would be paid. The insurance enterprise settled with a payment of \$1.5 million on 1 June 20X4
- D The enterprise had made large export sales to the USA during the year. The year-end receivables included \$2 million for amounts outstanding that were due to be paid in US dollars between 1 April 20X4 and 1 July 20X4. By the time these amounts were received, the exchange rate had moved in favour of the enterprise and the equivalent of \$2.5 million was actually received

170 GD's financial reporting period is 1 September 20X7 to 31 August 20X8.

Which TWO of the following would be classified as a non-adjusting event according to IAS 10 Events after the Reporting Period?

Assume all amounts are material and that GD's financial statements have not yet been approved for publication.

- A On 30 October 20X8, GD received a communication stating that one of its customers had ceased trading and gone into liquidation. The balance outstanding at 31 August 20X8 was unlikely to be paid
- B At 31 August 20X8, GD had not included any impact for an outstanding legal action against the local government for losses suffered as a result of incorrect enforcement of local business regulations. On 5 November 20X8, the court awarded GD \$50,000 damages
- C On 1 October 20X8, GD made a share issue at a price of \$1.75
- D At 31 August 20X8, GD had an outstanding insurance claim of \$150,000. On 10 October 20X8, the insurance company informed GD that it would pay \$140,000 as settlement
- E On 10 October 20X8 GD announced a plan to acquire DE in the next 12 months.

171 **Which of the following material items would be classified as a non-adjusting event in HL's financial statements for the year ended 31 December 20X8 according to IAS 10 Events after the Reporting Period?**

HL's financial statements were approved for publication on 8 April 20X9.

- A On 1 March 20X9, HL's auditors discovered that, due to an error during the count, the closing inventory had been undervalued by \$250,000
- B Lightning struck one of HL's production facilities on 31 January 20X9 and caused a serious fire. The fire destroyed half of the factory and its machinery. Output was severely reduced for six months
- C One of HL's customers commenced court action against HL on 1 December 20X8. At 31 December 20X8, HL did not know whether the case would go against it or not. On 1 March 20X9, the court found against HL and awarded damages of \$150,000 to the customer
- D On 15 March 20X9, HL was advised by the liquidator of one of its customers that it was very unlikely to receive any payments for the balance of \$300,000 that was outstanding at 31 December 20X8

172 DT’s final dividend for the year ended 31 October 20X5 of \$150,000 was declared on 1 February 20X6 and paid in cash on 1 April 20X6. The financial statements were approved on 31 March 20X6.

Which TWO of the following statements reflect the correct treatment of the dividend?

- A The payment clears an accrued liability set up in the statement of financial position as at 31 October 20X5
- B The dividend is shown as a deduction in the statement of profit or loss for the year ended 31 October 20X6
- C The dividend is shown as an accrued liability in the statement of financial position as at 31 October 20X6
- D The \$150,000 dividend was shown in the notes to the financial statements at 31 October 20X5
- E The dividend is shown as a deduction in the statement of changes in equity for the year ended 31 October 20X6

173 IAS 10 *Events after the Reporting Period* distinguishes between adjusting and non-adjusting events.

Place the following options into the highlighted boxes in the table below to correctly show which of the following items are adjusting events and which are non-adjusting events.

A dispute with workers caused all production to cease six weeks after the reporting date
A month after the reporting date XS’s directors decided to cease production of one of its three product lines and to close the production facility
One month after the reporting date a court determined a case against XS and awarded damages of \$50,000 to one of XS’s customers. XS had expected to lose the case and had set up a liability of \$30,000 at the reporting date
Three weeks after the reporting date a fire destroyed XS’s main warehouse facility and most of its inventory
One month after the year end XS’s main customer goes into liquidation owing XS a substantial amount of money
XS discovers a material error in the closing inventory value one month after the reporting date

Adjusting events	Non-adjusting events

- 174** BN has an asset that was classified as held for sale at 31 March 20X2. The asset had a carrying amount of \$900 and a fair value of \$800. The cost of disposal was estimated to be \$50.
- According to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which of the following values should be used for the asset in BN's statement of financial position as at 31 March 20X2?**
- A \$750
 - B \$800
 - C \$850
 - D \$900
- 175** IAS 1 *Presentation of Financial Statements* encourages an analysis of expenses to be presented on the face of the statement of profit or loss. The analysis of expenses must use a classification based on either the nature of expense, or its function, within the entity.
- Which TWO of the following would be disclosed on the face of the statement of profit or loss if a manufacturing entity uses analysis based on function?**
- A Raw materials and consumables used
 - B Distribution costs
 - C Employee benefit costs
 - D Cost of sales
 - E Depreciation and amortisation expense.
- 176** Which of the following must be presented on the face of the statement of profit or loss?
- (i) Finance charges
 - (ii) Profits, gains and losses relating to discontinued operations
- A (i) only
 - B (ii) only
 - C Both (i) and (ii)
 - D Neither
- 177** Which of the following is NOT required by IAS 1 as an item to include in the notes to the accounts?
- A A statement that the entity is a going concern
 - B A statement of compliance with International Financial Reporting Standards
 - C The dividends declared or proposed before the publication of the financial statements but not included in the statements as a distribution to shareholders in the period
 - D The key sources of estimation uncertainty in the financial statements

178 IAS 1 *Presentation of Financial Statements* requires some of the items to be disclosed on the face of the financial statements and others to be disclosed in the notes.

