|  |  |  |
| --- | --- | --- |
| **Practice & Past MCQ Quiz Questions:** | **Answer** | **Explanation** |
| The accounting profit before tax of Muddle Ltd (Muddle) for the year ended 30 June 20X7 is $400k and includes the following income and expense items:* Interest revenue: $30k
* Warranty expense $180k

**An extract from the SOFP at 30 June 20X7 shows:**- Warranty provision of $85k in 20x6 and $70k in 20x7**Additional information:**• Interest received during the year was $28k and is assessable for tax when received.• Warranty costs are tax deductible when paid.• Included in the DTA balance at 30 June 20X7 is an amount of $12k relating to a tax loss of $40k that was recognised in the previous year. Taxation legislation allows these losses to be offset against future taxable profits.• The tax rate is 30%.What is the CTL for Muddle for the year ended 30 June 20X7?A. $104,100.B. $112,500.C. $111,300.D. $102,900. | **D** | * Correct answer is $102,900 = D
* Start off with acct profit of **$400k**
* Warranty exp needs to be added back as deductible for tax when paid, not accrued (says in question). So we need to include the movement in the provision **($15k)**
* Interest is paid when received, so adjust for [-$30k + $28k] = **($2k)**
* Taxable income = **$383k**
* Less ($40k) in tax losses **= $343k**
* Current tax liability = $343 \* 30% = $102,900 = D
 |
| You are a recently qualified CA working as an accountant at FlyAway Ltd (FlyAway) and you report to the chief financial officer (CFO). FlyAway has a 30 June FY. You are aware that the CFO’s current year bonus is dependent on the company achieving a profit after tax of $5.5 million for the year ending 30 June 20X9. As at 31 March 20X9, the f’cast profit after tax for the 20X9 FY is $5.2 million. The CFO has suggested that revenue from jet charters that were booked prior to year-end but to be conducted in July 20X9 be brought forward and recognised in June 20X9. She has told you that the profit for the next FY is expected to be high due to strong improvements in the economy, and therefore it is desirable to do some ‘profit smoothing’ between the 20X9 and 20Y0 reporting periods. If you record this accounting adj., current f’casts for profit after tax for the year ending 30 June 20X9 will become $6.2 million. The CFO is a CA. Which of the following fundamental ethical principles under the IESBA Code of Ethics for is the key ethical principle that the CFO is at risk of breaching?A. Confidentiality.B. Objectivity.C. Professional competence and due care.D. Professional behaviour. | **B** | * Objectivity is about your professional or business judgement not being compromised due to bias, conflict of interest or undue influence of others.
* The CFO knows that she is suggesting ‘profit smoothing’ and that this involves incorrect recognition of revenue. If the revenue is incorrectly recorded as per her suggestion, it would be due to a bias or conflict of interest, as she is focused on meeting the bonus targets rather than correct financial reporting.
* This question relates to Unit 1, Learning outcome 2.
 |
| Summertime Ltd (Summertime) recorded the following at 30 June 20X7:Background Information:• Bad debts are deductible for tax purposes when written off.• The plant was acquired on 1 July 20X6.• The tax depreciation rate for plant is 20%, straight line.• Insurance is deductible for tax purposes when paid.• Unearned income is income received in advance that is assessable for tax purposes when received but will be recognised as rev in the year ending 30 June 20X8.• The tax rate is 28%.What is the DTA balance for Summertime at 30 June 20X7?A. $6,160.B. $1,960.C. $4,396.D. $4,710. | **A** | * The answer is A
* Trade receivables, Carrying Amount (CA) = $75k, tax base = $82k, therefore deductible temporary different (DTD) = 7k
* Plant = $170k CA, $160k tax base (i.e. 200k - $200k x 20% x 1 year). Therefore Taxable temporary difference (TTD)=$10k.
* Prepaid insurance CA = $5.7k. Tax base = 0 (deductible when paid). TTD = $5.7k
* Unearned income CA = $15k. Tax base = 0 (assessable when received). DTD = $15k.
* Total TTD = $15.7k, DTD = $22k
* DTA = 28% \* $22k = $6,160 = A

 |
| Fruity posted the above journals & is now in the process of preparing its F/S and is looking at required disclosures. Which of the following statements is correct in relation to Fruity’s disclosure requirements under IAS 12?A. Current income tax expense of $111,000 will be disclosed.B. Current income tax expense of $120,000 and deferred income tax expense (income) of ($9,000) will be disclosed.C. Current income tax expense of $120,000 and deferred income tax expense (income) of $9,000 will be disclosed.D. Current income tax expense of $129,000 will be disclosed. | **B** | * Under IAS 12 para. 79 the major components of income tax expense are disclosed separately. Therefore, the separate elements of the $111,000 net income tax expense – that is, a current income tax expense of 120,000 and a deferred income tax expense (income) of ($9,000) – should be disclosed.
