

**ACCOUNTING, FINANCE AND CONTROL 2018-2019**

**MULTIPLE CHOICE TEST– FINANCIAL STATEMENT RECOVERY**

**For each question, select the correct answer (only 1 answer is correct)**

1. The Income Statement:

- ☐ Can be prepared through a Direct or Indirect Method;
- ☐ Can be prepared according to both an accrual or a cash logic;
- ☐ Provides a picture of the resources the company has at a specific point in time;
- ☒ Can be prepared aggregating costs on the basis of the activities they are referred to.

2. Which is the difference between the Income Statement by Nature and by Function (or by destination)?

- ☐ In the Income Statement by Function, costs are aggregated in raw materials costs, staff costs, depreciation and amortisation and so on;
- ☒ In the Income statement by Function costs are aggregated in product and period costs;
- ☐ There is no difference;
- ☐ EBIT has a different value.

3. According to Accounting Conservatism (i.e, prudence):

- ☐ Possible gains should be anticipated and registered as soon as possible;
- ☒ Possible future losses should be anticipated and registered as soon as possible;
- ☐ Both assets and liabilities are potentially understated;
- ☐ Both revenues and expenses are potentially understated.

4. According to IAS/IFRS, preparing the Cash Flow Statement through an Indirect Method requires:

- ☐ Starting from the Gross Margin of the year;
- ☐ Adjusting EBIT, subtracting, among others, Depreciation and Amortization;
- ☒ Considering changes in Net Working Capital across two sequent years;
- ☐ Starting from the Revenues of the year.

5. Which one of the following sentences on the Balance Sheet is TRUE?

- ☐ The amount of TOTAL NON CURRENT ASSETS is always equal to the TOTAL amount of NON CURRENT LIABILITIES;
- ☐ The amount of FIXED ASSETS is always equal to the TOTAL LIABILITIES;
- ☒ **SHAREHOLDERS' EQUITY = TOTAL ASSETS – THIRD PART LIABILITIES**
- ☐ None of the above

6. The *Fair Value method*:

- ☐ Reflects market conditions with lower cost and time respect to the *Cost method*;
- ☐ Is a less transparent method than the *Cost method*;
- ☐ Does not requires assumptions;
- ☒ **None of the above.**

7. Company A issues new capital for 10,000 k€ in 2018. Consider the following data:

- Share premium reserve = 100,000 k€
- Revaluation reserve = 200,000 k€
- Other Reserves = 400,000 k€
- Retained Earnings = 300,000 k€
- Net Earnings 2017 = 400,000 k€

*How does this decision impact its financial statements?*

- ☒ **Equity increases of 10,000 k€**
- ☐ Equity decreases for 10,000 k€
- ☐ Other reserves increase of 10,000 k€
- ☐ None of the above.

8. In February 2018, Company A signs a contract of 50,000 € with a Distributor to manage the distribution of the products that will be sold in 2018.

Company A pays the half of the contract value in 2018, the other half in February 2019.

Which one of the followings is TRUE?

- ☐ Distribution Costs in the 2018 Income Statement of Company A = 25,000 €
- ☐ Cash Outflows registered in the 2018 Cash Flow Statement of Company A = 50,000 €
- ☒ **Company A registers 50,000 € as Distribution Costs in its Income Statement BY FUNCTION in 2018;**

- ☐ Company A registers 50,000 € as Distribution Costs in its Income Statement BY NATURE in 2018.
9. Company A bought on December 31<sup>st</sup>, 2016 a building for 800,000 k€ (useful life of 40 years, amortized straight line from 2017), with the aim of renting it out. In December 2018, the company verifies the market value of the building and identifies (through the Fair Value method) a decrease in its value of 10,000 k€  
Which one of the followings is TRUE?
- ☐ Company A registers the asset at 760,000 k€ in Property Plant and Equipment;
- ☒ 10,000 k€ are recorded as impairment losses in Income Statement;
- ☐ 10,000 k€ are recorded as impairment losses in the Balance Sheet;
- ☐ None of the above.
10. Company B has an equipment, bought on January 1<sup>st</sup>, 2013. It has an 8 years-long useful life and a value of 60,000 k€ in the Balance Sheet of 2017. Considering that:
- From 2013 to 2017, no re-valuation nor impairment occurred;
  - From 2013 to 2017 the equipment was amortized straight-line;
  - On January 1<sup>st</sup>, 2018, the asset was re-evaluated: its value increases for 6,000 k€
- Therefore:
- ☐ Firm B bought the equipment on 1st January 2013 for 100,000 k€
- ☐ Probably, an impairment test occurred and the item evaluated at 66.000 k€
- ☒ The item will be depreciated in the next years;
- ☐ None of the above.

