



PILOT PAPER

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Paper - I

(Marks 100)

(3 hours)

Roll No. _____

NOTE: The actual papers shall consist of 100 questions whereas only 20 questions have been included in this PILOT PAPER, to give the candidates an idea of the type and standard of questions.

INSTRUCTIONS:

- (a) All answers must be marked on the Question Paper by crossing the correct answer (SEE QUESTION 1).
- (b) The question paper shall be returned to the invigilator, after completion.
- (c) Select the most appropriate answer from the options available for each question.
- (d) There will be no negative marking for incorrect replies.

1. According to the Framework for the Preparation and Presentation of Financial Statements, an item that meets the definition of an element should be recognized, if:

- (a) it is probable that any future economic benefit associated with the item will flow to or from the entity.
- (b) the element has a cost or value that can be measured with reliability.
- (c) the entity obtains controls of the rights or obligations associated with the item.
- (d) it is probable that any future economic benefit associated with the item will flow to or from the entity and the item has a cost or value that can be measured with reliability.

2. On July 1, 2007, Silver Limited (SL) acquired 30% ordinary share capital of Violet Ltd. (VL) for Rs. 150 million. The fair value of the assets of VL at that date was Rs. 400 million. The company accounted for this investment as held for sale.

On April 1, 2008, SL purchased a further 50% of VL's ordinary share capital for Rs. 280 million when the fair value of VL's net assets was Rs. 480 million.

What would be the value of goodwill that SL should recognize in its consolidated financial statements for the year ended June 30, 2008?

- (a) Rs. 175 million
- (b) Rs. 104 million
- (c) Rs. 70 million
- (d) Rs. 46 million

3. Which of the following costs may not be eligible for capitalization as borrowing costs under IAS 23 "Borrowing Costs"?

- (a) Amortization of discounts or premiums relating to borrowings that qualifies for capitalization.
- (b) Imputed cost of equity
- (c) Exchange difference arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs pertaining to qualifying assets.
- (d) Finance charges in respect of finance leases recognized in accordance with IAS-17 "Leases".

4. Which of the following **is not a characteristic** of a derivative financial instrument?
- (a) its value changes in response to a change in a specified variable such as interest rate, commodity price, foreign exchange price, etc.
 - (b) it is valued at cost.
 - (c) it is settled at a future date.
 - (d) it requires little or no initial net investment.
5. Green Ltd. manufactures and sells Electronic Tracking Device (ETD). The stock of ETD was included in the closing inventory as of June 30, 2008, at a cost of Rs. 5,000 per unit.
- The sale price of ETD at July 15, 2008 was Rs. 4,800 per unit. In the following week, due to a standard manufacturing fault in all ETDs, Green Ltd. has spent a total of Rs. 700 per unit for bringing the ETDs to its salable conditions.
- The net realizable value and inventory write down as on June 30, 2008 should amount to:
- (a) Rs. 4,800 and Rs. 200 respectively
 - (b) Rs. 4,100 and Rs. 700 respectively
 - (c) Rs. 4,300 and Rs. 500 respectively
 - (d) Rs. 4,100 and Rs. 900 respectively
6. If a company issues interim bonus shares to its ordinary shareholders then:
- (a) Basic and diluted earnings per share will be adjusted for current period only.
 - (b) Basic and diluted earnings per share will be adjusted for current and previous years.
 - (c) Only diluted earnings per share will be adjusted for current and previous years.
 - (d) No adjustment is required for basic and diluted earnings per share.
7. Blue Limited operates a defined benefit gratuity scheme for its employees. The company uses corridor approach for the recognition of actuarial gains and losses in accordance with the requirements of IAS-19 "Employee Benefits". At June 30, 2008, the present value of the defined benefit obligations was Rs. 372 million. Unrecognized actuarial gains at that date were Rs. 14 million and the fair value of plan assets was Rs. 338 million. The average remaining useful lives of employees is assumed to be 20 years.
- What will be the value of net liability for inclusion in the company's statement of financial position at June 30, 2008?
- (a) Rs. 34 million
 - (b) Rs. 20.7 million
 - (c) Rs. 48 million
 - (d) Rs. 20 million
8. Which of the following is not dealt with by IAS-41 "Agriculture"?
- (a) The accounting for biological assets.
 - (b) The initial measurement of agricultural produce harvested from the entity's biological assets.
 - (c) The processing of agricultural produce after harvesting.
 - (d) The accounting treatment of government grant received in respect of biological assets.
9. The current liabilities of Brown Limited include provision for fines and penalties amounting to Rs. 20 million. The applicable tax rate is 35%. The provision for fine and penalties are not deductible for tax purposes. What is the tax base of this provision?
- (a) Rs. 20 million
 - (b) Rs. 7 million
 - (c) Rs. 13 million
 - (d) Nil

