F.R.A

CFA一级培训项目:考前押题

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101% Contribution Breeds Professionalism

FRA（1）

- An example of an expense classification by function is:
  - A. tax expense.
  - B. interest expense.
  - C. cost of goods sold.

- **Solution: C.**
  - Cost of goods sold is a classification by function. The other two expenses represent classifications by nature.

FRA（2）

- Assume U.S. GAAP applies. When an issue is going to be put to a vote, by shareholders, at an annual general meeting the company prepares a(n):
  - A. annual report.
  - B. proxy statement.
  - C. management statement of responsibility.
- **Solution: B.**
  - Proxy statements are prepared and distributed to shareholders on matters that are to be put to a vote at shareholder meetings.
- **Hints**
  - Note disclosures include: commitments and contingencies; related-party transactions; subsequent events; depreciation method.
  - Management's discussion and analysis-general contents (Publicly held companies): nature of the business, past results, material uncertainty and future outlook

FRA (3)

- According to the Conceptual Framework for Financial Reporting (2010), which of the following is not an enhancing qualitative characteristic in financial statements?
  - A. Accuracy.
  - B. Timeliness.
  - C. Comparability.

- **Solution: A.**
  - Accuracy is not an enhancing qualitative characteristic. Faithful representation, not accuracy, is a fundamental qualitative characteristic.

FRA (4)

- A company signed a three-year contract for €20,000 with a 30% gross profit margin as expected and could reliably measure the cost and revenue during the construction process. At the end of the second construction year, the following information is collected of the construction project.

	Year 1	Year 2
Costs incurred during year	€ 6,235	€ 5,165
Estimated total costs	€ 14,500	€ 15,200

The gross profit (in €) recognized in year 2 is closest to:

A. 1,235.

B. 1,760.

C. 1,920.

FRA (4)

- **Solution: A.**

POC	Costs Incurred / Total Costs Anticipated × 100%	
Gross Profit	%Completed × Future Anticipated Profit – Profit Already Recognized	
	Year 1	Year2
Percent Completed	6,235/14,500= 43.0%	(6,235+5,165) / 15,200 = 75.0%
Gross Profit	43.0%×(20,000–14,500) = 2,365	75.0% × (20,000 –15,200) – 2,365 = 1,235

FRA (5)

- When auditing the financial report for a listed company, the auditor has found the financial statement of the company is reported under a true and fair view. The auditor is most likely to express a (an):
  A. qualified opinion.
  B. unqualified opinion.
  C. adverse opinion.

FRA (5)

- **Solution: B.**
  - An adverse audit opinion is issued when an auditor determines that the financial statements materially depart from accounting standards and are not fairly presented.
  - An unqualified audit opinion states that the financial statements give a "true and fair view" (international) or are "fairly presented" (international and US) in accordance with applicable accounting standards.
  - A qualified audit opinion is one in which there is some scope limitation or exception to accounting standards.

- **Hints:**
  - Footnotes should be audited.
  - Highly probable that audited F/S contains no material errors.
  - US GAAP, must present a comment on internal controls.

FRA (6)

- During 2015, Company A sold a piece of land with a cost of $6 million to Company B for $10 million. Company B made a $2 million down payment with the remaining balance to be paid over the next 5 years. It has been determined that there is significant doubt about the ability and commitment of the buyer to complete all payments. Company A would most likely report a profit in 2015 of:
  A. $4 million using the accrual method.
  B. $0.8 million using the installment method.
  C. $2 million using the cost recovery method.
- **Solution: B.**
  - Under the installment method, the portion of the total profit that is recognized in each period is determined by the percentage of the total sales price for which the seller has received cash. For Company A 2/10 x 4 = $0.8 million.
  - Note, cost recovery method could be used in this case, but the reported profit would be $0.

FRA (7)

- An analyst collected data about a company as follows:

Shares of common stock, January 1, 2014	10,000,000
Issue new common stock, June 1, 2014	1,200,000
2 for 1 split, August 1, 2014	
Net Income for 2014	$134,000,000
Preferred stock dividends	$8,000,000
Common stock dividends	$6,000,000

The company's basic EPS at the end of 2014 is closest to:

A. 5.63

B. 5.89

C. 6.09

FRA (7)

- **Solution: B.**
  - Weighted average number of common shares outstanding = 2 * (10M + 1.2M * 7/12) = 21.4M.
  - Basic EPS = (134M – 8M) / 21.4M = 5.89

- **Hint**
  - $Basic\ EPS = \frac{Net\ income - preferred\ dividends}{Weighted\ average\ number\ of\ common\ shares\ outstanding}$
  - The common shares dividend should not be deducted from net income.