Which TWO of the following have to be shown on the face of the statement of profit or loss, rather than in the notes?

- A Depreciation
- B Revenue
- C Closing inventory
- D Finance cost
- E Dividends

179 An entity undertakes a revaluation of its freehold property during the current period. The revaluation results in a significant surplus over carrying amount.

In which of the components of the current period financial statements required by IAS 1 would the revaluation surplus appear?

- A Statement of financial position and statement of changes in equity
- B Statement of changes in equity and statement of cash flow
- C Statement of financial position and statement of profit or loss
- D Statement of financial position and statement of cash flow

180 WZ is an assistant accountant with ABC. On 31 March 20X1 ABC decided to sell a property. This property was correctly classified as held for sale in accordance with IFRS 5 *Non-current Assets Held For Sale and Discontinued Operations*.

In its draft financial statements, ABC has written down the property by \$3.4 million. The write down was charged to the statement of profit or loss for the year ended 31 August 20X1. The draft financial statements showed a loss of \$1.3 million for the year to 31 August 20X1.

Which TWO of the following statements correctly show how WZ should treat the asset?

- A The asset should be shown under PPE until the asset is sold
- B The asset should continue to be depreciated until it is sold
- C The asset should be shown separately under assets held for sale
- D Depreciation should cease at 31 March 20X1
- E Depreciation should cease at 31 August 20X1

- 181** An entity decided to sell a property. This property was correctly classified as held for sale in accordance with IFRS 5 *Non-current Assets Held For Sale and Discontinued Operations*. When the management board reviewed the draft financial statements, the board members were unhappy that the draft statements showed a loss on the asset and decided that the property should continue to be shown under non-current assets at its previous carrying amount.

Which TWO of the following ethical principles are faced if the entity's finance director follows the management board's advice?

- A Integrity
 B Confidentiality
 C Professional behaviour
 D Objectivity
 E Reliability
- 182** MN obtained a licence free of charge from the government to dig and operate a gold mine. On the 31 October 20X9 there was a massive earthquake in the area and MN's mine shaft was badly damaged. It is estimated that the mine will be closed for at least six months and will cost \$1 million to repair.
- How should MN treat the effects of the earthquake in its financial statements for the year ended 31 August 20X9 in accordance with IAS 10 *Events after the Reporting Period*?**
- A Treat as an adjusting event with a disclosure note
 B Treat as a non-adjusting event with a disclosure note
 C Treat as a non-adjusting event without a disclosure note
 D Treat as an adjusting event without a disclosure note
- 183** On 1 September 20X7, the Directors of EK decided to sell EK's retailing division and concentrate activities entirely on its manufacturing division.

The retailing division was available for immediate sale, but EK had not succeeded in disposing of the operation by 31 October 20X7. EK identified a potential buyer for the retailing division, but negotiations were at an early stage. The Directors of EK are certain that the sale will be completed by 31 August 20X8.

The retailing division's carrying value at 31 August 20X7 was:

	\$000
Non-current tangible assets – property, plant and equipment	300
Non-current tangible assets – goodwill	100
Net current assets	43
	———
Total carrying amount	443
	———

The retailing division has been valued at \$423,000, comprising:

	\$000
Non-current tangible assets – property, plant and equipment	320
Non-current tangible assets – goodwill	60
Net current assets	43
	423

EK’s directors have estimated that EK will incur consultancy and legal fees for the disposal of \$25,000.

Place FOUR of the following options into the highlighted boxes in the table below to correctly show the correct treatment of the discontinued operation according to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, for the year ended 31 October 20X7.

The assets have not met the criteria of an asset held for sale
The assets have met the criteria of an asset held for sale
EK should continue to show the assets in their normal categories in the statement of financial position
The assets should be shown separately as assets held for sale in the statement of financial position
The assets should be valued at \$443,000
The assets should be valued at \$423,000
The assets should be valued at \$398,000
Impairment of \$45,000 should be treated as an expense to the statement of profit or loss
Impairment of \$20,000 should be treated as an expense to the statement of profit or loss
There is no impairment at the year ended 31 October 20X7

Treatment of the discontinued operation

184 Extracts from CFQ’s Statement of financial position at 31 March 20X3, with comparatives appear below:

	31 March 20X3	31 March 20X2
	\$ million	\$ million
Property, plant and equipment	635	645

During the year to 31 March 20X3, CFQ sold property, plant and equipment for \$45m. It had originally cost \$322m and had a carrying amount of \$60m at the date of disposal.

CFQ’s statement of profit or loss for the year ended 31 March 20X3 included:

- depreciation of property, plant and equipment of \$120m

Calculate the purchases of property, plant and equipment to be shown in the investing activities section of the statement of cash flow for the year ended 31 March 20X3, in accordance with IAS 7 *Statement of Cash Flows*.

