

University of San Carlos
School of Business and Economics
Department of Accountancy

AC1101
4th Exam

Name: _____ **Schedule:** _____ **Course:** _____

Instructions: Multiple Choice. Choose the best answer from the choices given. Indicate the CAPITAL LETTER. NO ERASURES ALLOWED.

1. A financial instrument is any contract that gives rise to
 - a. A financial asset
 - b. A financial liability
 - c. A financial asset of one entity and a financial liability of another entity
 - d. A financial asset of one entity and a financial liability or equity instrument of another entity**

2. A financial liability
 - a. Must be classified as noncurrent liability.
 - b. Is a contractual obligation to deliver cash or another financial asset to another entity.**
 - c. Is a **contractual obligation** to exchange financial assets or financial liabilities with another entity under conditions that are **potentially** favorable to the entity.
 - d. Is a contractual obligation to deliver cash or **any asset** to another entity.

3. How should preference shares that are **redeemable mandatorily** be presented in the statement of financial position?
 - a. Noncurrent financial liability
 - b. Current financial liability
 - c. Equity
 - d. Either current or noncurrent financial liability depending on redemption date**

4. The **irrevocable election** to present subsequent changes in fair value in other comprehensive income is applicable only to
 - a. Investment in equity instrument that is not held for trading.**
 - b. Investment in equity instrument that is held for trading.
 - c. Financial asset measured at amortized cost.
 - d. Financial asset measured at fair value.

5. A debt investment shall be measured at **fair value through other comprehensive income**
 - a. When the debt investment is held for trading.
 - b. When the debt investment is not held for trading.
 - c. By irrevocable designation
 - d. When the business model is to collect contractual cash flows that are solely payments of principal and interest and also to sell the financial asset**

6. Entities are required to measure financial asset based on all of the following, **except**
 - a. The business model for managing financial asset.
 - b. Whether the financial asset is a debt or an equity investment.**
 - c. The contractual cash flow characteristics of the financial asset.
 - d. All of the choices are required.

7. Debt investments **not held for collection** are reported at
 - a. Amortized cost
 - b. Fair value**
 - c. The lower of amortized cost and fair value
 - d. Net realizable value

8. It is an entity over which the investor has significant influence.
 - a. Associate**
 - b. Investee
 - c. Venture capital organization

- d. Mutual fund
9. Which statement is **true** concerning significant influence?
- If an investor holds, directly or indirectly, less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.
 - If an investor holds, directly or indirectly, 20% or more of the voting power of the investee, it is presumed that the investor does have significant influence, unless it can be clearly demonstrated that this is not the case.
 - A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.
 - All of these statements are true about significance influence.**
10. When an entity holds between 20% and 50% of the voting power of an investee, which statement is **true**?
- The investor must use the equity method.
 - The investor should use the equity method unless circumstances indicate that it is unable to exercise significant influence over the investee.**
 - The investor must use the fair value method unless it can be clearly demonstrated that the investor has significant influence over the investee,
 - The investor must use the fair value method.
11. An investor shall discontinue the equity method when
- The investor ceases to have significant influence over the associate.**
 - The associate operates under severe long-term restrictions.
 - The investor ceases to have control over the associate.
 - The business activities of the investor and associate are dissimilar.
12. When an investor uses the equity method to account for investment in ordinary shares, cash dividends received by the investor from the investee shall be recorded as
- Dividend income
 - A deduction from the investor's share of the investee's profits
 - A deduction from the investment account**
 - A deduction from the shareholders' equity account, dividends to shareholder.
13. An owner-occupied property is held by an owner
- For use in the production of goods or services.
 - For administrative purposes.
 - For sale in the ordinary course of business.
 - For use in production of goods and services and for administrative purposes.**
14. Investment property includes all of the following, **except**
- Land held for long-term capital appreciation
 - Land held for currently undetermined use
 - Building owned by the reporting entity or held by a finance lessee leased out under an operating lease
 - Property held for sale in the ordinary course of business.**
15. Subsequent to initial recognition, the investment property shall be measured using
- Fair value model or revaluation model
 - Fair value through profit or loss model
 - Cost model or fair value model**
 - Cost model or revaluation model
16. Government grant shall be recognized when there is reasonable assurance that
- The entity will comply with the conditions of the grant.
 - The grant will be received.
 - The entity will comply with the conditions of the grant and the grant will be received.**
 - The grant must have been received.
17. A government grant that becomes repayable shall be accounted for as
- Change in accounting estimate**