* This question relates to Unit 4, Learning outcome 5.
 |
| Selfie Ltd (Selfie) manufactures photographic equipment. The FC at Selfie is finalising the accounting treatment of a contract that has been determined as falling under the scope of IFRS 15 Revenue from Contracts with Customers. Selfie has a 31 March FY. The contract specifies a price, but also states that the customer will be given a 5% volume rebate in the form of a cash back each 31 March, when the customer spends over $500k with Selfie in a FY. There are a number of potentially relevant issues to consider in accounting for the volume rebate under IFRS 15. The FC has noted the following possible issues:1. The existence of a significant financing component under paras 60–65.2. Constraining estimates of variable consideration under paras 56–58.3. Consideration payable to a customer under paras 70–72.4. The requirements for accounting for variable consideration under paras 50–54.Which of the above IFRS 15 issues should be considered to correctly account for the 5% volume rebate under IFRS 15?A. 1, 3 and 4.B. 2, 3 and 4.C. 1, 2 and 3.D. All of the above. | **B** | * A volume rebate has the potential to change the transaction price expected from a customer. It is a form of variable consideration under paras 50–54, and could also be called consideration payable to a customer under paras 70–72.
* Any time variable consideration is being estimated, the constraining estimates paras 56–58 must be considered. Paragraph 70 explains clearly all aspects of the Standard to be considered.
* This question relates to Unit 3, Learning outcome 1.
 |
| Which of the following statements is correct about the Statement of Cash Flows prepared in accordance with IAS 7 Statement of Cash Flows (IAS 7):A. Any short term, highly liquid investment can be included in cash and cash equivalentsB. Cash flows arising from transactions in a foreign currency are translated at the exchange rate at the date of the cash flowC. Dividends paid can only be disclosed in financing activitiesD. Interest expense and interest revenue may be netted off in the cash flow statement | **B** | * Cash flows arising from transactions in a foreign currency are translated at the exchange rate at the date of the cash flow.
* This question relates to Unit 2, Learning outcome 2.
 |
| Which of the following statements is correct in relation to the requirements of IAS 1 Presentation of F/S (IAS 1)?A. A complete set of F/S must use the following titles: statement of financial position, statement of SPLOCI, statement of changes in equity, and statement of cash flows.B. An asset is classified as current if the entity has an unconditional right to realise the asset within 12 months after the end of the reporting period.C. All entities present their statement of financial position classifying assets and liabilities as either current or non-current.D.A liability is classified as current if the entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. | **D** | * A liability is non-current if the entity has an unconditional right to defer settlement for at least 12 months after the end of the reporting period (IAS 1 para. 69(d)).
* This question relates to Unit 2, Learning outcome 1.
 |
| Which of the following entities are required to prepare and lodge a financial report under the Corporations Act 2001 (Cth) (the Act)?1 - An unlisted public company 2 - A proprietary company that at the end of the FY employs 102 fulltime staff, records total revenue of $17.5 million and has gross assets of $30 million 3 - A proprietary company that at the end of the FY employs 20 fulltime staff, records total revenue of $52 million and has gross assets of $10.2 million 4 - A public company that at the end of the FY employs 90 full-time staff, records total revenue of $5 million and has gross assets of $1 millionA. Entities 1, 2 and 3.B. Entities 2, 3 and 4.C. Entities 1, 2, and 4.D. All of the entities are required to prepare a financial report. | **C** | * Section 292 requires the below to prepare an annual financial report, which must be lodged with the ASIC:
	+ Public companies,
	+ Large Proprietary companies
* Requirement for a large prop. Company is (any 2 or 3)
	+ Consol. Rev >$50m;
	+ Consol gross assets > $25m;
	+ 100 employees at end of FY.
