

※ 考生請注意：本試題可使用計算機。請於答案卷(卡)作答，於本試題紙上作答者，不予計分。

**A. Single Choice Questions (60%)**

1. All of the following statements are true regarding IAS 7, **except**:

- (a) The objective of this Standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a statement of cash flows which classifies cash flows during the period from operating, investing and financing activities.
- (b) The objective of IAS 7 is to analyze working capital as a basis of all cash flow activities.
- (c) Under IAS, cash flows of an entity are seen as useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilize those cash flows.
- (d) IAS 7 indicates that cash flows related to interest received and paid, and dividends received and paid, should be separately disclosed in the statement of cash flows.

2. Jarvis, Inc. reported net income of €34,000 for the year ended December 31, 2019. Included in net income were depreciation expense of €8,400 and a gain on sale of equipment of €1,700. Each of the following accounts increased during 2019:

Accounts receivable	€2,200
Inventory	€4,500
Prepaid rent	€6,800
Non-trading investment	€1,000
Accounts payable	€5,000

What is the amount of cash provided by operating activities for Jarvis, Inc. for the year ended December 31, 2019?

- (a) €31,200
- (b) €33,900
- (c) €22,200
- (d) €32,200

Questions 3 through 6 are based on the data shown below related to the statement of cash flows for Putnam, Inc.:

Putnam, Inc.  
Comparative Statement of Financial Position  
December 31,

	<u>2019</u>	<u>2018</u>
<b>Assets:</b>		
<b>Plant Assets:</b>		
Property, Plant & Equipment	€2,190,000	€1,440,000
Accumulated Depreciation	<u>(450,000)</u>	<u>(270,000)</u>
Total Plant Assets	1,740,000	1,170,000
Long-Term Investments	225,000	
<b>Current Assets:</b>		
Prepaid Expenses	351,000	315,000
Inventory	1,950,000	1,260,000
Accounts Receivable (net)	1,560,000	1,080,000
Cash	<u>690,000</u>	<u>540,000</u>
Total Current Assets	<u>4,451,000</u>	<u>3,195,000</u>
Total Assets	<u>€6,516,000</u>	<u>€4,365,000</u>
<b>Equities:</b>		
<b>Equity:</b>		
Share Capital-Ordinary	€3,000,000	€2,400,000
Retained Earnings	906,000	588,000

Long-Term Notes Payable	825,000	—
Current Liabilities:		
Accounts Payable	1,275,000	1,095,000
Accrued Expenses	309,000	282,000
Dividends Payable	201,000	
Total Current Liabilities	<u>1,785,000</u>	<u>1,377,000</u>
Total Equities	<u>€6,516,000</u>	<u>€4,365,000</u>

Putnam, Inc.  
Comparative Income Statements

	December 31,	
	2019	2018
Net Credit Sales	€7,020,000	€3,753,000
Cost of Goods Sold	<u>3,915,000</u>	<u>1,881,000</u>
Gross Profit 3,105,000	1,872,000	
Expenses (including Income Tax)	<u>2,586,000</u>	<u>1,374,000</u>
Net Income	<u>€ 519,000</u>	<u>€ 498,000</u>

Additional Information:

- I. Accounts receivable and accounts payable relate to merchandise held for sale in the normal course of business. The allowance for bad debts was the same at the end of 2019 and 2018, and no receivables were charged against the allowance. Accounts payable are recorded net of any discount and are always paid within the discount period.
  - II. The proceeds from the note payable were used to finance the acquisition of property, plant, and equipment. Ordinary shares were sold to provide additional working capital.
3. What amount of cash was collected from 2019 accounts receivable?
    - (a) €7,500,000.
    - (b) €7,020,000.
    - (c) €6,540,000.
    - (d) €3,270,000.
  4. What amount of cash was paid on accounts payable to suppliers during 2019?
    - (a) €4,605,000.
    - (b) €4,425,000.
    - (c) €4,095,000.
    - (d) €3,735,000.
  5. The amount to be shown on the cash flow statement as net cash provided by investing activities would total what amount?
    - (a) €225,000.
    - (b) €750,000.
    - (c) €795,000.
    - (d) €975,000.
  6. The amount to be shown on the cash flow statement as net cash provided by financing activities would total what amount?
    - (a) €1,425,000.
    - (b) €825,000.
    - (c) €600,000.
    - (d) €408,000.

