

## CHAPTER 20 INTANGIBLE ASSETS

1. Which condition must be met for an item to be recognized as an intangible asset other than goodwill?

D. The item is nonmonetary, identifiable, and lacks physical substance.

2. An intangible asset is identifiable when

C. It is either separable or it arises from contractual and other legal right.

3. Which statement is **true** in relation to control by the entity of the intangible asset?

A. The capacity of the entity to control the economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law.

B. The skill of employees arising out of the benefits of training costs cannot be recognized as intangible asset.

C. market share and customer loyalty cannot normally be recognized as intangible asset because an entity cannot control the action of customers.

D. **ALL OF THESE STATEMENTS ARE TRUE.**

4. An intangible asset shall be recognized if

D. it is probable that future economic benefits attributable to the asset will flow to the entity and the cost of the intangible asset can be measured reliably

5. The cost of a separately acquired intangible asset comprises the purchase price and

D. Directly attributable cost of preparing the asset for the intended use.

6. Directly attributable costs of preparing the intangible asset for the intended use include all of the following, **except**

D. Initial operating cost

7. 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.**

8. The cost of an internally generated asset includes all of the following, **except**

- D. Expenditure on training staff to operate the asset.

9. After initial recognition, an intangible asset shall be measured using

- C. Cost model or revaluation model

10. An entity that acquired an intangible asset may use the revaluation model for subsequent measurement only when

- B. An active market exists for the intangible asset.

11. 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 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.**

12. An intangible asset is regarded as having an **indefinite useful life** when

- A. There is no foreseeable limit to the period over which the asset is expected to generate net cash inflows to the entity.

13. What is the method of amortizing intangible asset?

- A. The straight line method, unless the pattern of the economic benefits can be determined reliably.

14. The residual value of an intangible asset with a **finite useful life** shall be assumed zero, **except**

C. When there is a commitment by a third party to purchase the asset at the end of useful life or there is an active market for the asset, and it is probable that such market will exist at the end of useful life.

15. One factor that is **not** considered in determining the useful life of an intangible asset is

A. Residual value

16. Factors in determining the useful life of an intangible asset include all of the following, **except**

D. The amortization method

17. Which does not qualify as an intangible asset?

D. Notebook computer

18. Which of the following would qualify as an intangible asset?

D. Legal cost paid to lawyers to register a patent

19. The recognition criteria for an intangible asset include which of the following conditions?

D. It is probable that future economic benefit will arise from use and the cost can be measured reliably.

20. Which is **not** a consideration in determining the useful life of an intangible asset?

C. Initial cost

21. Amortization of an intangible asset with a finite useful life shall commence when

C. It is available for the intended use.

22. Intangible assets are reported

C. As a separate line item

23. Intangible assets are classified as
- C. Limited life and indefinite life
24. Intangible assets with indefinite useful life are tested for impairment
- B. Annually
25. The major problem for an intangible asset is determining
- D. Useful life
26. Operating loss incurred during the start-up years of a new entity should be
- A. Accounted for like any other operating loss
27. How should research and development costs be accounted for?
- D. 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?
- D. Construction of prototype
29. Which of the following costs should **not** be capitalized?
- D. Cost of testing prototype before economic feasibility has been demonstrated
30. Which of the following costs should be **excluded** from research and development expense?
- C. Cost of marketing research for a new product
31. Which of the following should **not** be considered research and development activity?
- A. Adaptation of an existing capability to a particular requirement or customer need
32. *Research activities* include all of the following, **except**
- D. Design, construction and testing of preproduction prototype and model.

33. *Development activities* include all of the following, **except**

D. Laboratory activities aimed at obtaining new knowledge.

34. Which of the following is **not** one of the criteria which must be met before development costs can be capitalized?

C. The entity can reliably identify the **research costs** incurred to bring the project to economic feasibility.

35. Which of the following costs should be **capitalized**?

B. Engineering cost incurred to advance the product to the full production stage

36. Which statement is **true** about development cost?

C. Development cost may be capitalized as an intangible asset in very restrictive situations.

37. All of the following expenditures shall be expensed, **except**

A. Startup cost

38. Which research and development costs should be capitalized and amortized over current and future periods?

B. Cost of testing equipment that will also be used in another research and development project

39. Which of the following research and development costs should be capitalized and amortized over current and future periods?

A. Research and development general laboratory building

40. Which best describes the accounting for R and D?

D. Immediate recognition as an expense

41. Which is an example of an activity that would be excluded from research and development costs?

A. Quality control during commercial production.

42. Which statement is the **most accurate** about R and D?

B. Costs incurred during the development phase can be capitalized if certain criteria are met.

43. "Web site development cost" should be

A. Expensed when incurred

44. Which statement is true concerning separate acquisition of an intangible asset?

A. If an intangible asset is acquired separately, the cost of the intangible asset can usually be measured reliably.

B. If payment for an intangible asset is deferred beyond normal credit terms, the cost is equal to the cash price.

C. The cost of a separately acquired intangible asset comprises the purchase price and any directly attributable cost of preparing the asset for the intended use.

