

## A. Multiple Choice: (40%)

1. Which of these statements regarding the IFRS (iGAAP) and U.S. GAAP is correct:
  - a. U.S. GAAP is considered to be "principles-based" and more detailed than iGAAP
  - b. U.S. GAAP is considered to be "rules-based" and less detailed than iGAAP
  - c. iGAAP is considered to be "principles-based" and less detailed than U.S. GAAP
  - d. Both U.S. GAAP and iGAAP are considered to be "rules-based", but U.S. GAAP tends to be more complex
2. An iGAAP SoRIE statement might include all of the following except:
  - a. net income or loss
  - b. unrealized gains or losses on the revaluation of long-term assets
  - c. cumulative effect of a change in accounting principle
  - d. extraordinary gain or loss
3. Similarities between iGAAP and U.S. GAAP requirements for balance sheet presentation include all of the following except:
  - a. Both require that changes to the valuation reserve be disclosed in the notes to the financial statements
  - b. Both require disclosure of significant accounting policies
  - c. Both require the preparation of financial statements annually
  - d. Both generally require the use of the current/ non-current classification for both assets and liabilities
4. Genesis Company has seven loans receivable. The loans vary in size and have been extended to companies with different credit ratings. Given a downturn in the economy, it is expected that at least two of these loans will be impaired. Which of the following statements best describes the accounting for these loans under iGAAP:
  - a. iGAAP implies that the loans should be reported as an aggregated portfolio
  - b. iGAAP uses an incurred loss model rather than an expected loss model, so no impairment on each of the two loans is recognized until an identifiable event occurs and is measurable
  - c. Under iGAAP, when impairment is permitted, the balance on each of the impaired loans becomes the new basis for the loan
  - d. iGAAP uses an expected loss model, so the entire diverse portfolio should be written down based on the anticipated impairment
5. Which of the following best describes the iGAAP requirement for applying the same cost formula to all inventories:
  - a. When they are purchased from different suppliers
  - b. When they are purchased from the same geographic region
  - c. When they are similar in nature or use
  - d. When they sell for the same price
6. Starfish Company (a company using U.S. GAAP and LIFO inventory method) is considering

changing to iGAAP and the FIFO inventory method. How would a comparison of these methods affect Starfish's financials:

- a. During a period of inflation, the current ratio would decrease when iGAAP and the FIFO inventory method are used as compared to U.S. GAAP and LIFO
  - b. During a period of inflation, the taxes will decrease when iGAAP and the FIFO inventory method are used as compared to U.S. GAAP and LIFO
  - c. During a period of inflation, net income would be greater if iGAAP and the FIFO inventory method are used as compared to U.S. GAAP and LIFO
  - d. During a period of inflation, working capital would decrease when iGAAP and the FIFO inventory method are used as compared to U.S. GAAP and LIFO
7. State Company manufactured a forklift machine at a cost of \$50,000. The product is sold for \$55,000 at a 5% discount. The delivery costs are estimated to be \$5,000. Under iGAAP, how much should be the carrying amount of this inventory:
- a. \$50,000
  - b. \$55,000
  - c. \$45,000
  - d. \$47,250
8. Danson Company, a company who uses iGAAP reporting standards, has a non-current asset that has been classified as held-for-sale. When the asset no longer meets this definition, Danson should:
- a. Remove the asset from the balance sheet
  - b. Remeasure the asset at fair value
  - c. Measure the asset at the lower of its carrying value before it was classified as held-for-sale and its recoverable amount at the date when the company decided not to sell it
  - d. Leave the non-current asset on the financial statements at the current carrying value
9. The accounting exchanges of nonmonetary assets has recently converged between iGAAP and U.S. GAAP now requires:
- a. that gains on exchanges of nonmonetary assets be recognized if the exchange has commercial substance
  - b. that gains on exchanges of nonmonetary assets be recognized if the exchange does not have commercial substance
  - c. that gains on exchanges of nonmonetary assets be recognized if the exchange does not have commercial substance, and has never been impaired
  - d. All of the above
10. Under iGAAP, costs in the development phase are:
- a. capitalized on an interim basis, but then expensed prior to the end of the company's fiscal year
  - b. capitalized once technological feasibility is achieved
  - c. capitalized if they exceed development phase costs incurred for previously successful ventures