1. This is a public company. **Correct**.
2. This meets employee & asset test. Large Pty – **correct**
3. This fails rev and asset test – small pty - **incorrect**
4. This is a public company. **Correct**

Therefore 1,2,4 are correct = C |
| Sort-IT Ltd (Sort-IT) is currently preparing its F/S for the year ended 30 June 20x7. It is 27 July 20X7 and the following events have arisen after the end of the reporting period:I. Sort-IT announces that it is ceasing production of one of its major product lines. II. An insurance claim that was being negotiated by Sort-IT with its insurer in May 20X7 was resolved and the company received $2 million in compensation for its loss. III. A batch of inventory on hand at 30 June 20X7 was subsequently spoiled when a refrigerator broke down.iv. A miscalculation of the warranty provision at 30 June 20X7 was discovered which would increase its value by 20%. For the year ended 30 June 20X7, which of the items are adjusting events?A. Item (iv) only.B. Item (l) only.C. Items (ii) and (iv).D. Item (i) and (iv). | **C** | * The condition of the insurance claim existed before the end of the reporting period, therefore resolution of the claim, after 30 June 20X7 and before the F/S are finalised, is an adjusting event. The F/S should be adjusted to recognise a receivable at 30 June 20X7 (IAS 10) - **Adjusting Event**
* The condition of the error in the warranty provision existed before the end of the reporting period, its discovery after 30 June 20X7 is an adjusting event. The F/S need to be adjusted at 30 June 20X7 (IAS 10) - **Adjusting Event**
* The announcement was an event occurring after the end of the reporting period, however there was no condition at the reporting date requiring adj. to amounts recognised in the F/S (IAS 10) - **Non-Adjusting Event**
* The inventory spoilage was an event occurring after the end of the reporting period, however its condition at the reporting date was unaffected - **Non-Adjusting Event**
 |
| On 1 May 20X6 Ciele Ltd (Ciele) signed a contract with Bleu Ltd (Bleu) for the supply of a truck. Under the contract Ciele will service the vehicle free of charge once it has travelled 10,000 kilometres. The total contract price is $150,000 and the truck cost Ciele $120,000. Typically for Ciele, the vehicle service will cost $6,000 and would be charged to the customer at $10,000 under its fixed price servicing plan. If the truck was sold without the free service, the selling price would be $145,000. Bleu took ownership of the truck on 12 May 20X6, paying the $150,000, and had the free service performed on 15 July 20X6. Which of the following statements correctly explains how Ciele will recognise rev from this contract in accordance with IFRS 15 (Rev from Contracts) for FYX6?1. The contract has two performance obligations. Ciele will allocate the transaction price to each performance obligation based on a relative standalone selling price basis. As a result of satisfying the first performance obligation, Ciele will recognise rev on 12 May 20X6 for the sale of the truck and recognise an amount for rev received in advance in respect of the free servicing.
2. Ciele will recognise the rev from the sale of the truck, as the risks and rewards have passed when Bleu took ownership of the truck on 12 May 20X6. No rev for the truck service will be recognised at 30 June 20X6 based on the percentage of completion. The method of allocating the transaction price is not set out in IFRS 15.
3. The contract has two performance obligations. Ciele will allocate the transaction price to each performance obligation based on the relative cost percentages. As a result of satisfying the first performance obligation, Ciele will recognise rev for the sale of the truck on 12 May 20X6 and recognise an amount for unearned income in respect of the free servicing.
4. Ciele will recognise $150,000 in rev on 12 May 20X6 as the provision of the free service is not a distinct promise under the contract.
 | **A** | There are two performance obligations in this contract:1. The sale of the truck.2. The provision of the truck service.The $150,000 transaction price is allocated to each of the performance obligations based on the standaloneselling prices at contract inception, which are directly observable for each item in the contract (IFRS 15 para. 74).The revenue for the truck service will be recognised when it is provided on 15 July 20X6, hence an amount of unearned revenue / revenue received in advance will be recognised at 12 May 20X6. |
| The accounting profit before tax of Topsy Ltd (Topsy) for the year ended 30 June 20X7 is $600k and includes the following income and expense items:* Interest revenue: $35k
* Warranty expense $120k

An extract from the SOFP at 30 June 20X7 shows:- Warranty provision of $60k in 20x6 and $55k in 20x7Additional information:• Interest received during the year was $37k and is assessable for tax when received.• Warranty costs are tax deductible when paid.• Included in the DTA balance at 30 June 20X7 is an amount of $15k relating to a tax loss of $50k that was recognised in the previous year. Taxation legislation allows these losses to be offset against future taxable profits.• The tax rate is 30%.What is the CTL for Topsy for the year ended 30 June 20X7?A. $177,600.B. $167,100.C. $176,400.D. $165,900. | **B** | * Correct answer is B
* Start off with acct profit of **$600k**