10. During the current year, Orange Ltd. has changed its method of depreciation from straight line to reducing balance method. The company should account for this change as:
- a change in accounting estimate and account for it prospectively.
 - a change in accounting policy and account for it prospectively.
 - a change in accounting policy and account for it retrospectively.
 - a correction of error and account for it retrospectively.
11. On June 25, 2008, Grey Limited signed a contract for supply, installation and commissioning of 10 passenger lifts to the customers' premises. Under the terms of the contract, Grey Limited is required to provide a bank guarantee of Rs. 20 million for satisfactory performance of the contract. On July 2, 2008, the company applied to its bank for a letter of guarantee which was issued on July 12, 2008. The audited financial statements have been authorized to be issued on August 8, 2008.
- How should the amount of Rs. 20 million be treated in the company's financial statements for the year ended June 30, 2008?
- as long term payable.
 - as a contingent liability.
 - as an expenditure.
 - may neither be recorded nor disclosed.
12. According to IAS-36 "Impairment of Assets" the value-in-use means the:
- market value
 - discounted present value of future cash flows arising from use of the asset and from its disposal.
 - fair value of the asset less cost to sell and the asset's carrying value, whichever is higher.
 - Carrying value.
13. Pink Limited (PL) buys goods amounting to Rs. 100 million from its wholly owned subsidiary Golden Limited (GL). The price was determined by adding markup of 25% on cost. 25% of the goods remained in PL's inventory. Which one of the following is the correct consolidation adjustment in respect of the inventory?
- (Dr.) Consolidated cost of sales Rs. 5 million (Cr.) Consolidated inventory Rs. 5 million
 - (Dr.) Consolidated cost of sales Rs. 25 million (Cr.) Consolidated inventory Rs. 25 million
 - (Dr.) Receivable from GL Rs. 5 million (Cr.) Consolidated inventory Rs. 5 million
 - (Dr.) Consolidated cost of sales Rs. 6.25 million (Cr.) Consolidated inventory Rs. 6.25 million
14. How is goodwill arising on the acquisition of an associate, dealt with in the financial statements?
- Initially it is recorded at cost of investment less net assets acquired and then amortized over a period not exceeding 20 years.
 - Initially it is recorded at cost of investment less net assets acquired and then tested for impairment at a regular interval.
 - It is written off against profit or loss.
 - Goodwill is not recognized separately.
15. Black Limited has purchased 25% of its own shares. According to IAS-32 "Financial Instruments – disclosure and presentation" these shares should be classified as:
- long term investment
 - short term investment
 - deduction from equity
 - long term liability

16. On December 15, 2007, Tan Ltd. acquired a wholly owned subsidiary with a view to selling it. The subsidiary meets the criteria to be classified as held for sale. If the subsidiary remains unsold at the close of the year on June 30, 2008 how will it be valued in the statement of financial position?
- At fair value.
 - At cost or fair value less cost to sell, whichever is lower.
 - At carrying value.
 - The subsidiary should be consolidated in accordance with IAS-27 “Consolidated and Separate Financial Statements”.
17. Which of the following expenditure is not recognized as exploration and evaluation asset under IFRS 6 “Exploration for and Evaluation of Mineral Resources”?
- Expenditure for trenching
 - Expenditure for exploratory drilling
 - Expenditure related to the development of mineral resources
 - Expenditure for sampling
18. Due to worker unrest and strike, Yellow Ltd. has decided to shut down one of its factory. The company plans to sell this factory. It should:
- classify the factory as investment property.
 - classify the factory as property, plant and equipment.
 - classify the factory as property held for sale in the ordinary course of business.
 - write off the net book value and disclose that fact in the notes to the financial statements.
19. Purple Limited operates in a hyperinflationary economy. Following are the details of its equity:

	30-Jun-08	30-Jun-08 (restated)
	-----in million-----	
Share Capital	100	240
Revaluation Reserve	40	?
Retained Earnings	80	?
	220	390

What would be the balances on the revaluation reserve and retained earnings after the restatement?

- Revaluation reserve 0, retained earnings 150 million.
 - Revaluation reserve 150 million, retained earnings 0
 - Revaluation reserve 40 million, retained earnings 110 million
 - Revaluation reserve 50 million, retained earnings 100 million
20. White Ltd., a manufacturer and seller of plastic products, has a policy to refund the full price within 60 days of sale if the customer is not satisfied with the product. On an average, the goods are returned within 20 days. When should White Ltd. recognize the revenue?
- After 60 days of sale.
 - After 40 days of sale.
 - After 20 days of sale.
 - When goods are sold to the customers.

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