FRA (8)

- An analyst collected data about a company as follows:

Net income	$1,000,000.00
Debt outstanding with a coupon rate of 4%	$5,000,000.00
Preferred stocks with dividend rate of 4%	$1,000,000.00
Tax rate	35%
Average weighted number of shares issued	500,000

The preferred stock can be converted into 10,000 common stocks, while the debt is not convertible. The dilutive earnings per share is *closest* to:

A. $1.92.

B. $1.96.

C. $2.01.

FRA (8)

➢ **Solution: A.**

- If the convertible preferred shares were converted to common stocks, there would be no preferred dividends paid. Thus, we should add back the convertible preferred dividends that had previously been subtracted from net income in the numerator.
- Basic EPS = (net income – dividend from preferred stocks) / average weighted number of shares issued = (1,000,000 – 1,000,000×0.04) / 500,000= 1.92.
- Dilutive EPS = (net income – dividend from preferred stocks + dividend from preferred stocks) / (average weighted number of shares issued + shares from conversion of preferred stocks) = (1,000,000 – 1,000,000×0.04 + 1,000,000×0.04) / (500,000+10,000) = 1.96.
- 1.96 > 1.92, dilutive EPS is 1.92.

FRA (9)

➢ The following information is from a company's accounting records:

	€ millions
Revenues for the year	25,000
Total expenses for the year	20,000
Unrealized Gains from available-for-sale securities	2,950
Realized loss for the effective portion of cash flow hedge	3,000
Loss on foreign currency translation adjustments on a foreign subsidiary	650
Dividends paid	1,000

The company's total comprehensive income (in € millions) is closest to:

A. 2,300.

B. 6,300.

C. 7,300.

FRA (9)

➢ **Solution: C.**

- Total comprehensive income = Net income + other comprehensive income
- Net income = Revenues – Expenses
- Other comprehensive income includes unrealized gains or losses on available-for-sale securities and translation adjustments on foreign subsidiaries.
- (Revenues – Expenses) + Unrealized Gain on AFS – Loss on FX translation = (25,000 – 20,000) + 2,950 – 650 = 7,300.

FRA (10)

- Apex Consignment sells items over the internet for individuals on a consignment basis. Apex receives the items from the owner, lists them for sale on the internet, and receives a 25 percent commission for any items sold. Apex collects the full amount from the buyer and pays the net amount after commission to the owner. Unsold items are returned to the owner after 90 days. During 2009, Apex had the following information:
  - Total sales price of items sold during 2009 on consignment was €2,000,000.
  - Total commissions retained by Apex during 2009 for these items were €500,000.

  How much revenue should Apex report on its 2009 income statement?

  A. €500,000.
  B. €2,000,000.
  C. €1,500,000.

FRA (10)

- **Solution: A.**
  - Apex is not the owner of the goods and should only report its net commission as revenue.

- **Hints:**
  - Four criteria to make gross revenue reporting:
    - ✓ The company is the primary obligor under the contract;
    - ✓ Bears risk of credit and inventory;
    - ✓ Can choose the supplier;
    - ✓ Has reasonable latitude to establish price.

FRA (11)

- Which of the following is the least appropriate accounting treatment for marketable securities under IAS No. 39?

	Category	Measurement Method	Realized Gains & Losses Reported In
A.	Trading	Fair Value	Income Statement
B.	Available for sale	Fair Value	Equity
C.	Held to Maturity	Amortized Cost	Income Statement

- **Solution: B.**
  - All realized gains or losses are reported on the income statement.
  - It is the unrealized gains and losses that are included in other comprehensive income (in equity) for available-for-sale securities carried at market value.

FRA (12)

- Which of the following statement best describes the characteristics of the treasury stock?
  - A. Treasury stocks refer to the stocks repurchased by the shareholders from the company.
  - B. Treasury stocks do not pay dividends and have no rights to vote for the vital decisions regarding with the operation of the company.
  - C. Treasury stocks refer to stocks retired by the issuing firm.