* Warranty exp needs to be added back as deductible for tax when paid, not accrued (says in question). So we need to include the movement in the provision **+5k**
* Interest is paid when received, so adjust **+$2k**
* Taxable income = **$607k**
* Less ($50k) in tax losses **= $557k**

Current tax liability = $557k \* 30% = $167,100 = B |
| Which of the following entities, operating in Australia, would be relieved from preparing a financial report under the Corporations Act 2001 (Cth)?**A**. A proprietary company that:• currently employs 45 full-time staff• records total revenue of $26.5 million for the FY• has a gross assets that total $10 million at the end of the reporting period• has two equal shareholders, Sam and Bob, who have had a falling out. Bob is no longer involved in the day-to-day management of the company and has requested that Sam provide him with annual financial reports.**B**. A public company that at the end of the FY:• records total revenue of $46 million• employs five full-time and 30 part-time employees• has gross assets of $14 million.**C**.A proprietary company that at the end of the FY:• employs 30 staff on a full-time basis• records total revenue of $30 million• has gross assets of $14 million.**D**.A foreign-controlled proprietary company that:• was formed six years ago• is consolidated in its United States’ parent accounts, which are only lodged in the United States• has struggled to make a profit and recorded a revenue of only $400k last FY• employs four full-time employees. | **C** | Only entity 1, the proprietary company with 30 staff and total revenue of $17.5 million, is relieved from preparing and lodging a financial report. A proprietary company is classified as small when it meets two of the three tests in s. 45A. The three tests are that at the end of the FY, the company has:**a. consolidated revenue of < $50 million****b. consolidated gross assets of < $25 million****c. has fewer than 100 employees.****Entity 1** - There is no information to indicate that the entity has been required by either its shareholders or ASIC to prepare a financial report, or that it is controlled by a foreign company (s. 292(2)).**Entity 2** is a public company – size tests do not affect financial reporting requirements and financial reports are required under s. 292(1).**Entity 3** is a small proprietary company as it only passes one of the size tests in s. 45A, but a shareholder, Bob, has requestedF/S be prepared. Under s. 293, a shareholder with at least 5% of the vote can request that F/Sbe prepared.**Entity 4** is a small proprietary company. owever, it is foreign controlled whose F/S are not lodged with ASIC; therefore, it must prepare F/S under s. 292(2). |
| Click-IT Ltd (Click-IT) is currently preparing its F/S for the year ended 30 June 20x7. It is 25 July 20X7 and the following events have arisen after the end of the reporting period:I. Click-IT announces that it is ceasing production of one of its major product lines. ii. An insurance claim that was being negotiated by Click-IT with its insurer in May 20X7 was resolved and the company received $2 million in compensation for its loss. Ill. A batch of inventory on hand at 30 June 20X7 was subsequently spoiled when a refrigerator broke down. iv. The fair value of Click-It's share portfolio which is measured on a fair value basis declined by 30% after 30 June 20x7 due to a sustained drop in the stock marketFor the year ended 30 June 20X7, which of the items are non-adjusting events?A. Items (i), (II) and (iv).B. Items (i) and (iv).C. All items.D.Items (i), (II) and (iv). | **D** | * The production announcement was an event occurring after the end of the reporting period, & there was no condition at the reporting date requiring adj. to amounts recognised in the F/S (IAS 10) - **Non-Adjusting Event**
* The inventory spoilage was an event occurring after the end of the reporting period, however its condition at the reporting date was unaffected - **Non-Adjusting Event**
* the inventory existed before the end of the reporting period, its spoiling after 30 June 20X7 is an adjusting event. The F/S need to be adjusted at 30 June 20X7 (IAS 10) - **Adjusting Event**
* The share price drop was an event occurring after the end of the reporting period, & there was no condition at the reporting date requiring adj. to amounts recognised in the F/S (IAS 10) - **Non-Adjusting Event**
* Therefore the answer is **D** (i), (II) and (iv).
 |
| Which of the following statements is correct about the Statement of Cash Flows prepared in accordance with IAS 7 Statement of Cash Flows (IAS 7):A. Dividends and interest paid may be classified as operating or financing cash flowsB. Cash flows include movements between items that constitute cash or cash equivalentsC. Income tax expense is an operating cash flowD. Cash flows arising from transactions in a foreign currency may be translated at the exchange rate at year end | **C** | * Per the wording of the textbook / Fin notes: *“The classification of interest paid and interested and dividends received may vary between entities.”*. option A is a trick as it only refers to PAID. This would be correct if it said RECEIVED. **Incorrect**
* Mvmt in cash or cash equivalent is the end result, not the moving item. For example, revenue = increase in cash. Rev would be the CF item, not cash**. Incorrect**
* Income tax expense is an operating CF – see diagram.
