Financial Reporting – Module 2 Quiz

Here are some easy questions just to test you have understood the main points within this module.

Questions

Question 1

Which of the following is not included in a complete set of financial statements according to IAS 1 Presentation of Financial Statements?

A A profit or loss statement.

B A balance sheet statement.

C Details of accounting policies adopted.

D Directors report.

Question 2

Which of the following about the selection of accounting policies according to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors is the most correct?

A Where no specific IFRS requirements exist, management should rely on the IFRIC for guidance.

B After management has selected their appropriate accounting policies, they should link these to applicable IFRSs.

C Management can refer to the implementation guidance associated with the relevant IFRS, however this is not mandatory.

D Management should first determine the applicability of IFRSs before selecting accounting policies appropriate for their entity.

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Question 3

Which of the following about changes in accounting policies is correct?

A Changes can be made at any time provided they are adequately disclosed according to the requirements of IAS 8.

B An entity can make a change at any time provided it improves the results reported in the financial statements of the entity.

C Changes are permitted when the change will result in more relevant and reliable information about the entity.

D Accounting policies must be consistently applied and no changes are permissible unless transitional provisions for new IFRSs are available.

Question 4

LMO Ltd's (LMO) reporting period ended on 30 June 20X1 and the financial statements were issued on 15 September 20X1.

Which of the following is an adjusting event?

A The fair value of land was $750 000 at 30 June 20X1. On 31 July this valuation was reduced to $650 000 due to council re-zoning.

B The construction of new office premises was in progress at the end of the reporting period and was completed on 15 August 20X1.

C On 25 July 20X1, LMO signed a contract to sell its existing office premises for $1 500 000 for which settlement is expected to be on 25 September 20X1.

D A court case was in progress at the end of the reporting period which was finalised on 13 September 20X1 and damages were awarded against the entity.

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Question 5

Onus Ltd's (Onus) reporting period ends on 31 December and the financial statements are issued on 31 March.

Which of the following is a non-adjusting event?

A A major customer owing $200 000 filed for bankruptcy on 24 January.

B On 15 March, the entity had damages of $25 000 awarded against it after a year-long court battle with a supplier.

C The auditor attended the stock count and on 29 March requested that the entity adjusts this value by $13 000 due to a valuation error.

D Onus' 20% stake in XYZ Ltd was recorded at $550 000 in the financial statements, but this value had decreased to $450 000 as at 31 March.

Question 6

Which of the following about the disclosure of non-adjusting events in the financial statements is correct?

A They are required if the information is material.

B They are exempted according to IAS 10 (para. 10).

C They are never required as they do not reflect conditions existing at the end of the reporting period.

D They should be disclosed in the notes to the statements as long as they occurred prior to date of authorisation.

Question 7

Which of the following is not required to be disclosed in the profit or loss statement according to IAS 1 Presentation of Financial Statements?

A Sales revenue.

B Share of loss of associate.

C Gain on reclassification of a financial liability.

D Loss from the derecognition of a financial asset.

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Question 8

Which of the following about comprehensive income is correct?

A	Profit or loss is equal to comprehensive income plus total other comprehensive income.
B	Comprehensive income is equal to profit or loss plus total other comprehensive income.
C	Total other comprehensive income is equal to comprehensive income plus profit or loss.
D	Comprehensive income is equal to profit or loss plus total other comprehensive income plus extraordinary items.

Question 9

The financial statements of Starnight Ltd (Starnight) showed a total equity balance of $2 500 000 for the reporting period ended 31 December 20X4. During the 20X5 financial year, Starnight recognised the following transactions:

- Factory buildings were revalued from their carrying amount of $500 000 to $750 000;

- A dividend of $50 000, which was declared in the previous financial year, was paid to shareholders on 31 March 20X5;

- A dividend for the current financial year of $75 000 was declared on 15 December 20X5. The $75 000 is unpaid and has been recognised as a liability at the end of the reporting period;

- The entity made a profit after-tax of $350 000.

What is the closing balance of the total equity for the year ended 31 December 20X5?

A	$2 775 000
B	$2 975 000
C	$3 025 000
D	$3 050 000

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Question 10

According to IAS 1 Presentation of Financial Statements, which of the following does not have to be presented as a line item in the statement of financial position?

A Assets and liabilities for current tax.

B Non-controlling interests, presented within equity.

C Investments accounted for using the equity method.

D The number of shares authorised, issued and fully paid.

