

Your Name:.....Your Student Number.....

**THE UNIVERSITY OF NEW SOUTH WALES  
SCHOOL OF ACCOUNTING**

**ACCT 3563 Issues in Financial Reporting and Analysis  
ACCT 3573 Issues in Financial Reporting and Analysis (Honours)**

**Mid-Session Examination With Answers  
Session 1 – 2009**

Date: Friday 24 April  
Time: 5.30pm – 7.00pm  
Venues: CLB 7, Keith Burrows Theatre, Mathews A, Mathews B, Rex Vowels  
Theatre, Squarehouse (Kingsford and Anzac rooms)  
Writing time allowed: 90 minutes; Reading time: 10 minutes

**INSTRUCTIONS**

1. Before commencement of the examination, complete the personal details requested on the Multiple Choice Answer Sheet. In the "Other Data" section record your 2-digit tutorial group number code in the first two spaces.

Tutorial Instructor	Tute Group	Tute Group Code	Day	Time	Room
Demi Chung	M9a	01	mon	9-10 am	Quad G027
Wista Narulita	M9c	02	mon	9-10am	Quad G025
Demi Chung	M10a	03	mon	10-11am	Webst 302
Isabelle Susilowati	M10b	04	mon	10-11am	Gold G03
Demi Chung	M11a	05	mon	11am-12pm	Webst 302
Isabelle Susilowati	M11b	06	mon	11am-12pm	Quad G027
Demi Chung	M14a	07	mon	2-3pm	RedC 3037
Isabelle Susilowati	M14b	08	mon	2-3pm	Webst 302
Isabelle Susilowati	M15a	09	mon	3-4pm	Webst 302
Adrian Koit	M16a	10	mon	4-5pm	Quad G022
Adrian Koit	M17a	11	mon	5-6pm	RedC 2035
Jeffrey Knapp	M17b	12	mon	5-6pm	GOLD G03
Adrian Koit	M18a	13	mon	6-7pm	Quad G054
Ben Guo	M18b	14	mon	6-7pm	QUAD G042
Adrian Koit	M19a	15	mon	7-8pm	QUAD G022
Cheng Lai	T9a	16	tues	9-10am	QUAD G053
Wista Narulita	T9b	17	tues	9-10am	GOLD G05
Carmel Emanuel	T10a	18	tues	10-11am	K17 B02
Cheng Lai	T10b	19	tues	10-11am	HutD10 G02
Carmel Emanuel	T11a	20	tues	11am-12pm	MorvB G6
Jeffrey Knapp	T11b	21	tues	11am-12pm	OMB 116
Carmel Emanuel	T14a	22	tues	2-3pm	GOLD G03
Jerry Chen	T14b	23	tues	2-3pm	WEBST 302
Jerry Chen	T15a	24	tues	3-4pm	WEBST 302
Jeffrey Knapp	T15b	25	tues	3-4pm	GOLD G03
Ben Guo	T20a	26	tues	8-9pm	QUAD 1047
Jerry Chen	T20b	27	tues	8-9pm	QUAD 1046
Demi Chung	W14a	28	wed	2-3pm	K17 B02

Cheng Lai	W14b	29	wed	2-3pm	MAT 306
Jeffrey Knapp	W14c	30	wed	2-3pm	MAT 313
Cheng Lai	W15a	31	wed	3-4pm	MAT 302
Jeffrey Knapp	W15b	32	wed	3-4pm	MAT 313
Demi Chung	H14a	33	thurs	2-3pm	QUAD G054
Jeffrey Knapp	H14b	34	thurs	2-3pm	QUAD 1042
Jerry Chen	H14c	35	thurs	2-3pm	QUAD G042
Honours stream					
Richard Morris	Honours 1	36	Mon	10am - 12pm	QUAD 1048
Richard Morris	Honours 2	37	Wed	10am - 12pm	QUAD 1049