* Cash flows arising from transactions in a foreign currency are translated at the exchange rate at the date of the cash flow NOT year end. **Incorrect**
*
 |
| Avaloupe Ltd develops software. The FC at Avaloupe is finalising the accounting treatment of a contract signed on 10 January 20X7, which has been determined as falling under the scope of IFRS 15 Revenue from Contracts with Customers (IFRS 15). The contract includes a $200k performance bonus payable to Avaloupe, which is payable in two years, if the software is still meeting contract specs. There are a number of potentially relevant issues to consider in accounting for the performance bonus under IFRS 15. The FC has noted the following possible issues:1. The existence of a significant financing component under paras 60-65. 2. Constraining estimates of variable consideration under paras 56-58. 3. Consideration payable to a customer under paras 70-724. The requirements for accounting for variable consideration under paras 50-54. Which of the above IFRS 15 issues must be considered to correctly account for the $200k performance bonus under IFRS 15?A. 2 onlyB. 1.2 and 3C. 1 only.D. 1, 2 and 4. | **D** | * Refer to 3. Revenue tab in FIN notes
* 1. As bonus is >1 year, significant financing component exists - **correct**
* 2. As the terms of meeting the bonus is not very clear (“still meeting specs”) – this may take a long period to resolve uncertainty and is susceptible to the actions of 3rd party, the Constraining estimates of variable consideration is relevant – **correct**
* 3. Consideration payable to a customer relates to things like cash rebates, kick backs, credits, vouchers etc. There is no mention of this in the question - **incorrect**
* 4. As the bonus is variable – accounting for variable consideration is relevant – **correct**
* **Therefore D is correct (1, 2 and 4)**
 |
| Beefy Ltd (Beefy) provides security and transport services to its customers. On 1 April 20X5, it signed a contract with a customer for $55k to provide the customer with three months of security services at their main manufacturing site, and transport a major shipment of inventory to the customer's interstate warehouse,On 20 May 20X6 the transport service was completed and at 30 June 20X6, one month of the security service had been provided. Beefy anticipates that its costs in fulfilling the contract will be split 40% for transport and 60% for security services. On a stand-alone basis, the transport service is sold for $35k and the security service is sold for $10k a month.Which of the following statements correctly explains how Beefy will recognise revenue from this contract in accordance with IFRS 15 Revenue from Contracts with Customers (IFRS 15) for the year ended 30 June 20X6?A. Beefy will recognise the revenue from the transport services as the risks and rewards have passed when the customer received the delivery on 20 May 20X6. No revenue for the security services will be recognised at 30 June 20X6 as this performance obligation has not been satisfied.B. The contract has two performance obligations. Beefy will allocate the transaction price to each performance obligation based on a relative stand-alone selling price basis. As a result of satisfying the first performance obligation, Beefy will recognise revenue for the transport services at 20 May 20X6. One month of the security services will also be recognised as revenue, as this performance obligation has been partially satisfied at 30 June 20X6 and this revenue is earned over a period of time.C. The contract has two performance obligations. Beefy can choose the method of allocating the transaction price to the performance obligations as these are not specified in the standard.D. The contract has two performance obligations. Beefy will allocate the transaction price to each performance obligation based on the relative cost percentages. As a result of satisfying the first performance obligation, Beefy will recognise revenue for the transport services on 20 May 20X6, and recognise a proportion of the security services income at 30 June 20X6. | **B** | There are two performance obligations in this contract:1. Security services2. Transport services.The $55,000 transaction price is allocated to each of the performance obligations based on the standaloneselling prices at contract inception, which are directly observable for each item in the contract (IFRS 15 para. 74).The revenue for the security service will be recognised when it is provided on 1 April 20X5, hence an amount of unearned revenue / revenue received in advance will be recognised. |
| Hiver Ltd (Hiver) recorded the following at 30 June 20X7 (prior to the recording of tax entries):**Extract from trial balance** Trade receivables 82kAllowance for impairment loss - trade receivables (7k) Plant 300k Accumulated depreciation - plant (45k) Prepaid insurance 5,700  Unearned income (25k) Additional information:. Bad debts are deductible for tax purposes when written off.. The plant was acquired on 1 July 20X6.• The tax depreciation rate for plant is 20%, straight line.• Insurance is deductible for tax purposes when paid.• Unearned income is income received in advance that is assessable for tax purposes when received but will be recognised as revenue in the year ending 30 June 20X8.• The tax rate is 30%.What is the deferred tax liability balance for Hiver at 30 June 20X7?A $6,210.B. $1,710. C. $13,710.D. $9,600. | **A** | * The answer is A
* Trade receivables, Carrying Amount (CA) = $75k, tax base = $82k, therefore deductible temporary different (DTD) = 7k
* Plant = $255k CA, $240k tax base (i.e. 300k - $300k x 20% x 1 year). Therefore Taxable temporary difference (TTD)=$10k.
* Prepaid insurance CA = $5.7k. Tax base = 0 (deductible when paid). TTD = $5.7k
* Unearned income CA = $25k. Tax base = 0 (assessable when received). DTD = $25k.