- b. Change in accounting policy.
 - c. Both A and B.
 - d. Neither A nor B.
18. Repayment of grant related to an asset shall be recorded by
- a. Increasing the carrying amount of the asset if the deduction approach is used.
 - b. Recognizing as expense the cumulative additional depreciation that would have been recorded to date in the absence of the grant if the deduction approach is used.
 - c. Reducing the deferred income balance to zero if the deferred income approach is used.
 - d. All of the above.**
19. Borrowing cost are defined as
- a. Interest expense using the effective interest method.
 - b. Finance charges in respect of finance lease.
 - c. Exchange differences arising from foreign currency borrowings to the extent that these are regarded as an adjustment to interest cost.
 - d. Interest and other costs that an entity incurs in connection with borrowing of funds.**
20. Which of the following assets could be treated as qualifying assets for the purpose of capitalizing borrowing costs?
- a. Investment Property**
 - b. Investment in financial instrument
 - c. Inventory that is manufactured or produced in large quantity on a repetitive basis and takes a substantial period of time to get ready for use or sale.
 - d. Biological asset
21. If the qualifying asset is financed by general borrowing, the capitalizable borrowing cost is equal to
- a. Actual borrowing cost incurred.
 - b. Total expenditures on the asset multiplied by a capitalization rate.
 - c. Average expenditures on the asset multiplied by a capitalization rate or actual borrowing cost incurred, whichever is lower.**
 - d. Average expenditures on the asset multiplied by a capitalization rate or actual borrowing cost incurred, whichever is higher.
22. An intangible asset is identifiable when
- a. It is separable
 - b. It arises from contractual and other legal right.
 - c. It is either separable or it arises from contractual and other legal right**
 - d. It is neither separable nor it arises from contractual and other legal right
23. Which statement is true in relation to internally generated intangible asset?
- a. Internally generated brand, masthead, publishing title, and customer list shall not be recognized as an intangible asset.
 - b. The cost of internally generated intangible asset comprises all directly attributable costs necessary to produce and prepare the asset for the intended use.
 - c. Internally generated goodwill shall not be recognized as an intangible asset.
 - d. All of these statements are true.**
24. After initial recognition, an intangible asset shall be measured using
- a. Cost model
 - b. Revaluation model
 - c. Cost model or revaluation model**
 - d. Cost model or fair value model
25. Which statement is true concerning amortization and impairment of intangible assets?
- a. Intangible assets with finite useful life are amortized over the useful life.
 - b. Intangible assets with finite useful life are tested for impairment at the end of the reporting period when there is an indication of impairment.
 - c. Intangible assets with indefinite useful life are not amortized but are tested for impairment at least annually.
 - d. All of these statements are true.**

26. Factors in determining the useful life of an intangible asset include all, except
- The expected use of the asset
 - Any legal or contractual provision
 - Any provision for renewal or extension of the legal life
 - The amortization method**
27. How should research and development costs be accounted for?
- Must be capitalized when incurred and then amortized over the useful life.
 - Must be expensed in the period incurred.
 - May be either capitalized or expensed when incurred depending upon the materiality.
 - Must be expensed in the period incurred unless it can be clearly demonstrated that the expenditure will have alternative future use or unless contractually reimbursable.**
28. Which of the following would be considered research and development?
- Routine effort to refine an existing product
 - Periodic alteration to existing production line
 - Marketing research to promote a new product
 - Construction of prototype**
29. Which of the following is not one of the criteria which must be met before development costs can be capitalized?
- The entity has sufficient financial resources to complete the project.
 - The entity intends to complete the project and either use or sell the intangible asset.
 - The entity can reliably identify the research costs incurred to bring the project to economic feasibility.**
 - The project has achieved technical feasibility.
30. Which of the following cost should be capitalized?
- Acquisition cost of equipment to be used on current research project only.
 - Engineering cost incurred to advance the project to the full production stage.**
 - Cost of research to determine whether a market for the product exists.
 - Salaries of research staff
31. A provision shall be recognized as liability when
- An entity has a present obligation as a result of a past event.
 - It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
 - The amount of the obligation can be measured reliably.
 - All of these are required for the recognition of a provision as liability.**
32. A constructive obligation is an obligation
- That is derived from an entity's action that the entity will accept certain responsibilities because of past practice, published policy or current statement.
 - The entity has created a valid expectation in other parties that it will discharge those responsibilities.
- I only
 - II only
 - Both I and II**
 - Either I or II
33. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the range to be used is the
- Minimum
 - Maximum
 - Midpoint**
 - Sum of the minimum and maximum
34. Which statement is incorrect concerning a contingent liability?
- A contingent liability is not recognized in the financial statements
 - A contingent liability is disclosed only.
 - If the contingent liability is remote, no disclosure is required.
 - A contingent liability is both probable and measurable.**
35. Which statements is incorrect concerning a contingent asset?
- A contingent asset is not recognized in the financial statements because this may result to recognition of income that may be never realized.