2. Record all your answers to the multiple-choice questions on the Answer Sheet during the actual 90 minutes of examination writing time.
3. The test is worth 20% of your assessment.
4. There are 20 multiple choice questions of equal marks with no negative marking. There are also two short answer questions (Qns 21 and 22, worth 5 marks each) which must be answered on the separate pages provided.
5. You may attempt the questions in any order.
6. **Choose the best answer to each multiple choice question. In some questions, there may be several alternatives which are correct but you must choose the one best answer from those given.**
7. Directions for recording your answers are printed on the Answer Sheet and a sample question has been answered for you to show you the method.
8. There are answer spaces for 150 questions on the Answer Sheet, but you will use only spaces 1-20 for the multiple-choice questions.
9. An ordinary 2B pencil should be used for the multiple-choice questions.
10. Do not fold, crumple or bend your Answer Sheet.
11. **This paper may be retained by the candidate.**
12. At the end of the examination please remain seated until you are instructed to leave.

**Question 1**

A company has borrowed money to finance the construction of a building. The debt contract requires that the company's interest coverage ratio must never fall below 3.0. For this contract the interest coverage ratio is defined as:  $[(\text{net profit before tax} + \text{interest expense}) / \text{interest expense}]$ . As balance date approaches, the company estimates that the ratio is likely to be 2.9 and the company will default on its debt contract unless remedial action is taken. Which of the following opportunistic actions will increase the company's interest coverage ratio?

- a) Increase allowance for doubtful debts by 10%
- b) Capitalize interest as part of the cost of the building (ANSWER)
- c) Accelerate recognition of revenue by 10% (ANSWER)
- d) Increase balance day provision for warranty claims on the company
- e) Refuse to pay interest when it is due

Either one of the two correct answers will be accepted

**Question 2**

A company has a debt covenant in place that stipulates that the ratio of non-current liabilities to total tangible assets cannot exceed 40%. If the company's actual value for that ratio is approaching the 40% limit then, according to Positive Accounting Theory, management would try opportunistically to relax the constraint by:

- (a) Purchasing a valuable brand name from a competitor and recording this as an asset
- (b) Switching from straight line to reducing balance depreciation for new fixed assets
- (c) Reducing provision for long service leave of staff entitled to long service leave in 3-5 years' time. (ANSWER)
- (d) Reducing provision for annual leave
- (e) c and d

**Question 3**

A management compensation plan allows for a bonus equal to 1% of profit, provided that the company's rate of return on assets (net profit/total assets) exceeds 10% that year; and that the maximum annual bonus is set at \$300,000. The initial calculation of profit for the current year is \$2,500,000 and total assets are \$30,000,000. Positive accounting theory suggests that the manager will:

- a) Decrease reported profit as much as possible by increasing provisions of expenses at balance date (ANSWER)
- b) Convert receivables of \$1,000,000 into cash by asking debtors to pay early.
- c) Delay payments of \$1,000,000 to creditors until the next financial year
- d) Revalue land upwards from cost \$2,000,000 to fair value \$3,000,000 (not reversing a previous devaluation)
- e) Reversing impairment loss of goodwill by \$1,000,000

**Question 4**

Suppose in question 3 the initial calculation of profit is \$3,500,000. Positive accounting theory suggests that the manager will:

- a) Decrease reported profit as much as possible
- b) Convert receivables of \$1,000,000 into cash by asking debtors to pay early.
- c) Delay payments of \$1,000,000 to creditors until the next financial year
- d) Revalue land upwards from cost \$2,000,000 to fair value \$3,000,000 (not reversing a previous devaluation)
- e) Reverse impairment loss on property by \$500,000 **(ANSWER)**

**Question 5**

Borrowing costs incurred by an entity for the acquisition of assets:

- a) must be expensed in all cases
- b) must be capitalized in all cases
- c) may be capitalised to the extent that they were incurred for the purpose of acquiring a qualifying asset **(ANSWER)**
- d) must be capitalized to the extent that they were incurred for the purpose of acquiring a qualifying asset **(ANSWER)**
- e) may be capitalized to the extent that they were incurred for the purpose of acquiring inventory

**Question 6**

Deleted because topic is covered later in the Course in 2011.