\$ _____ . (Your answer should be rounded down to the nearest \$ million)

- 185** DV purchased a building on 1 September 20W6. The building cost \$200,000 and had an economic life of 20 years. DV's accounting policies are to revalue buildings every five years and depreciate them over their economic lives on the straight line basis. DV does not make an annual transfer from revaluation reserve to retained profits for excess depreciation.

DV received the following external valuations in relation to the building:

31 August 20X1	\$180,000
31 August 20X6	\$100,000

Complete the sentence below by placing one of the following options into each of the spaces.

DV will _____ for the impact of the revaluation of the building on 31 August 20X6.

record an expense in the profit or loss
reduce the revaluation reserve
increase the revaluation reserve

- 186** VD purchased a building on 1 September 20W6. The building B cost \$120,000 and had a useful economic life of 15 years. VD's accounting policies are to revalue buildings every five years and depreciate them over their useful economic lives on the straight line basis. VD does not make an annual transfer from revaluation reserve to retained profits for excess depreciation.

VD received the following valuations from its professionally qualified external valuer:

31 August 20X1	Building B	\$75,000
31 August 20X6	Building B	\$30,000

Calculate the gain or impairment arising on the revaluation of Building B for the year ended 31 August 20X6.

\$ _____. (Your answer should be rounded down to the nearest \$)

- 187** Extracts from SF's statement of financial position at 31 March 20X3, with comparatives, are shown below:

	20X3	20X2
Equity	\$000	\$000
Ordinary shares	460	400
Share premium	82	70
Revaluation reserve	44	24
Retained earnings	273	246

Calculate the proceeds from the share issue to be shown in the financing activities section of the statement of cash flow for the year ended 31 March 20X3.

\$ _____. (Your answer should be rounded down to the nearest \$)

- 188** Extracts from FS’s statement of financial position at 31 December 20X3, with comparatives, are shown below:

	<i>20X3</i>	<i>20X2</i>
Non-current liabilities		
Long term borrowings	129	105

During the year ended 31 December 20X3, SF’s transactions included the following:

- (i) Repaid \$25,000 of its long term borrowings during the year.

What would be the impact of the loans within the financing activities section of the statement of cash flow for the year ended 31 December 20X3?

- A Net outflow of \$24,000
 B Net inflow of \$24,000
 C Outflow of \$25,000 and inflow of \$49,000
 D Outflow of \$49,000 and inflow of \$25,000
- 189** AH owns three hotels. It has employed a firm of surveyors to revalue some of its properties during the past year. The directors have decided that the valuations should be incorporated into the entity’s financial statements.

This is the first time that such a revaluation has taken place and the accountant responsible for the preparation of the non-current asset note in the statement of financial position is unsure of the correct treatment of the amounts involved. The entity’s year end is 30 September 20X4.

The accountant has extracted the following table from the report prepared by the surveyors:

	<i>Original cost</i>	<i>Depreciation to 30 September 20X3</i>	<i>Market value at 1 January 20X4</i>
	\$000	\$000	\$000
Hotel G	400	96	650
Hotel H	750	56	820
Hotel K	500	70	320

What would be the balance on the revaluation reserve at 30 September 20X4?

- A \$362,000
 B \$472,000
 C \$140,000
 D \$320,000

- 190 Complete the sentence below by placing one of the following options into each of the spaces. The options can be used more than once and not all options have to be used.**

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and that represents a separate major line of _____ or _____ of operations that is part of a single co-ordinated plan to dispose of a separate major line of _____ or _____ of operations.

business	revenue
products or services	geographical area

- 191 Which THREE of the following are the main benefits, to users of the accounts, of including a statement of cash flows in published financial statements?**

- A It can help users assess the liquidity and solvency of an entity
- B It can help to identify the financial position of the entity
- C It can help highlight where cash is being generated and where it is being spent
- D It helps users assess financial adaptability
- E It can help to identify the financial performance of the entity
- F It helps to show inflows and outflows in three sections

Data for Questions 192 to 196

BI owns a building which it uses as its offices, warehouse and garage. The land is carried as a separate non-current tangible asset at the reporting date.

BI has a policy of regularly revaluing its non-current tangible assets. The original cost of the building in October 20X2 was \$1,000,000; it was assumed to have a remaining useful life of 20 years at that date, with no residual value. The building was revalued on 30 September 20X4 by a professional valuer at \$1,800,000.

BI also owns a machine, which it acquired on 1 October 20X0 for \$500,000. The machine is being depreciated straight line over 10 years.

The economic climate had deteriorated during 20X5, causing BI to carry out an impairment review of its assets at 30 September 20X5. BI's building was valued at a recoverable amount of \$1,500,000 on 30 September 20X5 by an independent valuer. A specialist valued BI's machine at a market value of \$230,000 on the same date.

BI's management accountant calculated that the machine's value in use at 30 September 20X5 was \$150,000.