7. Black, Inc. is a calendar-year corporation whose financial statements for 2015 and 2016 included errors as follows:

<u>Year</u>	<u>Ending Inventory</u>	<u>Depreciation Expense</u>
2018	\$162,000 overstated	\$135,000 overstated
2019	54,000 understated	45,000 understated

Assume that purchases were recorded correctly and that no correcting entries were made at December 31, 2018, or at December 31, 2019. Ignoring income taxes, by how much should Black's retained earnings be retroactively adjusted at January 1, 2020?

- (a) \$144,000 increase
  - (b) \$36,000 increase
  - (c) \$18,000 decrease
  - (d) \$9,000 increase
8. The amount to be recorded as the cost of an asset under finance lease is equal to the
- (a) present value of the lease payments.
  - (b) present value of the lease payments or the fair value of the asset, whichever is lower.
  - (c) present value of the lease payments plus the present value of any unguaranteed residual value.
  - (d) carrying value of the asset on the lessor's books.
9. Jamar Co. sold its headquarters building at a gain, and simultaneously leased back the building. The lease was reported as a finance lease. At the time of the sale, the gain should be reported as
- (a) a deferred gain.
  - (b) comprehensive income net of income tax.
  - (c) a separate component of equity.
  - (d) operating income.
10. Kraft, Inc. sponsors a defined-benefit pension plan. The following data relates to the operation of the plan for the year 2019.

Service cost	€ 200,000
Contributions to the plan	220,000
Actual return on plan assets	180,000
Defined benefit obligation (beginning of year)	2,400,000
Fair value of plan assets (beginning of year)	1,600,000

The discount rate was 10%. The amount of pension expense reported for 2019 is

- (a) €200,000.
  - (b) €260,000.
  - (c) €280,000.
  - (d) €440,000.
11. Under IFRS deferred tax assets are recognized for
- I. Deductible temporary differences.
  - II. Deductible permanent differences.
  - III. Operating loss carryforwards.
  - IV. Operating loss carrybacks.
- (a) I, II, and III.
  - (b) I and III only.
  - (c) I and IV only.
  - (d) II and III only.

12. Assuming a 40% statutory tax rate applies to all years involved, which of the following situations will give rise to reporting a deferred tax liability on the balance sheet?

- I. A revenue is deferred for financial reporting purposes but not for tax purposes.
- II. A revenue is deferred for tax purposes but not for financial reporting purposes.
- III. An expense is deferred for financial reporting purposes but not for tax purposes.
- IV. An expense is deferred for tax purposes but not for financial reporting purposes.

- (a) item II only
- (b) items I and II only
- (c) items II and III only
- (d) items I and IV only

13. Lehman Corporation purchased a machine on January 2, 2017, for £2,000,000. The machine has an estimated 5-year life with no residual value. The straight-line method of depreciation is being used for financial statement purposes and the following accelerated depreciation amounts will be deducted for tax purposes:

2017	£400,000	2020	£230,000
2018	640,000	2021	230,000
2019	384,000	2022	116,000

Assuming an income tax rate of 30% for all years, the net deferred tax liability that should be reflected on Lehman's statement of financial position at December 31, 2018, should be

Deferred Tax Liability

	<u>Current</u>	<u>Noncurrent</u>
(a)	£0	£72,000
(b)	£4,800	£67,200
(c)	£67,200	£4,800
(d)	£72,000	£0

14. If a contract involves a significant financing component,

- (a) the time value of money is used to determine the fair value of the transaction.
- (b) the time value of money is not required to determine transaction price, if the payment is scheduled to occur in more than a year.
- (c) the transaction amount should be based on the current sales price of goods or services.
- (d) interest must be accrued on the current sales price of goods or services.

15. How should the balances of Progress Billings and Construction in Process be shown at reporting dates prior to the completion of a long-term contract?

- (a) Progress Billings as deferred income, Construction in Progress as a deferred expense.
- (b) Progress Billings as income, Construction in Process as inventory.
- (c) Net balance, as a current asset if debit balance, and current liability if credit balance.
- (d) Net balance, as income from construction if credit balance, and loss from construction if debit balance.

16. The transaction price

- (a) excludes discounts, volume rebates, coupons and free products, or services.
- (b) is the amount of consideration that a company expects to receive from a customer
- (c) excludes time value of money if the contract involves a significant financing component.
- (d) does not consider noncash consideration such as donations, gifts, equipment or labor.