- b. When the realization of income is virtually certain, the related asset is no longer contingent asset and its recognition is appropriate.
 - c. A contingent asset is only disclosed when the occurrence of the future event is possible or remote.**
 - d. The related gain arising from the contingent asset is recognized usually when it is realized.
36. Disclosure usually is not required for
- a. Contingent gains that are probable and can be reliably measured
 - b. Contingent losses that are reasonably possible and cannot be reliably measured
 - c. Contingent losses that are probable and cannot be reliably measured
 - d. Contingent losses that are remote and can be reliably measured.**
37. What is the principal accounting for a compound instrument?
- a. The issuer shall classify a compound instrument as either a liability or equity based on evaluation of the predominant characteristics of the contractual arrangement.
 - b. The issuer shall classify the liability and equity components of a compound instruments separately as liability or equity.**
 - c. The issuer shall classify a compound instrument as an equity in the entirety.
 - d. The issuer shall classify a compound instrument as a liability in the entirety, until converted equity.
38. How are the proceeds from issuing a compound instrument allocated between the liability and equity components?
- a. First, the liability component is measured at fair value, and then the remainder of the proceeds is allocated to the equity component.**
 - b. First, the equity component is measured at fair value, and then the remainder of the proceeds is allocated to the liability component.
 - c. First, the fair values of both the equity component and the liability component are estimated. Then the proceeds are allocated to the liability and equity components based on the relation between the estimated fair value.
 - d. The equity component is measured at its intrinsic value. The liability component is measured at the face amount less the intrinsic value of the equity component.
39. A bond convertible by the holder into fixed number of ordinary shares of the issuer is
- a. A compound financial instrument**
 - b. A primary financial instrument
 - c. A derivative financial instrument
 - d. An equity instrument
40. Remeasurements of defined benefit plan include
- a. The difference between actual return and interest income on plan assets.
 - b. Actuarial gain or loss on projected benefit obligation.
 - c. Change in the effect of assets ceiling minus interest expense on the beginning effect of assets ceiling.
 - d. All of these are included in measurements of defined benefit plan.**
41. What is the meaning of "net interest" in relation to a benefit cost?
- a. Interest expense on defined benefit liability
 - b. Interest income on the fair value of plan assets
 - c. The difference between interest expense on defined benefit liability and interest income on the fair value of plan assets**
 - d. Interest expense on defined benefit liability less applicable income tax
42. When an entity amends a pension plan, past service cost should be
- a. Treated as a prior period adjustment because no future periods are benefited.
 - b. Amortized over the remaining services period of employees.
 - c. Recorded in other comprehensive income.
 - d. Reported as an expense in the period the plan is amended.**
43. Share options are what type of share-based payment transaction?
- a. Asset-settled share-based payment transaction
 - b. Equity -settled share-based payment transaction**
 - c. Cash-settled share-based payment transaction

- d. Liability-settled share-based payments transaction
44. The total compensation expense in a share option plan is measured at
- a. **Fair value of share options on date of grant**
 - b. Fair value of shares options on date of exercise
 - c. Intrinsic value of share options on date of grant
 - d. Intrinsic value of share options on date of exercise
45. It is a contract that gives the employees the right, but not the obligation to subscribe to the entity's shares at a fixed or determinable price for a specified period of time.
- a. **Share option**
 - b. Share warrant
 - c. Share appreciation right
 - d. Share split
46. In a hyperinflationary economy, amounts in the statement of financial position not expressed in the measuring unit current at the end of reporting period are restated by applying the
- a. **General price index**
 - b. Specific price index
 - c. Both a and b.
 - d. Either a or b.
47. All of the following are monetary items, except
- a. Trade payable
 - b. Trade receivable
 - c. **Administration costs paid in cash**
 - d. Loan repayable at par value
48. Which can be considered an SME?
- a. A credit union with total assets of P3,000,000.
 - b. A broker with total liabilities of P3,000,000.
 - c. A bank with total assets of P350,000,000.
 - d. **None of these**
49. Inventories must be measured by an SME at
- a. Cost
 - b. **The lower of cost and estimated selling price less cost to complete and dispose**
 - c. The lower of cost and fair value less cost to complete and dispose
 - d. The most recent purchase price
50. An SME must be recognize all borrowing cost
- a. **As an expense when incurred.**
 - b. As capitalizable when directly attributable to a qualifying asset
 - c. In retained earnings
 - d. In other comprehensive income

Answer sheet (AC1101) 4th Long EXAM

Name: _____ Schedule: _____

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