-
- 192 How is the machine valued in the statement of financial position for the year ended 30 September 20X5?**

- A \$250,000
- B \$200,000
- C \$230,000
- D \$150,000

193 What amount should be credited to the revaluation reserve on 30 September 20X4 for the revaluation of the building?

- A \$800,000
- B \$900,000
- C \$950,000
- D \$850,000

194 Calculate the depreciation charge for the building for the year ended 30 September 20X5.

\$ _____. (Your answer should be rounded down to the nearest \$)

195 Which of the following statements explains the treatment of the revaluation of the building on 30 September 20X5?

- A Debit the revaluation reserve with \$300,000
- B Debit the statement of profit or loss with \$300,000
- C Debit the revaluation reserve with \$200,000
- D Debit the statement of profit or loss with \$200,000

196 Calculate the depreciation charge for the building for the year ended 30 September 20X6.

\$ _____. (Your answer should be rounded down to the nearest \$)

197 CR enters into a lease on 1 January 20X1 for a machine with a fair value of \$235,000. CR will make annual payments in arrears of \$70,000 over the four year lease term. The rate implicit in the lease is 9%.

Calculate the finance cost that should be recognised in the statement of profit or loss for the year ended 31 December 20X2 (the second year of the lease).

198 DF enters into a 10 year lease arrangement on 30 June 20X1 for portable fitness monitoring devices to grant to its employees as part of its internal wellbeing and corporate responsibility programme. Annual rental payments of \$125,000 are to be paid however, as an incentive to the lessee, the first 12 months are rent free. The lease was considered to be for low value items by DF.

Calculate the charge to DF's statement of profit or loss in respect of the lease for the year ended 31 December 20X1.

199 LD enters into a lease on 1 January 20X1. Initial direct costs are \$1,000. The lease term is five years and the interest rate implicit in the lease is 7%. The annual lease payments are \$110,000 in arrears.

The non-current liability in respect of the above lease at 31 December 20X1 is:

- A \$288,650
- B \$290,312
- C \$372,570
- D \$373,890

- 200** During the year ended 30 September 20X4 Hyper entered into two lease transactions.
- On 1 October 20X3, Hyper made a payment of \$90,000 being the first of five equal annual payments under a lease for an item of plant. The lease has an implicit interest rate of 10% and the present value of the total lease payments on 1 October 20X3 was \$340,000.
- On 1 January 20X4, Hyper made a payment of \$18,000 for a one-year lease of an item of 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?**
- A \$108,000
 - B \$111,000
 - C \$106,500
 - D \$115,500
- 201** Z entered into a five year lease agreement on 1 November 20X2, paying \$10,975 per annum, commencing on 31 October 20X3. The present value of the lease payments was \$45,000 and the interest rate implicit in the lease was 7%.
- What is the amount to be shown within non-current liabilities at 31 October 20X3?**
- A \$26,200
 - B \$28,802
 - C \$37,175
 - D \$36,407
- 202** IFRS 16 *Leases* permits certain assets to be exempt from the recognition treatment for right-of-use assets.
- Which of the following assets leased to an entity would be permitted to be exempt?**
- A A used motor vehicle with an original cost of \$15,000 and a current fair value of \$700, leased for 24 months
 - B A new motor vehicle with a cost of \$15,000, leased for 24 months
 - C A new motor vehicle with a cost of \$15,000, leased for 24 months, to be rented to customers on a daily rental basis
 - D A new motor vehicle with a cost of \$15,000, leased for 12 months

203 On 1 January 20X3 Rabbit acquires a new machine with an estimated useful life of 6 years under the following agreement:

An initial payment of \$13,760 will be payable immediately

Five further annual payments of \$20,000 will be due, commencing 1 January 20X3

The interest rate implicit in the lease is 8%

The present value of the lease payments, excluding the initial payment, is \$86,240

What will be recorded in Rabbit’s financial statements at 31 December 20X4 in respect of the lease liability?

	<i>Finance cost</i>	<i>Non-current liability</i>	<i>Current liability</i>
A	4,123	35,662	20,000
B	5,299	51,539	20,000
C	5,312	51,712	20,000
D	5,851	43,709	15,281

204 On 1 April 20X7 Pigeon entered into a five-year lease agreement for a machine with an estimated life of 7 years. Which of the following conditions would require the machine to be depreciated over 7 years?

- A Pigeon has the option to extend the lease for two years at a market-rate rental
- B Pigeon has the option to purchase the asset at market value at the end of the lease
- C Ownership of the asset passes to Pigeon at the end of the lease period
- D Pigeon’s policy for purchased assets is to depreciate over 7 years

205 Owl leases an asset with an estimated useful life of 6 years for an initial period of 5 years, and an optional secondary period of 2 years during which a nominal rental will be payable. The present value of the initial period lease payments is \$87,000.

What will be the carrying amount of the asset in Owl's statement of financial position at the end of the second year of the lease?

\$_____

206 On 1 October 20X3, Fresco acquired an item of plant under a five-year lease agreement. The agreement had an implicit interest rate of 10% and required annual rentals of \$6 million to be paid on 30 September each year for five years. The present value of the annual rental payments was \$23 million.