*Solution*

*Considering Value on 1<sup>st</sup> January 2013 = X*

$$\text{Amortization} = \frac{X}{8}$$

*Amortization occurred for 5 years, from 2013 to 2017.*

$$\text{Value in the end of 2017} = X - \left(\frac{X}{8}\right) * 5$$

$$60,000 \text{ k€} = \frac{3}{8} X$$

$$X = 160,000 \text{ k€}$$

11. Company A decides to pay Company B for managing all service activities related to its industrial plants (maintenance, management and control services, cleaning, repairing). The 2 years-long contract between the two companies was signed on October 1<sup>st</sup>, 2016. Company A pays 6,000 k€/ year to company B for its services ex-post on September 30<sup>th</sup>, 2017 and September 30<sup>th</sup>, 2018.

- ☐ The cost related to such activity in 2016 can be found in other current financial assets of Company A (Balance Sheet);
- ☐ Operating Costs in Profit and Loss Account of 2017 are not affected by this operation;
- ☒ Other Operating Cost increase for 6,000 k€ in 2017;
- ☐ None of the above

### Further Questions & Exercises

12. Company A on January 1<sup>st</sup>, 2017 asks for a 15 month-long debt. Overall, financial interests related to such debts are 2,250 k€ They will all be paid at the maturity of the debt. Which one of the following sentences is TRUE?

- ☒ The cost for 2017 is accounted in *Other Current Financial Liabilities* in 2017;
- ☐ In 2018, only items of Balance Sheet and Cash Flow Statement are touched;
- ☐ Other Current Financial Liabilities in 2018 remain the same as in 2017;
- ☐ Financial Expenses accounted in the Balance Sheet of 2018 = -750 k€

13. Which one of the following sentences about Goodwill is TRUE?

- ☐ The item named “*Goodwill*” can be found in the *Cash Flow Statement*;
- ☒ Goodwill can incur during an acquisition;
- ☐ According to International Accounting Standards (IAS), Goodwill should be amortized;
- ☐ Goodwill is impaired *una tantum*: it cannot be impaired every year.

14. Company C purchased a building on January 1<sup>st</sup>, 2013 (useful economic life = 30 years) at a cost of 300,000 € (*straight-line depreciation*). Until 2017 the accounting value has been aligned with the market value. In January 2018 there is instead a rapid improvement of the property market and the Fair Value is 275,000€

Which one of the following sentences is correct?

- ☐ The above-explained operation is registered in items of the Balance Sheet, Income Statement and Cash Flow Statement.
- ☒ The final Value in 2018 is 264,000 €
- ☐ The value of Property Plant and Equipment does not change
- ☐ Revaluation reserve decreases of 25,000 €

#### *Solution*

$$\text{Amortization} = \frac{300,000 \text{ €}}{30 \text{ years}} = 10,000 \text{ €/year}$$

$$\text{Value in the End of 2017} = 300,000 \text{ €} - 10,000 \frac{\text{€}}{\text{year}} * 5 \text{ years} = 250,000 \text{ €}$$

$$\text{Fair Value in January 2018} = 275,000 \text{ €}$$

$$\text{Value in the Balance Sheet of 2018} = 275,000 \text{ €} - \frac{275,000 \text{ €}}{25} = 264,000 \text{ €}$$

15. Company A produces furniture and bought sub-assemblies as follows:

- March 15<sup>th</sup>, 2017: 100 units, 20 €/unit
- July 18<sup>th</sup>, 2017: 200 units, 25 €/unit
- September 21<sup>st</sup>, 2017: 100 units, 27 €/unit

On December 31<sup>st</sup>, 2017 there are 150 units in the warehouse (there were no units in the warehouse on December 31<sup>st</sup>, 2016). In 2018 no purchase is made and 150 units remained.

How do you register inventories in the financial statements of 2017? (Company A adopts a FIFO approach).

- ☐ Inventories will be registered for 3,600 €
- ☒ Inventories will be equal to 3,950 €
- ☐ Inventories will be registered for 0€
- ☐ None of the above

*Solution*

$$\text{Units in the warehouse in the end of 2017} = 150$$

$$\text{Units Bought in March valued as} = \frac{20 \text{ €}}{\text{unit}} * 100 \text{ units} = 2,000 \text{ €}$$

$$\text{Units Bought in July valued as} = 25 \frac{\text{€}}{\text{unit}} * 200 \text{ units} = 5,000 \text{ €}$$

$$\text{Units Bought in September valued as} = 27 \frac{\text{€}}{\text{unit}} * 100 \text{ units} = 2,700 \text{ €}$$

*Adopting a FIFO Logic (First In First Out) the company uses before the units acquired in March, then in July and last in September. Therefore, of the 150 units that remained in the warehouse:*

*100 are the ones bought in September, valued as 2,700 €*

*50 were bought in July, for 25 €/unit = 1,250 €*

*Overall, Inventories = 2,700 € + 1,250 € = 3,950 €*