D. **All of these statements are true.**

45. Once recognized, intangible assets can be carried at

C. Revalued amount less accumulated amortization

## CHAPTER 21 INVESTMENT PROPERTY

1. Which statement best describes **investment property**?

C. Property held to earn rentals or for capital appreciation

2. An owner-occupied property is held by an owner

D. For use in production of goods and services and for administrative purposes.

3. Investment property includes all of the following, **except**

D. Property held for sale in the ordinary course of business

4. Which of the following is an investment property?

B. Property that is being constructed and developed as investment property

5. An investment property shall be measured **initially** at

A. Cost

6. Which statement is **true** if the property is partly investment and partly owner-occupied?

I. If the investment and owner-occupied portions could be sold or leased out separately, the portions shall be accounted for separately as investment property and owner-occupied property.

II. If the investment and owner-occupied portions could not be sold or leased out separately, the property is investment property if only an insignificant portion is held for manufacturing or administrative purposes.

C. Both I and II

7. If an entity owns and manages a hotel, services provided to guests are a **significant component** of the arrangement as a whole. In such a case, the hotel is classified as

B. Owner-occupied property

8. Directly attributable expenditures related to investment property include

A. Professional fees for legal services, property transfer taxes and other transaction cost.

9. Which statement is **true** concerning property leased to an affiliate?

I. From the perspective of the **individual entity** that owns it, the property leased to an affiliate is considered an **investment property**.

II. From the perspective of the affiliates as a group and for purposes of **consolidated financial statements**, the property is treated as **owner-occupied property**.

A. Both I and II.

10. Which statement is **incorrect** in determining the fair value of an investment property?

A. An entity shall determine the fair value of investment property by deducting transaction cost that may be incurred upon disposal.

11. Subsequent to initial recognition, the investment property shall be measured using

C. Cost model or fair value model

12. If the entity uses the fair value model for the investment property, changes in fair value are

A. Recognized in profit or loss

13. If the entity uses the fair value model for investment property, which statement is **true**?

D. The entity does not record depreciation

14. Transfers from investment property to property, plant and equipment are appropriate

A. When there is change of use.

15. Under IFRS, assets classified as investment property are

C. Held for rental income or to be sold for a quick profit

16. Which statement regarding investment property is **correct**?

A. If the entity elects the fair value model, no depreciation is taken.

B. Gain or loss from fair value adjustment is reported in the income statement

C. If the entity elects the cost model, depreciation should be recognized

**D. All of these statements are correct regarding investment property.**

17. An investment property is derecognized when

- A. It is disposed to a third party.
- B. It is permanently withdrawn from use
- C. No future economic benefits are expected from the disposal.
- D. In all of these cases.**

18. Gain or loss from disposal of investment property shall be determined as the difference between the

- A. Net disposal proceeds and carrying amount

19. Which disclosures **must** be made when the **cost model** is used for investment property?

- A. The fair value of the property

20. Which of the following disclosures shall be made when the **fair value model** has been adopted?

- D. Net gains or losses from fair value adjustments

21. When the entity uses the *cost model*, the transfers between investment property, owner-occupied property and inventory shall be made at

- B. Carrying amount

22. A transfer from investment property carried at fair value to owner-occupied property shall be accounted for at

- A. Fair value, which becomes the deemed cost

23. If owner-occupied property is transferred to investment property that is *to be carried at fair value*, the difference between the carrying amount and fair value shall be

- D. Accounted for as revaluation of property

24. If an inventory is transferred to investment property *to be carried at fair value*, the remeasurement to fair value is

A. Included in profit or loss

25. When an investment property under construction is completed and carried at fair value, the difference between the carrying amount and fair value shall be

A. Included in profit or loss.

## CHAPTER 22 AGRICULTURE

### 1. Biological assets

B. Are living animals or living plants and must be disclosed as a separate line item in the statement of financial position.

2. It is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological asset

A. Agricultural activity

3. Biological transformation results from asset changes through all of the following, **except**

D. Production of agricultural produce

4. Agricultural activity results in which of the following type of asset

C. Biological asset and agricultural produce

5. Agricultural activity includes all of the following, **except**

D. Ocean fishing

6. Which statement is **true** about biological assets?

A. Biological assets are measured at fair value less cost of disposal.

B. When fair value cannot be determined reliably, the biological asset shall be measured at cost less accumulated depreciation and impairment.

C. There is a presumption that the fair value of biological asset can be measured reliably.

D. **All of these statements are true about biological assets.**

7. Agricultural produce is

A. The harvested product from biological asset.

8. Agricultural produce as it **grows** on bearer plant is measured at the end of each reporting period prior to harvest at

- B. Fair value less cost of disposal
9. Agricultural produce **harvested** from bearer plants is measured at
- B. Fair value less cost of disposal at the point of harvest.
10. The harvested agricultural produce is
- A. Accounted for as inventory
  - B. Initially recognized at fair value less cost of disposal at the point of harvest.
  - C. Recorded as gain from change in fair value of agricultural produce
  - D. **All of these are correct**
11. A bearer plant is a living plant that
- A. Is used in the production or supply of agricultural produce
  - B. Is used to bear produce for more than one period
  - C. Has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales
  - D. **Must possess all of these characteristics.**
12. All of the following can be considered bearer plant, **except**
- D. Tree in a forest plantation to be harvested and sold as log or lumber
13. A living plant with a **dual use** is classified as
- B. Biological asset
14. According to IASB, bearer plants are accounted for as
- C. Property, plant and equipment
15. Mature bearer plant is measured using
- C. Either cost model or revaluation model
16. According to IASB, *bearer animals* are accounted for as