- **Solution: B.**
  - The treasury stocks are stocks repurchased by the company but not yet retired without voting rights and dividends.

FRA (13)

- Assume GAAP applied to both companies. All else equal, company A pays more interest and less common dividends than company B. Company B is most likely to have earnings per share (EPS) and cash flow from financing (CFF) and that are:

	EPS	CFF
A.	Higher	The same
B.	The same	Lower
C.	Higher	Lower

- **Solution: C.**
  - Under GAAP, interest payment will be classified as operating cash flows and dividends paid will be classified as financing cash flows. So with lower interest and higher dividends, company B will report lower CFF and higher EPS.
  - If IFRS applies and interest in CFF: EPS higher, CFF higher (-Int*(1-t))

FRA (14)

- Under GAAP, an analyst gathered the following information from a company's financial statements. Using indirect method, the company's operating cash flows are closest to:

Net income	$240
Decrease in inventory	$40
Depreciation	$50
Increase in account receivables	$20
Decrease in wages payable	$10
Increase in unearned revenues	$30
Increase in PP&E	$70
Gains from the sale of a segment	$4
Amortization of bond payable discount	$2

A. $197.
B. $270.
C. $328.

FRA (14)

- **Solution: C.**
  - CFO = Net income + depreciation+ amortization of bond payable discount + delta current liabilities - delta current asset + loss – gains = 240 + 2 + 40 + 50 – 20 – 10 + 30 – 4.

- **Hints:**
  - amortization of bond payable discount increased the interest expense, thus decreasing NI; therefore, it should be added to NI.
  - the increase in PP&E cannot be classified as cash flows from operating activities.

FRA (15)

- An analyst gathered the following information from a company's 20X4 financial statements ($ millions):

Year ended 31 December	20X3	20X4
Net sales	245.80	254.60
Cost of goods sold (D&A included)	168.30	175.90
D&A included in COGS	20.3	21.5
Accounts receivable	73.20	68.30
Inventory	39.00	47.80
Accounts payable	20.30	22.90

FRA (15)

- Based only on the information above, the company's 20X4 statement of cash flows prepared using the direct method would include amounts ($ millions) for cash received from customers and cash paid to suppliers, respectively, that are closest to:

	Cash received from customers	Cash paid to suppliers
A.	249.7	182.1
B.	259.5	182.1
C.	259.5	160.6

- **Solution: C.**
  - Cash received from customers = Sales + Decrease in accounts receivable = 254.6 + 4.9 = 259.5.
  - -Cash paid to suppliers = -Cost of goods sold+ D&A included in COGS - Increase in inventory + Increase in accounts payable = -175.9 +21.5 -8.8 + 2.6 = -160.6

FRA (15)

➢ **Hints:**

Item	U.S. GAAP	IFRS
Interest received	CFO	CFO or CFI
Interest paid	CFO	CFO or CFF
Dividend received	CFO	CFO or CFI
Dividend paid	CFF	CFO or CFF
Taxes paid	CFO	CFO, CFI or CFF
Bank overdrafts	CFF	Cash equivalents

FRA (16)

➢ BO2, a famous chemical company, suffered from a loss of $3 million from selling equipment A in 2016. Additionally, the corporation reported a depreciation expense of $10 million and the cost of purchasing new equipment was $27 million in that year. Based on information in the following chart, calculate the sale proceeds of equipment A in 2016.

Balances sheet item	12/31/2005	12/31/2006	change
Equipment—historical cost	$155million	$173 million	$18 million
Accumulated depreciation—equipment	$45 million	$53 million	$8 million

A. $4 million.
B. $7 million.
C. $10 million.

FRA (16)

➢ **Solution: A.**

- Net book value of equipment at the end of 2016 ($120 million) = Net book value of equipment at the end of 2015 ($110 million) + purchase ($27 million) – depreciation change in 2016 ($10 million)– disposal of equipment A, so the net book value of equipment A (the disposal of equipment A) = 110 + 27 – 10 – 120 = $7 million.
- The sale proceeds of equipment A= NBVA + loss on sale of A = 7 – 3= $4 million.