- d. never capitalized, but expensed as they are under U.S. GAAP
11. A concern with iGAAP is that its less-stringent rules for establishing restructuring liabilities could be used as:
- a more appropriate method than that employed under U.S. GAAP
  - an appropriate method, but complex and difficult to explain to shareholders
  - a method readily employed to make the understanding of financial information more comprehensible to shareholders
  - an earnings management tool
12. The iGAAP statement of recognized income and expenses:
- does not recognize charges to equity such as revaluation surplus values
  - is a required report under iGAAP reporting requirements
  - reports the items that were charged directly to equity such as revaluation surplus
  - is similar to the U.S. GAAP income statement in that it only reports revenues and expenses of the period
13. With regard to recognizing stock-based compensation under iGAAP the fair value of shares and options awarded to employees is recognized:
- in the first fiscal period of the employees' service
  - over the fiscal periods to which the employees' services relate
  - in the last fiscal period of the employees' service when the total value can be calculated
  - after last fiscal period of the employees' service when the total value can be calculated
14. iGAAP for revenue recognition:
- is enforced by an international enforcement body, the IASB, which is comparable to the U.S. SEC
  - bases revenue recognition on the concepts of "earned" and "realized or realizable"
  - permits use of the completed-contract method when costs are difficult to estimate
  - contains limited industry-specific guidance
15. The International Accounting Standards Board has proposed changes to iGAAP pension accounting including all of the following except:
- a new category of pensions for accounting purpose – "contribution-based promises"
  - requiring recognition of actuarial gains and losses over the expected service lives of employees
  - different presentation of pension costs in the income statement
  - elimination of smoothing via the corridor approach
16. Which of the following is false regarding the accounting for pensions under iGAAP and U.S. GAAP:
- Prior service cost is recognized on the balance sheet under U.S. GAAP only
  - Under U.S. GAAP companies must amortize actuarial gains and losses over the expected service lives of employees

- c. Prior service cost is amortized into income over the expected service lives of employees under U.S. GAAP only
- d. Under iGAAP companies may recognize actuarial gains and losses in income immediately
17. Which of the following statements is true when comparing the accounting for leasing transactions under U.S. GAAP with iGAAP:
- a. iGAAP requires that companies provide a year-by-year breakout of future noncancelable lease payments due in years 1 through 5
- b. iGAAP for leases is more "rules-based" than U.S. GAAP and includes many bright-line criteria to determine ownership
- c. The iGAAP leasing standard is the subject of over 30 interpretations since its issuance in 1982
- d. iGAAP does not provide detailed guidance for leases of natural resources, sale-leasebacks, and leveraged leases
18. Detailed guidance regarding the accounting and reporting for the indirect effects of changes in accounting principle is available under:
- a. both U.S. GAAP and iGAAP
- b. neither U.S. GAAP nor iGAAP
- c. U.S. GAAP only
- d. iGAAP only
19. Which of the following is false with regard to iGAAP and the statement of cash flows:
- a. The IASB is strongly in favor of requiring use of the direct method for operating activities
- b. In certain circumstances under iGAAP, bank overdrafts are considered part of cash and cash equivalents
- c. iGAAP requires that noncash investing and financing activities be excluded from the statement of cash flows
- d. All of the above statements are false with regard to iGAAP and the statement of cash flows
20. Challenges to convergence of iGAAP with U.S. GAAP include all of the following except:
- a. cultural differences exist between countries
- b. the litigious environment in the U.S. is best suited to very detailed standards
- c. legal barriers to change include the difficulty associated with changing loan covenants
- d. political issues result in politicians setting the final accounting standards

**B. Problems:**

1. The Culture Tech Company adopted a defined benefit pension plan on January 1, 2007, and prior service credit was granted to employees. As of January 1, 2007, the prior service cost is \$76,843. The unrecognized prior service cost is amortized by the straight-line method over the remaining 10-year service life of the company's active employees. Funding for the pension plan was \$161,236 and \$176,616 at December 31, 2007 and 2008, respectively. Additional information relating to the company's pension plan is presented below:

	2007	2008
Annual service cost	\$166,806	\$186,127
Interest rate	10%	10%
Expected (and actual) return on plan assets	12%	12%
Fair value of plan assets	\$165,789	

Required: (20%)

- (1) What is the correct amount of the projected benefit obligation as of December 31, 2007? Show computations and round to the nearest dollar. (5%)
  - (2) What is the balance in the pension plan fund as of December 31, 2008? Show computations and round to the nearest dollar. (5%)
  - (3) If the accumulated benefit obligation is \$168,892 as of December 31, 2007, prepare the entry to record the additional pension liability as of December 31, 2007. Show computations. (5%)
  - (4) Prepare the journal entry to record the pension expense and the funding as of December 31, 2008. Show computations and round to the nearest dollar. (5%)
2. Hwa-Kang Company on January 1, 2011, enters into a five-year noncancelable lease, with four renewal options of one year each, for equipment having an estimated useful life of 10 years and a fair value to the lessor, Culture Corp., at the inception of the lease of \$3,000,000. Hwa-Kang's incremental borrowing rate is 8%. Hwa-Kang uses the straight-line method to depreciate its assets. The lease contains the following provisions:
- (1) Rental payments of \$219,000 including \$19,000 for property taxes, payable at the beginning of each six-month period.
  - (2) A termination penalty assuring renewal of the lease for a period of four years after expiration of the initial lease term.
  - (3) An option allowing the lessor to extend the lease one year beyond the last renewal exercised by the lessee.
  - (4) A guarantee by Hwa-Kang Company that Culture Corp. will realize \$100,000 from selling the asset at the expiration of the lease. However, the actual residual value is expected to be \$60,000.

Required: (20%)

- (1) What kind of lease is this to Hwa-Kang Company? (2%)
- (2) What should be considered the lease term? (2%)
- (3) What are the minimum lease payments? (2%)
- (4) What is the present value of the minimum lease payments? (PV factor for annuity due of 20 semi-annual payments at 8% annual rate, 14.13394; PV factor for amount due in 20 interest periods at 8% annual rate, .45639.) (Round to nearest dollar.) (2%)
- (5) What journal entries would Hwa-Kang record during the first year of the lease? (Include an amortization schedule through 1/1/12 and round to the nearest dollar.) (12%)

3. Uniqlo Company's net incomes for the past three years are presented below:

<u>2010</u>	<u>2009</u>	<u>2008</u>
\$480,000	\$450,000	\$360,000

During the 2010 year-end audit, the following items come to your attention:

- (1) Uniqlo bought a truck on January 1, 2007 for \$196,000 with a \$16,000 estimated salvage value and a six-year life. The company debited an expense account and credited cash on the purchase date for the entire cost of the asset. (Straight-line method)
- (2) During 2010, Uniqlo changed from the straight-line method of depreciating its cement plant to the double-declining balance method. The following computations present depreciation on both bases:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Straight-line	36,000	36,000	36,000
Double-declining	46,080	57,600	72,000

The net income for 2010 was computed using the double-declining balance method, on the January 1, 2010 book value, over the useful life remaining at that time. The depreciation recorded in 2010 was \$72,000.

- (3) Uniqlo, in reviewing its provision for uncollectibles during 2010, has determined that 1% is the appropriate amount of bad debt expense to be charged to operations. The company had used 1/2 of 1% as its rate in 2009 and 2010 when the expense had been \$18,000 and \$12,000, respectively. The company recorded bad debt expense under the new rate for 2010. The company would have recorded \$6,000 less of bad debt expense on December 31, 2010 under the old rate.

Required: (20%)

- (1) Prepare in general journal form the entry necessary to correct the books for the transaction in part 1 of this problem, assuming that the books have not been closed for the current year. (4%)
- (2) Compute the net income to be reported each year 2008 through 2010. (6%)
- (3) Assume that the beginning retained earnings balance (unadjusted) for 2008 was \$1,260,000. At what adjusted amount should this beginning retained earnings balance for 2008 be stated, assuming that comparative financial statements were prepared? (5%)
- (4) Assume that the beginning retained earnings balance (unadjusted) for 2010 is \$1,800,000 and that non-comparative financial statements are prepared. At what adjusted amount should this beginning retained earnings balance be stated? (5%)