17. New Age Computers manufactures and sells pagers and radio paging systems which include a 180 day warranty on product defects. It also sells an extended warranty which provides an additional two years of protection. On May 10, it sold a paging system for €4,500 and an extended warranty for another €1,400. The journal entry to record this transaction would include

- (a) a credit to Warranty Revenue of €5,900.
- (b) a credit to Warranty Revenue of €1,400
- (c) a credit to Sales of €4,500 and a credit to Warranty Revenue of €1,400
- (d) a credit to Unearned Warranty Revenue of €1,400.

18. Royce Company holds a portfolio of debt investments. The debt investments are not held-for-collection but managed to profit from interest rate changes. As a result, it accounts for these investments at fair value. As part of its strategic planning process, completed in the fourth quarter of 2018, Royce management decides to move from its prior strategy—which requires active management—to a held-for-collection strategy for these debt investments. The company will account for this change

	<u>Method</u>	<u>Implementation</u>
(a)	Retrospectively	2018
(b)	Prospectively	2019
(c)	Retrospectively	2019
(d)	Prospectively	2018

19. On January 1, 2019 Reese Company granted Jack Buchanan, an employee, an option to buy 100 shares of Reese Co. shares for €40 per share, the option exercisable for 5 years from date of grant. Using a fair value option pricing model, total compensation expense is determined to be €1,200. Buchanan exercised his option on September 1, 2019, and sold his 100 shares on December 1, 2019. Quoted market prices of Reese Co. shares during 2019 were:

January 1	€40 per share
September 1	€48 per share
December 1	€54 per share

The service period is for two years beginning January 1, 2019. As a result of the option granted to Buchanan, using the fair value method, Reese should recognize compensation expense for 2019 on its books in the amount of

- (a) €0.
- (b) €600.
- (c) €1,200
- (d) €1,400

20. In determining diluted earnings per share, dividends on nonconvertible cumulative preference shares should be

- (a) disregarded.
- (b) added back to net income whether declared or not.
- (c) deducted from net income only if declared.
- (d) deducted from net income whether declared or not.

### B. Calculation (40%)

1. Windsor Windows manufactures and sells custom storm windows for enclosed porches. Windsor also provides installation service for the windows. The installation process does not involve changes in the windows, so this service can be provided by other vendors. Windsor enters into the following contract on June 1, 2018, with a local homeowner. The customer purchases windows for a price of £4,700 and chooses Windsor to do the installation. Windsor charges the same price for the windows irrespective of whether it does the installation or not. The price of the installation service is estimated to have a fair value of £1,200. The customer pays Windsor £4,000 (which equals the fair value of the windows, which have a cost of £2,300) upon delivery and the remaining balance upon installation of the windows. The windows are delivered on August 1, 2018, Windsor completes installation on September 15, 2018, and the customer pays the balance due. Prepare the journal entries for Windsor in 2018. (Round amounts to nearest dollar.) (15%)
2. The following differences enter into the reconciliation of financial income and taxable income of Abbott Company for the year ended December 31, 2017, its first year of operations. The enacted income tax rate is 30% for all years.

Pretax accounting income	€700,000
Excess tax depreciation	(320,000)
Litigation accrual	70,000
Unearned rent revenue deferred on the books but appropriately recognized in taxable income	50,000
Interest received on government obligations	<u>(20,000)</u>
Taxable income	<u>€480,000</u>

- (i) Excess tax depreciation will reverse equally over a four-year period, 2018-2021.
- (ii) It is estimated that the litigation liability will be paid in 2021.
- (iii) Rent revenue will be recognized during the last year of the lease, 2021.
- (iv) Interest received on government obligations is expected to be \$20,000 each year until their maturity at the end of 2021.

**Instructions:**

- (a) Since this is the first year of operations, there is no beginning deferred tax asset or liability. Compute the net deferred tax expense (benefit). (5%)
- (b) Prepare the journal entry to record income tax expense, deferred taxes, and the income taxes payable for 2017. (8%)

3. Vance Company reported net incomes for a three-year period as follows:

2017, \$186,000; 2018, \$189,000; 2019, \$180,000.

In reviewing the accounts in 2020 after the books for the prior year have been closed, you find that the following errors have been made in summarizing activities:

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Overstatement of ending inventory	\$42,000	\$51,000	\$24,000
Understatement of accrued advertising expense	6,600	12,000	7,200

**Instructions**

- (a) Determine corrected net incomes for 2017, 2018, and 2019. (9%)
- (b) Give the entry to bring the books of the company up to date in 2020, assuming that the books have been closed for 2019. (3%)