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

- A \$19,300,000
- B \$4,070,000
- C \$5,000,000
- D \$3,850,000

207 Which of the following would not be included within the initial cost of a right-of-use asset?

- A Installation cost of the asset
- B Estimated cost of dismantling the asset at the end of the lease period
- C Payments made to the lessor before commencement of the lease
- D Total lease rentals payable under the lease agreement

MANAGING CASH AND WORKING CAPITAL

208 If an entity regularly fails to pay its suppliers by the normal due dates, it may lead to a number of problems:

- (i) having insufficient cash to settle trade payables
- (ii) difficulty in obtaining credit from new suppliers
- (iii) reduction in credit rating
- (iv) settlement of trade receivables may be delayed.

Which TWO of the above could arise as a result of exceeding suppliers' trade credit terms?

- A (i) and (ii)
- B (i) and (iii)
- C (ii) and (iii)
- D (iii) and (iv)

209 A conservative policy for managing working capital is one where:

- A low levels of working capital are held
- B a high risk of liquidity problems exist but high returns can be achieved
- C a longer working capital cycle would be expected
- D a middle group between risk management and achieving returns is adopted

210 ABC has produced the following sales forecast:

	\$000
January	750
February	760
March	770
April	780
May	790
June	800

Currently 20% of customers pay in cash. Of the credit customers (excluding those who become irrecoverable debts), 60% pay in one month, 30% pay in two months and 10% in three months. Irrecoverable debts are 2%. This payment pattern is expected to continue.

Calculate the forecast cash receipts for April.

\$ _____. (Your answer should be rounded down to the nearest \$.)

211 In October, a company made credit purchases of \$18,000 and credit sales of \$24,000. All sales are made on the basis of cost plus 25%.

Calculate how much the working capital will increase by in October as a result of these transactions.

\$ _____. (Your answer should be rounded down to the nearest \$)

212 The following items have been extracted from an entity's budget for next month:

	\$
Sales on credit	240,000
Expected increase in inventory next month	20,000
Expected decrease in trade receivables next month	12,000

Calculate the budgeted receipt from trade receivables next month.

\$ _____. (Your answer should be rounded down to the nearest \$.)

213 DY had a balance outstanding on trade receivables at 30 September 20X6 of \$68,000. Forecast credit sales for the next six months are \$250,000 and customers are expected to return goods with a sales value of \$2,500.

Based on past experience, within the next six months DY expects to collect \$252,100 cash and to write off as irrecoverable debts 5% of the balance outstanding at 30 September 20X6.

Calculate DY's forecast trade receivables days outstanding at 31 March 20X7.

_____ days. (Your answer should be rounded down to the nearest day.)

214 A company has annual sales of \$40 million, annual cost of sales of \$30 million and makes annual purchases of \$15 million. Its statement of financial position includes among assets and liabilities the following:

Trade receivables	\$4 million
Trade payables	\$3 million
Inventory	\$8 million

What is its working capital cycle?

- A 206.5 days
- B 60.8 days
- C 36.5 days
- D 97.3 days

215 XYZ's annual sales are \$100m of which 95% are made on credit. Receivables at the beginning of the year were \$10 million and at the end of the year total receivables were \$12 million. 10% of receivables were non-trade related.

What is XYZ's average collection period?

- A 36.5 days
- B 40 days
- C 38 days
- D 46 days

- 216** DY's trade receivables balance at 1 April 20X6 was \$22,000. DY's statement of profit or loss showed revenue from credit sales of \$290,510 during the year ended 31 March 20X7.

DY's trade receivables days at 31 March 20X7 were 49 days.

Assume DY's sales occur evenly throughout the year and that all balances outstanding at 1 April 20X6 have been received.

Also, it should be assumed all sales are on credit, there were no irrecoverable debts and no trade discount was given.

How much cash did DY receive from its customers during the year to 31 March 20X7?

- A \$268,510
 B \$273,510
 C \$312,510
 D \$351,510
- 217** The following items were extracted from an entity's budget for next month:

	\$
Purchases on credit	360,000
Expected decrease in inventory during the month	12,000
Expected increase in trade payables during the month	15,000

Calculate the budgeted payment to trade creditors for the month.

\$ _____. (Your answer should be rounded down to the nearest \$)

- 218** The trial balance of EH at 31 October 20X7 showed trade receivables of \$82,000 before adjustments.

On 1 November 20X7 EH discovered that one of its customers had ceased trading and was very unlikely to pay any of its outstanding balance of \$12,250.

On the same date EH carried out an assessment of the collectability of its other trade receivable balances. Using its knowledge of its customers and past experience EH determined that the remaining trade receivables had suffered a 3% impairment at 31 October 20X7.

What is EH's balance of trade receivables, as at 31 October 20X7?

- A \$66,202
 B \$67,290
 C \$67,657
 D \$79,540
- 219** EV had trade payables outstanding of 50 days at 31 October 20X7.

EV's trade payables were \$42,000 at 1 November 20X6.

During the year to 31 October 20X7, EV's credit purchases were \$351,534.

Assume purchases and sales accrue evenly throughout the year and use a 365-day year. Further assume that there were no goods returned to suppliers and EV claimed no discounts.

Calculate the amount EV paid to its credit suppliers during the year to 31 October 20X7.