FRA (17)

- An analyst is planning to make a valuation on a privately held company by using an FCF Model. In order to determine the free cash flow to capital providers, he collected the following data (in million):

Operating cash flow	500
Interest paid	30
Investment in working capital	80
Investment in fixed asset	60
Net borrowing	50
Tax rate	30%

Assumes IFRS applies, and interest paid is classified as CFF, the free cash flow the analyst is planning to determine is *closest* to:

A. 440.
B. 490.
C. 469.

FRA (17)

- **Solution: A.**
  - In this situation, interest paid is classified as CFF, instead of CFO. Thus, FCFF=CFO-FCInv =500-60=440

- **Hints:**
  - If FCFE is calculated (under IFRS)
    - ✓ FCFE=CFO- interest (1-t)-FCInv + net borrowings=500- 30*0.7-60+50= 469
  - Formulas (under US GAAP)
    - ✓ FCFF = EBIT(1-tax rate) + NCC – FCInv - WCInv
    - ✓ FCFF = NI + NCC + Int(1 - tax rate) – FCInv – WCInv
    - ✓ FCFF = CFO- FCInv + Int(1-tax rate)
    - ✓ FCFE = CFO – FCInv + Net borrowing
    - ✓ FCFE = FCFF – Int (1- tax rate) + net borrowing

FRA (18)

- Using the following information

	In Millions ($)
Credit sales	40,000
Cost of goods sold	30,000
Accounts receivable	3,000
Inventory–Beginning balance	1,500
Inventory–Ending balance	2,000
Accounts payable	4,000

The net operating cycle of this company is closest to:

A. 3.8 days.
B. 24.3 days.
C. 51.7 days.

FRA (18)

➢ **Solution: A.**

- Number of days of inventory = $2,000/ ($30,000/365) = 24.333 days
- Number of days of receivables = $3,000/(S40,000/365) = 27.375 days
- Operating cycle = 24.333 + 27.375 days = 51.708 days
- Purchases = $30,000 + $2,000–$1,500 = $30,500
- Number of days of payables = $4,000/ ($30,500/365) = 47.869 days
- The net operating cycle is 51.708–47.869 = 3.839 days

FRA (19)

➢ The following financial data is available for a company:

Return on assets (ROA)	3.8%
Total asset turnover	1.82
Financial leverage	1.65
Dividend payout ratio	47.1%

The company's sustainable growth rate is closest to:

A. 3.00%

B. 3.32%

C. 3.78%

FRA (19)

➢ **Solution: B.**

- Sustainable growth rate = retention ratio (b) × ROE.

b = 1- Dividend payout ratio	1 - 0.471 = 0.529
ROE = ROA x Financial leverage	0.038 x 1.65 = 0.0627
Sustainable growth rate = b x ROE	0.529 x 0.0627 = 3.32%

FRA (20)

- The following table provides selected information of GF Company and the common size data of the industry where GF Company conducts business.

	Company (£)	Common Size Industry Data (% of sales)
EBIT	88,000	30.0
Pretax profit	65,800	21.6
Net income	45,700	14.1
Sales	525,000	100.0
Total assets	558,750	158.0
Total equity	332,355	89.2
ROE	13.75%	15.81%

The inferior ROE of GF compared to that of the industry is most likely due to the company's:

A. tax burden ratio.
B. interest burden ratio.
C. financial leverage ratio.

FRA (20)

- **Solution: C.**

	Calculation	Company	Industry
Tax burden ratio	NI/EBT	45,700/65,800 = 0.69	14.1/21.6 = 0.65
Financial leverage	Total assets/Equity	558,750/332,355 = 1.68	158/89.2 = 1.77
Interest burden ratio	EBT/EBIT	65,800/88,000= 0.75	21.6/30.0 = 0.72

- The Golden's financial leverage ratio is lower than the industry, and it is one of the causes for its lower relative ROE performance.
- The tax burden ratio and the interest burden ratio are all higher than the industry average, which would increase ROE.