**Question 7**

Small Tuesday Ltd acquired land on 1 July 2005 at a cost of \$3,000,000. The following data apply to that land for the years ended 30 June 2006, 2007, 2008 and 2009

	Value in use	Fair value	Fair value less costs to sell

30 June 2006	\$3,500,000	\$3,200,000	\$3,100,000
30 June 2007	\$3,000,000	\$2,900,000	\$2,800,000
30 June 2008	\$2,800,000	\$2,700,000	\$2,600,000
30 June 2009	\$3,000,000	\$3,000,000	\$2,900,000

The company uses the cost model to account for the land. Ignore tax effects.

Which of the following is correct?

- a) No impairment losses were incurred in any year
- b) There is an impairment loss of \$100,000 in 2006
- c) There is an impairment loss of \$200,000 in 2007
- d) There is an impairment loss of \$200,000 in 2008 (ANSWER)
- e) There is an impairment loss of \$100,000 in 2009

### Question 8

If the company in question 7 used the revaluation model and not the cost model, which of the following is correct? Ignore tax effects.

- a) In 2006, asset revaluation reserve is debited with \$200,000
- b) In 2007, asset revaluation reserve is debited with \$300,000
- c) In 2008, the income statement is credited with \$200,000
- d) In 2009, the income statement is credited with \$300,000 (ANSWER)
- e) In 2008, the land must be revalued to its recoverable amount of \$2,800,000

**Question 9**

At 30 June 2008, ABC Ltd had the following assets stated at historical cost in a cash generating unit.

Goodwill	\$2,000,000
Land	\$4,000,000
Equipment	<u>\$3,000,000</u>
Total	<u>\$9,000,000</u>

At 30 June 2008, the recoverable amount of the cash generating unit is \$6,000,000 and the recoverable amount of the land is \$3,400,000. Which of the following is correct for the carrying values of the assets in the cash generating unit (in whole dollars)?

	Goodwill	Land	Equipment
a)	\$2,000,000	\$4,000,000	\$3,000,000
b)	\$1,333,333	\$2,666,667	\$2,000,000
c)	Zero	\$3,428,571	\$2,571,429
d) ANSWER	Zero	\$3,400,000	\$2,600,000
e)	Zero	\$2,600,000	\$3,400,000

**Question 10**

A Ltd incurs \$2m of research and total development expenditure of \$8m on a new ergonomic chair. Provided that relevant asset recognition tests in AASB 138 are satisfied, A Ltd should recognise in its financial statements:

- Research & Development asset of \$10m in the balance sheet
- Research & Development expense of \$10m in the income statement
- Development asset of \$8m on balance sheet and research expense of \$2m in income statement **(ANSWER)**
- Development asset of \$10m in the balance sheet
- Intangible asset of \$2m and development expenditure of \$8m

**Question 11**

Sydney Ltd purchased a trademark for a successful car engine for \$40 million on 1 July 2005. The car engine is so popular that the trademark is considered to have an economically profitable life of 40 years and is currently being amortised straight line over 40 years. There is no active market for trademarks. The following information is available as at 30 June 2009:

Directors' estimated value	\$50 million
Recent sale price of trademark for a printing press	\$40 million
PV of cash flows from use in next 2 years	\$26 million

In the absence of any other information, the trademark should be recognised on the Balance Sheet as at 30 June 2009 at:

- a) \$26 million.
- b) \$30 million.
- c) \$36 million. **(ANSWER) Asset is depreciated straight line; other data are irrelevant**
- d) \$40 million.
- e) \$50 million.

**All subsequent multiple choice questions are deleted here because the topics are covered later in the Course in 2011**