* Total TTD = $20.7k
* TTD \* 30% = 6.21k = DTL

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **CA** | **Tax** | **TTD** | **DTD** |
| Trade rec | 75k | 82k |  | 7k |
| Plant | 255k | 240k | 15k |  |
| Prepaid ins | 5.7k | 0 | 5.7k |  |
| Unearned | 25k | 0 |  | 25k |
| **Total** |  |  | 20.7k | 32k |
| **DTA/L** | DTL | DTA | 6.21k | 9.6k |

 |
| You are a recently qualified CA working as a financial accountant at FlyAway Ltd (FlyAway) and you report to the chief financial officer (CFO). FlyAway has a 30 June FY. The CFO has suggested that revenue from jet charters be adjusted upwards. These charters were booked prior to 30 June 20X9 year end but will be conducted in July 20X9. The CFO wants the revenue to be brought forward and recognised in June 20X9. She understands this is not strictly in line with IAS 18 Revenue (IAS 18). There was a slight fall in charter bookings in 20X9 but FlyAway needs to be showing a steady growth in profit. The next FY is expected to be high due to strong improvements in the economy. If recorded as per the CFO’s suggestion, the adj. between the 20X9 and 20Y0 reporting periods will increase the profit after tax for the year ending 30 June 20X9 by $1 million.Which of the following fundamental ethical principles under the IESBA Code of Ethics is the key ethical principle that you are at risk of breaching?A. Professional competence and due care.B. Confidentiality.C. Professional behaviour.D. Integrity. | **C** | * Professional behaviour definition = to comply with relevant laws and regulations and avoid any conduct that the professional accountant knows or should know might discredit the profession.
* The CFO has asked for revenue to be brought forward and recognised in June despite understanding that this is not in line with IAS 18 Revenue (IAS 18).
* This is not being compliant with regulations (IFRS) and may discredit the profession if an accounting scandal occurs (e.g. Enron).
* Therefore Professional behaviour (C) is the correct answer.
 |
| Which of the following entities, operating in Australia, would be relieved from preparing a financial report under the Corporations Act 2001 (Cth) (the Act)?**A**. A proprietary company that:• currently employs 100 full-time staff• records total revenue of $26.5 million for the FY• has a gross assets that total $10 million at the end of the reporting period• has two equal shareholders, Sam and Bob, who have had a falling out. Bob is no longer involved in the day-to-day management of the company and has requested that Sam provide him with annual financial reports that comply with Accounting Standards for as long as Sam remains a shareholder.**B**. A public company that at the end of the FY:• records total revenue of $23 million• employs five full-time and 15 part-time employees• has gross assets of $7 million.**C**. A proprietary company that at the end of the FY:• employs 30 staff on a full-time basis• records total revenue of $17.5 million• has gross assets of $14 million.**D**. A foreign-controlled proprietary company that:• was formed six years ago• is consolidated in its US’ parent accounts, which are only lodged in the USA.• has struggled to make a profit and recorded a revenue of only $400k last FY• employs four full-time employees. | **C** | Only entity C, the proprietary company with 30 staff and total revenue of $17.5 million, is relieved from preparing and lodging a financial report. A proprietary company is classified as small when it meets two of the three tests in s. 45A. The three tests are that at the end of the FY, the company has:a. consolidated revenue of < $50 millionb. consolidated gross assets of < $25 millionc. has fewer than 100 employees.There is no information to indicate that the entity has been required by either its shareholders or ASIC to prepare a financial report, or that it is controlled by a foreign company (s. 292(2)).Entity 2 is a public company – size tests do not affect financial reporting requirements and financial reports are required under s. 292(1).Entity 3 is a small proprietary company as it only passes one of the size tests in s. 45A, but a shareholder, Bob, has equestedF/S be prepared. Under s. 293, a shareholder with at least 5% of the vote can request that F/S be prepared.Entity 4 is a small proprietary company. owever, it is foreign controlled whose F/S are not lodged with ASIC; therefore, it must prepare F/S under s. 292(2). |
| The financial accountant for Washington Water Ltd (WW) is preparing the company’s the F/S and has identified the following material transactions that occurred during the year:i. Research expenses.ii. Dividends declared.iii. Prepaid insurance relating to the first three months of the following reporting period.iv. A share issue to raise additional funds needed to open a new division.How must the above transactions be disclosed in the statement of PLOCI in accordance with IAS 1 Presentation of F/S (IAS 1)?A. The prepaid insurance will be disclosed in the statement of P&L section and the dividends declared will be disclosed in other comprehensive income.B. Research expenses will be disclosed in the statement of P&L section and the share issue will be disclosed in other comprehensive income.C. The dividends declared will be disclosed in the statement of P&L section and the share issue will be disclosed in other comprehensive income.D. Research expenses will be disclosed in the statement of P&L section and no item will be disclosed in other comprehensive income. | **D** | * Refer to the diagram in the FIN notes showing an example layouts of key reports (e.g. PL,SOFP,SOCE)