FRA (20)

- **Hints:**
  - ROE=ROA*financial leverage
  - ROA=NI/Asset=(NI/S)*(S/Asset)
  - ROE=NI/E=(NI/A)*(A/E)
  - ROE= net profit margin* asset turnover ratio* financial leverage
  - ROE=tax burden* interest burden* operating profit margin* asset turnover ratio* financial leverage

FRA (21)

- A company incurs the followings costs related to its inventory during the year:

Cost	$ millions
Purchase price	100,000
Trade discounts	5,000
Import duties	20,000
Shipping of raw materials to manufacturing facility	10,000
Manufacturing conversion costs	50,000
Abnormal costs as a result of waste material	8,000
Normal waste of materials	6,000
Storage cost for work in processes	2,500
Storage cost prior to shipping to customers	2,000

The amount charged to inventory cost (in millions) is *closest* to:

A. $183,500.
B. $185,500.
C. $193,500.

FRA (21)

- **Solution: A.**
  - The costs to include in inventories are all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.

Cost	$ millions
Purchase price	100,000
Less Trade discounts	(5,000)
Import duties	20,000
Shipping of raw materials to manufacturing facility	10,000
Manufacturing conversion costs	50,000
Normal waste	6,000
Storage cost for work in processes	2,500
Total inventory costs	183,000

- **Hints:** all necessary expenditures to bring the inventory into current situation should be capitalized into the cost of inventory.

FRA (22)

- Assume U.S. GAAP applies. Sauerbraten Corp. reported 2017 sales ($ in millions) of $4,314 and cost of goods sold of $3,654. Inventories at year-end 2017 and 2016, respectively, were $1,106 and $1,124. The company uses the LIFO method for inventory valuation and discloses that if the FIFO inventory valuation method had been used, inventories would have been $126.6 million and $113.6 million higher in 2017 and 2016, respectively. Compared to the inventory turnover ratio reported, if Sauerbraten had exclusively used the FIFO method its inventory turnover ratio would have been closest to:

A. 2.95.
B. 3.28.
C. 3.49.

FRA (22)

- **Solution: A.**
  - Inventory turnover is cost of goods sold divided by average inventory. As reported, this was $3,654 / $1,115 = 3.28.
  - Under FIFO, cost of goods sold would have been $3,641 and inventory would have been $1,232.6 and $1,237.6 (average $1,235.1).
  - Adjusted inventory turnover would thus be 2.95.

- **Hints**
  - LIFO reserve = FIFO inventory – LIFO inventory
  - $INV_F = INV_L + LIFO_{reserve}$
  - $COGS_F = COGS_L - \triangle$ LIFO reserve
  - $\triangle$LIFO reserve= LIFO $reserve_1$- LIFO $reserve_0$
  - $\triangle$NI = $\triangle$LIFO reserve × (1-t)

FRA (23)

- During a period of rising inventory costs, a company decides to change its inventory method from FIFO (first in, first out) to the weighted average cost method. Under the weighted average cost method, which of the following financial ratios will most likely be higher than under FIFO?
  A. Debt-to-equity ratio
  B. Current ratio
  C. Number of days in inventory
- **Solution: A.**
  - If all else is held constant, in a period of rising costs the ending inventory will be lower under the weighted average cost method and the cost of goods sold will be higher (compared to FIFO), resulting in lower net income and retained earnings.
  - There will be no impact on the debt level, current or long-term.
  - Therefore, the debt-to-equity ratio (Total debt/Total shareholder's equity) will increase because of the decrease in retained earnings (and lower shareholders' equity).

FRA (24)

- A U.S. beverage firm which prepares its financial statements according to U.S. GAAP and uses a periodic inventory system had the following transactions during the year:

Date	Activity	Amount purchased	Price per unit
2.1	Beginning inventory	300	20
2.10	Purchase	200	22
2.13	Sell	400	32
2.18	Purchase	300	25
2.25	Sell	300	38

The cost of sales for the beverage firm is closest to:
A. 15,400 using LIFO.
B. 15,900 using FIFO.
C. 15,662 using weighted average.