\$ _____. (Your answer should be rounded down to the nearest \$)

220 DX had the following balances in its trial balance at 30 September 20X6:

Trial balance extract at 30 September 20X6

	\$000	\$000
Revenue		2,400
Cost of sales	1,400	
Inventories	360	
Trade receivables	290	
Trade payables		190
Cash and cash equivalents	95	

Calculate the length of DX’s working capital cycle at 30 September 20X6.

_____ days. (Your answer should be rounded down to the nearest day.)

221 An entity commenced business on 1 April 20X2. Revenue in April 20X2 was \$20,000, but this is expected to increase at 2% a month. Credit sales amount to 60% of total sales. The credit period allowed is one month. Irrecoverable debts are expected to be 3% of credit sales, but other customers are expected to pay on time. Cash sales represent the other 40% of revenue.

Calculate the cash expected to be received in May 20X2.

\$ _____.(Your answer should be rounded down to the nearest \$)

222 Which of the following is LEAST likely to characterise overtrading?

- A Increased borrowing
- B Increased cash balances
- C Increased turnover
- D Reduced working capital

223 Complete the sentence below by placing one of the following options into the space.

An aged trade creditor’s analysis (aged trade payables analysis) is _____.

a listing of trade payables by date of invoicing
a listing of trade payables with whom you are in arrears
the proportion of purchases by value which are overdue
a breakdown of trade payables according to length of time elapsing since the purchase was made

224 FGH requires a rate of return of 12.85% each year.

Two of FGH's suppliers, P and Q, are offering the following terms for immediate cash settlement:

<i>Supplier</i>	<i>Cash settlement discount</i>	<i>Normal settlement period</i>
P	1%	1 month
Q	2%	2 months

Which of the discounts should be accepted to achieve the required rate of return?

- A The discounts offered by both P and Q
- B The discount offered by P only
- C The discount offered by Q only
- D Neither of them

225 WM's major supplier, INT, supplies electrical tools and is one of the largest companies in the industry, with international operations. Deliveries from INT are currently made monthly, and are constant throughout the year. Delivery and invoicing both occur in the last week of each month.

Details of the credit terms offered by INT are as follows:

<i>Normal credit period</i>	<i>Cash discount</i>	<i>Average monthly purchases</i>
40 days	2% for settlement in 10 days	\$100,000

WM always takes advantage of the cash discount from INT.

Calculate the annual rate of interest implied in the cash discount offered by INT. Assume a 365-day year.

_____%. (Your answer should be rounded to two decimal places)

226 What are the THREE main services provided by a without recourse factor?

- A Sales ledger administration
- B Assistance in the creditworthiness of customers
- C Credit insurance
- D Advice on credit control policies
- E Factor finance
- F Training of sales ledger administration staff

227 Complete the sentence below by placing one of the following options into the space.

Invoice discounting normally involves _____.

offering a cash discount for early settlement of invoices
selling an invoice to a discount house at a profit
selling an individual invoice for cash to a factor organisation at a discount
writing off an invoice, partly or in total, as an irrecoverable debt

228 XYZ has \$1 million to invest for one year. It can lock it away at a fixed rate of 7% for the full year, or invest at 6.5% for a three-month term, speculating on an increase in interest rates. Assume the rate available increases to 7.5% after three months and XYZ invests at this rate for the rest of the year.

By how much is XYZ better off from its gamble on interest rates?

- A \$2,500
- B \$12,836
- C \$73,414
- D \$3,414

229 After a bill of exchange has been accepted, there are a number of possible actions that the drawer could take.

Which of the following is NOT a possible course of action?

- A Ask the customer for immediate payment
- B Discount the bill with a bank
- C Hold the bill until the due date and then present it for payment
- D Use the bill to settle a trade payable

230 The bank accepts the instrument drawn upon it by its customer, and then sells it into a secondary market at a discount, including a commission, passing the proceeds to its client. The bank then pays the bill at face value.

Which description best describes this instrument?

- A A letter of credit
- B A forfaiting agreement
- C An acceptance credit
- D A commercial bill

231 **Which of the following most appropriately describes forfaiting?**

- A It is a method of providing medium-term export finance
- B It provides short-term finance for purchasing non-current assets which are denominated in a foreign currency
- C It provides long-term finance to importers
- D It is the forced surrender of a share due to the failure to make a payment on a partly paid share

- 232** Place **THREE** of the following options into the highlighted boxes in the table below to correctly show forms of short-term finance generally available to small entities.

Short-term government bonds
Interest bearing bank accounts
Trade payables
Negotiable instruments
Factoring
Invoice discounting

Forms of short-term finance

- 233** AL's customers all pay their accounts at the end of 30 days. To try and improve its cash flow, AL is considering offering all customers a 1.5% discount for payment within 14 days.

Calculate the implied annual (interest) cost to AL of offering the discount, using compound interest methodology and assuming a 365-day year.

_____ %. (Your answer should be rounded to one decimal place)

- 234** An entity's working capital policy is to hold as low level of cash and inventory as possible to save costs

The above policy is an example of:

- A an aggressive policy
- B a conservative policy
- C a short-term policy
- D a moderate policy

- 235** BE has been offering 60-day payment terms to its customers, but now wants to improve its cash flow. BE is proposing to offer a 1.5% discount for payment within 20 days.