* Dividends declared is an equity account on the SOFP & SOCE - **incorrect**
* Share issue is an equity account on the SOFP & SOCE - **incorrect**
* Dividends & share issue are an equity account on the SOFP & SOCE - **incorrect**
* Research expense will be an expense line on P&L (correct), dividends on SOFP/SOCE, prepaid insurance on P&L, Share issue is an equity account on the SOFP & SOCE (i.e. none will be disclosed in other comprehensive income) **- Correct**
 |
| Andromeda Ltd is a group of travel companies. In May 20X5, following a change in corporate strategy, Andromeda sold its Icelandic operations. The sale represented Andromeda’s exit from northern hemisphere operations. Andromeda is currently preparing its consolidated F/S for the year ended 30 June 20X5 and has provided you with the following information:Extract from the draft consolidated statement of cash flows 20X5$Operating activitiesReceipts from customers 4,509,800Payments to suppliers and employees (1,850,000)Income taxes paid (325,000) Net cash inflow from operating activities 2,334,800The accounting staff have identified that the draft consolidated F/S include the following financial information in relation to the Icelandic operations for the year ended 30 June 20X5:• Receipts from customers: $800k.• Payments to suppliers: $520k.• Wages expense: $360k.• Opening prepaid wages at 1 July 20X4: $10k.• Closing prepaid wages at 30 June 20X5: $15k.Apart from the requirements of IAS 7 Statement of Cash Flows (IAS 7), what additional disclosures are required for Andromeda’s cash flows from operating activities for the year ended 30 June 20X5?A. Receipts from customers of $3,709,800, payments to suppliers and employees of ($1,330k) and income taxes paid of($325k).B. Disclosures shown in the draft consolidated F/S are correct, as disclosure of the Icelandic operation’s cash flows is not required to be separately disclosed in the F/S.C. Net cash used in operating activities − discontinued operations of ($85k).D. Net cash used in operating activities − discontinued operations of ($80k). | **C** | * The question is asking for requirements/disclosures above and beyond IAS7 (which is the standard cash flow statement requirements)
* The only disclosure above and beyond this is in relation to ‘discontinued operations (IFRS5).
* IFRS 5 requires the entity to present discontinued operations' financial results, assets and liabilities separately from continuing operations.
* So in other words, this question is asking us to calculate the cash flow for the Icelandic operation.
* = receipts [$800k] – supplier payments (520k) – Wages ($360k) – adjust for prepaid wages mvmt as we are looking for cash not acct ($5k) = $ loss of $(85k)
* Answer = C
 |
| • **Contract 1** has a total fee of $800k, payable in two instalments. All work on this contract has been completed. The instalments are:◦ $600k due on client approval of the results of preliminary testing − approval from the client was received on 1 December 20X3.◦ $200k due on 30 June 20X6. Receipt of this amount is contingent on the software still functioning as intended at 30 June 20X6 based on performance requirements agreed with the client. Based on their 10 years of experience and the results since the software went live, Rathseed staff are confident that the deferred payment will be received.**• Contract 2** is a small software development project with a fee of $35k. The fee has been paid upfront and the work is approximately 60% complete. The development costs have been separately recorded. The lead computer programmer now believes the job is more complex than originally quoted for. He is unsure how many staff hours will be involved to complete the job and whether the hours spent to date are recoverable. Rathseed uses the percentage completion method to recognise revenue where the requirements of IAS 18 are met. The effective interest rate applicable to Rathseed is 8%.What amount should Rathseed recognise as revenue under IAS 18 for the year ended 30 June 20X4?A. $806,468.B. $835k.C. $771,468.D. $792,468. | **C** | * The $600k revenue has been earned (as performance obligation has been satisfied) = **$600k** revenue to be recognised in FYX4
* The $200k is variable consideration. According to IFRS 15, we should recognise the most likely amount (as the contract has only two outcomes). Rathseed are confident in receiving it, so the likely outcome is receiving $200k on 30 June 20X6 (2 years in future from June X4 year end, so we will need to discount this amount).
* We should discount the $200k revenue component by 8% over 2 years (=200k /(1.08)^2)= **$171,468**
* Performance obligation for Rathseeds 2nd contract has not been satisfied (*unsure how many staff hours will be involved to complete the job and whether the hours spent to date are recoverable*) therefore we should not recognise any revenue amount.