FRA (24)

➢ **Solution: C.**

- FIFO cost of sales is $15,400 as per unit. LIFO cost of sales is $15,000 as per unit. $15,662 .5 using weighted average.
- COGS under FIFO
  - ✓ COGS=300*20+200*22+200*25 (total sale of 700 units)= 15,400
- COGS under LIFO
  - ✓ COGS=300*25+200*22+200*20= 15,900
- WACO
  - ✓ Average cost of inventory=(300*20+200*22+300*25)/800= 22.375
  - ✓ Cost of sale under WACO=22.375*700=15,662.5

FRA (24)

➢ **Hints:**

Periodic	Perpetual
• Inventory value and COGS are determined at the end of an accounting period • Need a purchase account	• Inventory value and COGS are updated continuously • Inventory purchased and sold is recorded directly in inventory • A purchase account is not necessary
• Same result for FIFO & Specific identification method • Different results for LIFO & AVCO, 但是在特殊情况下，LIFO在periodic和perpetual情况下结果可能相同。	

FRA (25)

➢ Assume U.S. GAAP applies. Two companies are identical except for their accounting treatment of R&D costs. One company expenses all such costs immediately, while the other capitalizes a portion of the costs. Compared with the company that capitalizes costs, the company that expenses immediately will least likely:

A. earn a lower return on assets.
B. have lower financial leverage.
C. report lower cash flow from operations in the statement of cash flows.

➢ **Solution: B**

- Companies that capitalize R&D costs report those expenditures in CFI; companies that expense R&D costs report those expenditures in CFO.
- Companies that expensed will report a higher expense, lower NI,and then a lower equity,therefore, it would incur a worse financial leverage.

FRA (26)

- The demand of products sold by Argo has been decreased due to the market place change for the company, and this decrease is not expected to recover to the previous condition in the foreseeable future. The following information is provided by Argo about a customer list:

Item description	$ (thousands)
Carrying value amount	40,000
Undiscounted expected future cash flows	39,000
Value in use (VIU)	37,000
Fair value if sold	36,000
Costs to sell	3,000

Which of the following statements is most accurate? The impairment loss recognized under IFRS in Argo's financial statement is:

A. 3,000.
B. 0.
C. 7,000.

FRA (26)

- **Solution: A.**
  - **Under IFRS**, the recoverable amount for customer list is the higher of:
    - ✓ Value in use, which is the present value of the future cash flows: $37,000.
    - ✓ Fair value less costs to sell: $36,000 -3,000 = $33,000.
    - ✓ The recoverable amount ($37,000) is lower than the carrying value ($40,000).
    - ✓ Therefore, the asset is impaired and should be written down to 37,000, and the impairment loss for the intangible asset is 3,000.

FRA (27)

- In early January 2015, an analyst sees a news release that a company he follows (which reports under US GAAP) will be forced to reduce output from one of its major product lines at its highly specialized ceramics plant in response to a new technology introduced by its major competitor. The table summarizes information and estimates that the analyst has gathered from various sources about the plant and its future prospects.

Selected Information Related to the Ceramics Production Plant End of 2014 ($ thousands)	
Carrying amount of plant	1,604
Undiscounted expected future net cash flows	1,350
Present value of expected future net cash flows	1,050
Fair value of plant	1,225
Revised estimate of useful life	4 years
Depreciation method	Straight line
Revised estimate of residual value	$200

FRA (27)

- If the above information and estimates prove accurate, the depreciation expense that should be reported for 2015 related to the plant will be closest to:
  - A. $306 thousand.
  - B. $265 thousand.
  - C. $213 thousand.

FRA (27)

- **Solution: B.**

At the end of 2014, a test of impairment is required because "events or changes in circumstances indicate that its carrying amount may not be recoverable." (All amounts $ thousands)	
US GAAP Impairment Test:	
Step 1: Assess recoverability: Compare carrying amount with undiscounted future net cash flows.	
Carrying amount = 1,604 > 1,350 (expected future net cash flows):	The recoverability test is not satisfied, so an impairment loss is required.
Step 2: Determine impairment loss:	Carrying amount - Fair value =1,604 - 1,225 = 379 New carrying value: 1,225
Estimated depreciation in 2015	$\frac{New\ carrying\ value - revised\ residual\ value}{residual\ useful\ life}$ $= \frac{1225 - 200}{4} = 256$

FRA (28)

- An asset recorded at the fair value at purchase at 50 million. During year 2015, the value of the asset increased to 52 million, and the company wrote up the asset to the new market value. In 2016, the asset suffers an impairment and its fair value reduced to 51 million and the company recorded this 1 million loss in the income statement directly. Which of the following model is most likely to be used by the company to record the value of the asset?
  - A. Fair value model.
  - B. Revaluation model.
  - C. Historical cost model.