Assume a 365-day year and an invoice value of \$1,000.

Calculate the effective annual interest rate that BE will incur for this action.

_____ %. (Your answer should be rounded to one decimal place)

236 The trade receivables ledger account for customer C shows the following entries:

		Debits	Credits
		\$	\$
Balance brought forward		0	
10 June X6	Invoice 201	345	
19 June X6	Invoice 225	520	
27 June X6	Invoice 241	150	
3 July X6	Receipt 1009 – Inv 201		200
10 July X6	Invoice 311	233	
4 August X6	Receipt 1122 – Inv 225		520
6 August X6	Invoice 392	197	
18 August X6	Invoice 420	231	
30 August X6	Receipt 1310 – Inv 311		233
7 September X6	Invoice 556	319	
21 September X6	Receipt 1501 – Inv 392		197
30 September X6	Balance	845	

Place FOUR of the following options into the highlighted boxes in the table below to correctly prepare an aged analysis showing the outstanding balance on a monthly basis for customer C at 30 September 20X6.

1,015	33	428	0
233	295	122	(325)
231	195	319	122

Aged analysis	
\$	
June	
July	
August	
September	
	——
	845
	——

237 Which of the following would be LEAST likely to arise from the introduction of a Just-in-Time inventory ordering system?

- A Lower inventory holding costs
- B Less risk of inventory shortages
- C More frequent deliveries
- D Increased dependence on suppliers

238 Which of the following is LEAST relevant to the simple economic order quantity (EOQ) model for inventory?

- A Safety stock
- B Annual demand
- C Holding costs
- D Order costs

239 PB uses 2,500 units of component X per year. Its production director has calculated that the cost of placing and processing a purchase order for component X is \$185, and the cost of holding one unit of component X for a year is \$25.

What is the economic order quantity (EOQ) for component X and, assuming a 52-week year, what is the average frequency at which purchase orders should be placed?

	<i>EOQ</i>	<i>Frequency of orders</i>
A	136 units	3 weeks
B	136 units	6 weeks
C	192 units	4 weeks
D	192 units	5 weeks

240 Calculate the economic order quantity (EOQ) for the following item of inventory.

_____ units. (Your answer should be rounded up to the nearest unit)

- quantity required per year 32,000 items
- order costs are \$15 per order
- inventory holding costs are estimated at 3% of inventory value per year
- each unit currently costs \$40.

241 The economic order quantity formula includes the cost of placing an order. However, the Management Accountant is unsure which of the following items should be included in cost of placing an order.

Which THREE of the following would usually be regarded as part of the cost of placing an order?

- A Administrative costs
- B Postage
- C Quality control cost
- D Unit cost of products
- E Storekeeper's salary
- F Warehouse overheads

242 DS uses the Economic Order Quantity (EOQ) model. Demand for DS’s product is 95,000 units per annum. Demand is evenly distributed throughout the year. The cost of placing an order is \$15 and the cost of holding a unit of inventory for a year is \$3.

Calculate how many orders DS should make in a year.

_____ orders. (Your answer should be rounded up to the nearest unit)

243 DF is a manufacturer of sports equipment that has recently won a major three-year contract to supply FF with a range of equipment. FF is a large company with over 100 sports shops.

The new contract is expected to double DF’s existing total annual sales, but demand from FF will vary considerably from month to month.

The contract will mean a significant additional investment in current assets. In particular, the contract with FF will require orders to be delivered within two days. This delivery period gives DF insufficient time to manufacture items, therefore significant inventories need to be held at all times. Also, FF requires 90 days’ credit from its suppliers. This will result in a significant additional investment in receivables by DF.

If DF borrows from its bank to finance current assets, either using a loan or an overdraft, it expects to be charged annual interest at 12%. Consequently, DF is considering offering a 3% cash discount to FF for settlement within 10 days rather than the normal 90 days.

Place FOUR of the following options into the highlighted boxes in the table below to correctly show which of the following would be factors, other than the rate of interest, which DF would need to consider before deciding on whether to offer a cash discount.

Borrowing on overdraft might be more risky
It is cheaper to finance the higher receivables by borrowing than it would be to offer the cash settlement discount
The cash settlement discount arrangement may be difficult to withdraw at a future time, if DF no longer wants to offer it
Other customers might demand the same settlement discount terms as FF
It is more expensive to finance the higher receivables by borrowing than it would be to offer the cash settlement discount
Borrowing on overdraft might be less risky
The cash discount will be more flexible and easier to cancel if DF no longer wants to offer it

Factors to consider for offering a discount

244 Calculate the annual equivalent rate of interest implicit in offering a 2% cash discount to for settlement of debts within 10 days rather than 40 days.

Assume a 365-day year and an invoice value of \$100.

_____ %. (Your answer should be rounded up to two decimal places)

- 245** SCL is a wholesale supplier of building materials. It is experiencing severe short-term cash flow difficulties. Sales invoices are about \$2 million per month. The usual credit period extended to customers is 60 days, but the average period being taken is 90 days. The overdraft rate is 9% per annum.