A. Biological assets

17. Animals related to recreational activities are classified as

B. Property, plant and equipment

18. Generally speaking, biological assets relating to agricultural activity shall be measured using

C. A fair value approach

19. Which of the following criteria must **not** be satisfied before a biological asset can be recognized?

C. An active market for the asset exists.

20. Land that is related to agricultural activity is measured

B. In accordance with PAS 16, Property, Plant and Equipment, or PAS 40, Investment Property.

21. An entity had a plantation forest that is likely to be harvested and sold in 30 years. The income shall be accounted for in which of the following?

B. Income shall be measured annually and reported using a fair value approach

22. Where the fair value of the biological asset cannot be determined reliably, the asset shall be measured at

C. Cost less accumulated depreciation and impairment loss

23. A gain or loss arising on the initial recognition from a change in the fair value biological asset shall be included in

A. Profit or loss for the period.

24. Where there is a long aging or maturation process after harvest, the accounting shall be dealt with by

B. PAS 2, Inventories

25. When agricultural produce is harvested, the harvest shall be accounted for as *inventory* at

A. The fair value less cost of disposal at point of harvest

26. When there is a long aging or maturation process after harvest, the accounting shall be dealt with by

B. PAS 2, Inventories

## CHAPTER 23 PROVISION, CONTINGENT LIABILITY AND ASSET

1. Which is the correct definition of a provision?

B. A liability of uncertain timing or amount

2. A provision shall be recognized as liability when

A. An entity has a present obligation as a result of a past event

B. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

C. The amount of the obligation can be measured reliably

**D. All of these are required for the recognition of a provision as liability**

3. A *legal obligation* is an obligation that is derived from all of the following, **except**

D. An established pattern of past practice

4. A *constructive obligation* is an obligation

I. That is derived from an entity's action that the entity will accept certain responsibilities because of past practice, published policy or current statements

II. The entity has created a valid expectation in other parties that it will discharge those responsibilities.

C. Both I and II

5. It is an event that creates a legal or constructive obligation because the entity has no other realistic alternative but to settle the obligation

A. Obligating event

6. An outflow of resources embodying economic benefits is regarded as *probable* when

A. The probability that the event will occur is greater than the probability that the event will not occur.

7. Where there is continuous range of possible outcomes, and *each point in that range is as likely as any other*, the range to be used is the

C. Midpoint

8. When the provision involves a *large population of items*, the estimate of the amount

A. Reflects the weighting of all possible outcomes by their associated probabilities.

9. When the provision arises from a *single obligation*, the estimate of the amount

C. Is the individual most likely outcome adjusted for the effect of other possible outcomes

10. Which statement is **incorrect** where the expenditure required to settle a provision is expected to be reimbursed by another party?

D. The reimbursement shall not be treated as separate asset but “netted” against the estimated liability for the provision.

11. Which statement is **not true** in relation to the measurement of a provision

D. Gains from expected disposal of assets shall be taken into account in measuring a provision.

12. Which of the following is **incorrect** regarding the discount rate used in measuring a provision?

D. Is a post-tax discount rate

13. Which statement is **incorrect** concerning recognition of a provision?

C. Provisions shall be recognized for future operating losses.

14. It is a contract in which the unavoidable costs of meeting the obligation under the contract exceed the economic benefits to be received under the contract

A. Onerous contract

15. The unavoidable costs under an onerous contract represent the *least net cost of exiting from the contract* which is equal to

C. Lower between the cost of fulfilling the contract and the penalty arising from failure to fulfill the contract.

16. Contingent liability will or will not become actual liability depending on
- D. The outcome of a future event
2. The likelihood that the future event will or will not occur can be expressed by a range of outcome. Which range means that the future event occurring is very slight?
- D. Remote
3. Which statement is **incorrect** concerning a contingent liability?
- D. A contingent liability is both probable and measurable
4. A contingent liability
- A. Has a most probable value of zero but may require payment if a given future event occurs.
5. How should a contingent liability be reported in the financial statements when it is reasonably possible?
- C. As a disclosure only.
6. Contingent asset is usually recognized when
- A. Realized
7. Which is the proper treatment of contingent asset?
- D. A disclosure only
8. Gain contingency that is remote and measurable
- D. Should not be reported or disclosed
9. Disclosure usually is **not** required for
- D. Contingent loss that is remote and measurable
10. Reporting in the financial statements is required for
- A. Loss contingency that is probable and measurable.

11. A present obligation that is probable and for which the amount can be reliably measured should

D. Be accrued by debiting an expense and crediting a liability

12. At year-end, an entity was suing a competitor for patent infringement. The award from the probable favorable outcome could be reliably measured. How should the entity report the expected award?

D. Disclosure only.