FRA (28)

- **Solution: A.**
  - Under IFRS, an asset can be written up under FV and revaluation model. With the 1 million loss recorded in income statement, the asset was recorded under fair value model.
  - Under IFRS, other comprehensive income includes certain changes in the value of long-lived assets that are measured using the revaluation model rather than the cost model.

FRA (29)

- A company purchased a warehouse for €70 million and incurred the following additional costs in getting the warehouse ready to use:
  - €4.0 million for repairs to the building's roof and windows
  - €1.0 million to modify the interior layout to meet their needs (moving walls and doors, inserting and removing partitions, etc.)
  - €0.2 million on an orientation and training session for employees to familiarize them with the facility

  The cost to be capitalized to the building account (in millions) is closest to:

  A. €75.2.
  B. €75.0.
  C. €74.0.

FRA (29)

- **Solution: B.**
  - The capitalized cost of the building would include the other costs that are directly attributable to the building and are involved in extending its life or getting it ready to use: building and are involved in extending its life or getting it ready to use:

	€ Millions
Initial cost	70.0
Repairs to roof and windows	4.0
Modifications to interiors	1.0
Total cost	75.0

FRA (30)

- At the beginning of the year, a company purchased a fixed asset for $1,000,000 with no expected residual value. The company depreciates similar assets on a straight line basis over 10 years, whereas the tax authorities allow declining balance depreciation at the rate of 14% per year. In both cases, the company takes a full year's depreciation in the first year and the tax rate is 30%.

  Which of the following statements concerning this asset at the end of the year is most accurate?

  A. The deferred tax asset is $10,000.
  B. The temporary difference is $40,000.
  C. The tax base is $1,000,000.

FRA (30)

- **Solution: B.**
  - The temporary difference is the difference between the net book value (NBV) of the asset for accounting purposes and the tax base for the asset.

NBV accounting	[1,000,000 – (1,000,000/10)]	$900,000
Tax base	[1,000,000 – 0.14 × (1,000,000)]	$860,000
Temporary difference		$40,000

FRA (31)

- Assume U.S. GAAP applies. Fred Company has a deferred tax liability balance of $1,200,000 at the end of 2015. Tax rates increased from 30 percent to 40 percent in 2015. Fred Company should increase its tax liability account and also increase its:

  A. 2015 income tax expense by $120,000.
  B. 2015 income tax expense by $400,000.
  C. income taxes payable by $400,000.

- **Solution: B.**
  - The change in Fred's rates causes its deferred tax liability account to increase (40%– 30%) / 30% ×$1,200,000 = $400,000. The corresponding increase is to current income tax expense.

FRA（32）

- Which of the following events will most likely result in a decrease in a valuation allowance for a deferred tax asset under U.S. GAAP? A(n):
  A. reduction in tax rates.
  B. extension in the tax loss carry-forward period.
  C. decrease in interest rates.
- **Solution: B.**
  - Under U.S. GAAP, deferred tax assets must be assessed at each balance sheet date. If there is any doubt whether the deferral will be recovered, the carrying amount should be reduced to the expected recoverable amount. The asset is reduced by increasing the valuation allowance.
  - Should circumstances change so that it is more probable that the deferred tax benefits will be recovered, the deferred asset account will be increased (and the valuation allowance decreased).
- **Hints:** An increase in the carry-forward period for tax losses extends the possibility that benefits will be realized from the deferred tax asset and would likely result in a decrease in the valuation allowance and an increase in the deferred tax asset.

FRA（33）

- C Corp. issued a ten-year bond with 20 million face value with an annual coupon payment of 2.6 million. The market interest rate was 12% at issuance. Under effective interest rate method, the carrying value of the liability one year after the issuance was closet to:
  A. €21.12 million.
  B. €21.07 million.
  C. €23.35 million.