A factoring company has offered a full factoring agreement without recourse on a permanent basis. The factor will charge a fee of 2.5% on total invoicing and will provide an immediate advance of 80% of invoiced amounts at an annual interest rate of 10%. Settlement of the remaining 20% will be after 60 days. SCL should avoid \$300,000 a year in the administration costs of running the receivables ledger if the factoring arrangement is taken up.

Calculate the annual net cost, in cash terms, of the proposed factoring agreement assuming that there are 360 days in a year.

\$ _____. (Your answer should be rounded to the nearest \$)

- 246** The trade receivables ledger account for customer X is as follows:

		Debits	Credits	Balance
01 July	Balance b/fwd			162
12 July	Invoice AC34	172		334
14 July	Invoice AC112	213		547
28 July	Invoice AC215	196		743
08 August	Receipt RK 116 (Balance + AC34)		334	409
21 August	Invoice AC420	330		739
03 September	Receipt RL162 (AC215)		196	543
12 September	Credit note CN92 (AC112)		53	490
23 September	Invoice AC615	116		606
25 September	Invoice AC690	204		810
05 October	Receipt RM223 (AC420)		330	480
16 October	Invoice AC913	233		713
25 October	Receipt RM360 (AC615)		116	597

Place the following options into the highlighted boxes in the table below to correctly prepare an aged analysis showing the outstanding balance on a monthly basis for customer X at 31 October.

204	743	233	(4)
(213)	160	581	320
0	330	71	233

	Aged analysis
	\$
July	
August	
September	
October	
	—
	597
	—

247 Complete the sentence below by placing one of the following options into the space.

An aged analysis of receivables allows an entity to _____. It makes it more obvious whether an increase/decrease in a balance is due to changed activity levels or a change in payment policy by a customer. This makes it easier for the company to assess whether it should carry on doing business, how it should _____ and whether it _____.

should offer discounts
set credit limits
focus its collection efforts to enforce its credit terms
see the total amount owed by customers
needs to take any action in respect of large balances
chase debts

248 BF manufactures a range of domestic appliances. Due to past delays in suppliers providing goods, BF has had to hold an inventory of raw materials, in order that the production could continue to operate smoothly. Due to recent improvements in supplier reliability, BF is re-examining its inventory holding policies and recalculating economic order quantities (EOQ).

- Item 'Z' costs BF \$10.00 per unit.
- Expected annual production usage is 65,000 units.
- Procurement costs (cost of placing and processing one order) are \$25.
- The cost of holding one unit for one year has been calculated as \$3.

Calculate the EOQ for item 'Z'.

_____ units. (Your answer should be rounded to the nearest unit)

249 DF, a sports and fitness training equipment wholesaler, has prepared its forecast cash flow for the next six months and has calculated that it will need \$2 million additional short-term finance in three months' time.

DF has an annual gross revenue of \$240 million and achieves a gross margin of 50%. It currently has the following outstanding working capital balances:

- \$16 million trade payables, typical payables days for this industry is 45 days
- \$20 million trade receivables, typical receivable days for this industry is 30 days
- \$25 million bank overdraft.

DF forecasts that it will be able to repay half the \$2 million within three months and the balance within a further three months.

Which THREE of the following are possible sources of short-term funding available to DF?

- A Bank overdraft
- B Factoring of receivables
- C Increasing payables days
- D Reducing receivables days
- E Short-term loan
- F Invoice discounting

250 Place **THREE** of the following options into the highlighted boxes in the table below to show correctly forms of short-term investments generally available to small entities.

Short-term government bonds
Interest bearing bank accounts
Trade payables
Negotiable instruments
Factoring
Invoice discounting

Forms of short-term investments

251 Place the following options into the highlighted boxes in the table below to correctly show the advantages and disadvantages of using bank overdrafts and short-term bank loans.

Generally more expensive	Repayable on demand
Fixed finance cost	Repayment date known
Flexible	Less flexible
Generally cheaper	Variable finance cost

	Bank overdrafts	Bank loans
Advantage		
Advantage		
Disadvantage		
Disadvantage		

252 Which **TWO** of the following are indicators of overtrading?

- A A rapid decrease in current assets
- B A rapid increase in turnover
- C A rapid increase in liquidity ratios
- D A rapid decrease in turnover
- E A rapid increase in current assets

253 Which of the following does **NOT** influence the credit policy of an entity?

- A Demand for products
- B Profitability of products
- C Competitor terms
- D Risk of irrecoverable debts

254 Which of the following is an advantage of using a factoring agency for the collection of receivables?

- A Customers will not know the debt has been sold to a factor
- B Easy to change back to an internal debt collection system
- C Cheaper than an internal debt collection system
- D Savings on administration costs

255 Which of the following is an advantage of using an invoice discounting agency over a factoring agency?

- A Invoice discounting is cheaper than factoring
- B The debt collection is usually faster when using an invoice discounting agency
- C The entity retains control over debt collection
- D It is less risky than factoring