* Revenue to recognise in 20X4 year = $600k + $171,468 = $771,468 i.e. C is correct answer
 |
| Cheery-O Ltd (Cheery-O) recorded the following tax effect entries in accordance with IAS 12 Income Taxes (IAS 12) for the year ended 30 June 20X4:A. Current income tax expense of $200k and deferred income tax expense of ($75k) will be disclosed.B. Current income tax expense of $200k and deferred income tax expense of $75k will be disclosed.C. Current income tax expense of $275k will be disclosed.D. Current income tax expense of $125k will be disclosed. | **A** | * Refer to journals templates PDF
 |
| The accounting profit before tax of Beeswax Ltd (Beeswax) for the year ended 30 June 20X1 is $500k and includes the following income and expense items:* Profit on sale of equipment: $22k
* Employee entitlements expense $150k

**An extract from the SOFP at 30 June 20X1 includes the following liability**:- Employee entitlement provision of $78k in 20x1 and $60k in 20x0**Additional information:**• The tax profit on sale of equipment is $27k.• Employee entitlements are deductible when paid.• Included in the deferred tax asset balance at 30 June 20X4 is an amount of $8,400 relating to a tax loss of $30k that was recognised in the previous year. Taxation legislation allows these losses to be offset against future taxable profits.• The tax rate is 28%.What is the current tax liability for Beeswax for the year ended 30 June 20X4?A. $135,240.B. $144,088.C. $138,040.D. $141,288. | **C** | * Correct answer is $133,040 = C
* Start off with acct profit of **$500k**
* Employee exp to be added back as deductible for tax when paid, not accrued (says in question). So we need to include the movement in the provision **$18k**
* Tax adjustment for sale of equipment = **+5k**
* Taxable income = **$523k**
* Less ($30k) in tax losses **= $493k**

Current tax liability = $493k \* 28% = $138,040 = C |
| The financial accountant for Washington Water Ltd (WW) is preparing the company’s F/S and has identified the following transactions that occurred during the year:i. A share issue to raise the additional funds needed to open a new division.ii. Dividends declared.iii. A revaluation increment on property that had not previously been revalued.iv. Share of profit from an associate accounted for under the equity accounting method.How must the above transactions be disclosed in the statement of PLOCI in accordance with IAS 1 Presentation of F/S (IAS 1)?A. The share of profit from an associate accounted for under the equity accounting method will be disclosed in the statement of P&L section and the dividends declared will be disclosed in other comprehensive income.B. The share of profit from an associate accounted for under the equity accounting method will be disclosed in the statement of P&L section and the revaluation increment on property will be disclosed in other comprehensive income.C. The dividends declared will be disclosed in the statement of P&L section and the share of profit from an associateaccounted for under the equity accounting method will be disclosed in other comprehensive income.D. None of the items will be disclosed in the statement of P&L section and the revaluation increment on property will be disclosed in other comprehensive income. | **B** | * Refer to the diagram in the FIN notes showing an example layouts of key reports (e.g. PL,SOFP,SOCE)
* Dividends declared is an equity account on the SOFP & SOCE - **incorrect**
* Correct, see FIN notes - **Correct**
* Dividends declared is an equity account on the SOFP & SOCE - **incorrect**
* Share of profit from an associate accounted for under the equity accounting method. **incorrect**
 |
| In relation to the statement of cash flows prepared in accordance with IAS 7 Statement of Cash Flows (IAS 7), which of the following statements is correct?A. Any foreign currency cash flows are translated using the exchange rate that is current at the reporting date.B. An entity always includes any short-term investments in cash equivalents.C. Only financial institutions can report cash flows on a net basis.D. An entity can classify cash flows from interest as either operating, investing or financing activities. | **D** | * Cash flows arising from transactions in a foreign currency are translated at the exchange rate at the date of the cashflow, so **incorrect**
* Not all short-term investments have to be cash equivalent - **incorrect**
* Paragraph 22 sets out when a net basis can be use ( see notes) but its not just for financial institutions. – **incorrect**
* Correct, see table. Interest is mentioned in either payment or receipt form across operating, investing and financing categories (depending on business) - **correct**
 |
| Tinker Ltd (Tinker) recorded the following tax effect entries in accordance with IAS 12 Income Taxes (IAS 12) for the year ended 30 June 20x7:Tinker is now in the process of preparing its F/S and is looking at required disclosures.Which of the following statements is correct in relation to Tinker's disclosure requirements under IAS 12?A. Current income tax expense of $300k and deferred income tax expense of $40k will be disclosed.B. Current income tax expense of $260k will be disclosed.C. Current income tax expense of $300k and deferred income tax expense (income) of ($40k) will be disclosed.D. Current income tax expense of $340k will be disclosed. | **A** | See journal template in notes pack. |