- **Solution: B.**
  - PMT=2.6, n=10, I/Y=12, FV=20, CPT (PV) =21.13 million (carrying value at issuance)
  - Interests expense = market rate*carrying value at issuance = 12%*21.13=2.5356 million
  - Amortization of premium = PMT-interest expense = 2.6-2.5356 =0.064395 million
  - Carrying value1=carrying value at issuance – amortization of premium = 21.07 million

FRA（33）

- **Hints:**
  - Carrying value of bond on B/S
    - ✓对于溢价债券
      - ◆利息费用=期初摊余成本*有效利率=coupon-溢价摊销额
      - ◆利息费用<coupon，并且逐年降低
      - ◆利息费用降低的速度逐年加快
      - ◆溢价摊销的速度越来越快，即第二年的摊销额大于第一次的摊销额。
    - ✓对于折价债券
      - ◆利息费用=期初摊余成本*有效利率=coupon+折价摊销额
      - ◆利息费用>coupon，并且逐年上升
      - ◆利息费用上升的速度逐年加快
      - ◆折价摊销的速度越来越快，即第二年的摊销额大于第一次的摊销额。

FRA (34)

- Zimt issued 10-year, $5 million bond on 1 January, 2010, and the market rate of interest at that time is 8%. The bond Zimt issued has a coupon rate of 10%, and the coupon is paid semiannually.

  In January 2016, Zimt bought back these bond issued in 2010 in an open market, and at that period, the market rate is 10%. Which of the following statement is most likely to be true?

  A. $336,637 decrease in CFO, and interest expense occurred during 2010 to 2015 decreased.
  B. $336,637 gain on the income statement, and interest expense occurred during 2010 to 2015 decreased.
  C. $336,637 gain on the income statement, and interest expense occurred during 2010 to 2015 increased.

FRA (34)

- **Solution: B.**
  - The book value of the bonds on 1 January 2016 is equal to the present value of the remaining coupon payments and principal discounted at the market rate at time of issue (4% per period).
  - Using a financial calculator PMT = 250,000; FV = 5,000.000; (I = 4; N = 8); Compute PV =5,336,637
  - Because the market interest rate when the bonds are bought back (10%) is equal to the coupon rate, the company can buy back the bonds at par $5,000,000.

Cost of repurchase	$5,000,000
Book value	$5,336,637
Gain on retirement	$336,637

  - On the cash flow statement the gain would be deducted from net income in calculating the cash from operations under the indirect method, and the cash paid to repurchase the bonds would be a cash outflow in the financing section.

FRA (34)

- **Hints:**
  - Early repayment of bond: Under U.S. GAAP
    - ✓ Any remaining unamortized bond issuance costs must be written off and included in the gain or loss calculation.
    - ✓ Writing off the cost of issuing the bond will reduce a gain or increase a loss.

FRA (35)

- Assume U.S. GAAP applies. At the beginning of the year, a lessee company enters into a new lease agreement that is correctly classified as a finance lease, with the following terms:

Annual lease payments due at the beginning of the year	$100,000
Lease term	5 years
Appropriate discount rate	12%
Depreciation method	straight-line basis
Estimated salvage value	$0

The book value of the lease was $403,735. The reduction in the company's cash flow from financing activities after second payment regarding the lease is closest to:

A. $100,000.

B. $63,552.

C. $36,448.

FRA (35)

- **Solution: B.**
  - The present value of the lease is $403,735. (n = 5, I = 12%, PMT = $100,000, FV=0 ➔PV= -403,735). **(PS: BGN模式下进行计算)**
  - CFO= interest paid = 12% × (403,735-100,000) = 36,448.
  - CFF=principal paid=100,000-36,448 = 63,552.

FRA (36)

- Penben Corporation has a defined benefit pension plan. At 31 December, its pension obligation is €10 million and pension assets are €9 million. Under either IFRS or US GAAP, the reporting on the balance sheet would be closest to which of the following?

A. €10 million is shown as a liability, and €9 million appears as an asset.

B. €1 million is shown as a net pension obligation.

C. Pension assets and obligations are not required to be shown on the balance sheet but only disclosed in footnotes.

- **Solution: B.**
  - The company will report a net pension obligation of €1 million equal to the pension obligation (€10 million) less the plan assets (€9 million).

FRA (36)

- **Hints:**
  - Defined contribution plan: the employee assumes all the investment risk.
  - Defined benefit plan: the employer assumes all the investment risk.
  - IFRS: remeasurements (actuarial G/L, actual return – expected return) to OCI.
  - GAAP: past service cost, actuarial G/L to OCI, which will be amortized into I/S.