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Solutions

Question 1: Correct answer is D

Explanation
A Directors report can be included but is not a mandatory requirement of IAS 1 (para. 10). Note also that the actual 'titles' used for the financial statements is not mandatory requirement.

Question 2: Correct answer is D

Explanation

Option A	Where no specific IFRS requirements exist, management can rely on relevant and reliable policies that have been developed using judgment.
Option B	It is important to first determine the applicability of IFRSs, as accounting policies should also comply with the relevant IFRS implementation guidance where it is mandatory (IAS 8 para. 9).
Option C	Accounting policies must comply with relevant accounting standards (and the relevant implementation guidance issued by the IASB) and IFRIC Interpretations.
Option D	It is important to first determine the applicability of IFRS prior to selecting appropriate accounting policies (IAS 8 para. 7).

Question 3: Correct answer is C

Explanation
It is important that financial statements are prepared using the same accounting policies so that users are able to compare the performance of an entity over a period of time. Accounting policies should be consistently selected and applied for similar transactions, other events and conditions (IAS 8 para. 13). Entities should only change accounting policies when required by an IFRS or when the change will result in the provision of more relevant and reliable information about the entity (IAS 8 para. 14).

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Question 4: Correct answer is D

Explanation

Option A	This is a non-adjusting event. The decline in the fair value of the land was due to a condition which occurred after the end of the reporting period. This condition does not change the market value of the land at the end of the reporting period.
Option B	This is a non-adjusting event. The construction of the office was finalised after the end of the reporting period. This does not affect the valuation of the construction in process value attributed to the building of the financial statements at the end of the reporting period.
Option C	This is a non-adjusting event. The sales contract was signed after the end of the reporting period. Settlement will occur in the next reporting period. The asset 'office premises' existed at the end of the reporting period and should be included in the financial statements as of the end of the reporting period.
Option D	This is an adjusting event. The conclusion of the case occurred after the end of the reporting period but relates to a condition which existed at the end of the reporting period.

Question 5: Correct answer is D

Explanation

Option A	The information disclosed in financial statements should reflect conditions existing at the end of the reporting period (i.e. it is likely that the major customer was already insolvent as at 31 December).
Option B	The information disclosed in financial statements should reflect conditions existing at the end of the reporting period (i.e. the $25 000 in damages related to an event that occurred in the previous period).
Option C	The information disclosed in financial statements should reflect conditions existing at the end of the reporting period (i.e. the actual valuation should reflect $13 000 less).
Option D	An example of a non-adjusting event is the decrease in the market value of an investment after the end of the reporting period. This decrease in value was caused by conditions that occurred after the end of the reporting period. These conditions do not change the market value of the investment at the end of the reporting period.

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Question 6: Correct answer is A

Explanation

Option A	This is a requirement of IAS 10 para. 21, as it enables users to evaluate the actual position and performance of the entity.
Option B	For non-adjusting events, material disclosures should be made, whilst no adjustment should be made to financial statements (IAS 10 para. 10).
Option C	Disclosure is required if the information is material and non-disclosure could influence users' decisions.
Option D	The date of authorisation is not a relevant factor in determining if a non-adjusting event should be disclosed.

Question 7: Correct answer is C

Explanation

Option A	This disclosure is required by IAS 1 para. 82a.
Option B	This disclosure is required by IAS 1 para. 82c
Option C	This disclosure is not required by IAS 1. IAS 1 para. 82(ca) refers to gains on derecognition of financial assets rather than financial liabilities.
Option D	This disclosure is required by IAS 1 para. 82aa.

Question 8: Correct answer is B

Explanation

Comprehensive income is the total of profit or loss and other comprehensive income (see IAS 1 para. 81A(c)) and extraordinary items should not be presented in the profit or loss or other comprehensive income (IAS 1 para. 87).

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Question 9: Correct answer is C

Explanation

Option A	The revaluation of factory buildings of $250 000 needs to be adjusted against equity.
Option B	The dividend declared in the previous year of ($50 000) would have been adjusted in the previous year and should not be included in this year. The timing of the payment is irrelevant.
Option C	Opening equity balance was $2 500 000. Add profit for the year of $350 000 = $2 850 000. Less dividend declared of ($75 000) and add revaluation of buildings of $250 000 = closing equity balance of $3 025 000.
Option D	The dividend declared in the previous year of ($50 000) would have been adjusted in the previous year and should not be included in this year. The current year declared dividend of ($75 000) needs to be adjusted against equity. The subsequent timing of the payment does not affect equity.

Question 10: Correct answer is D

Explanation

The fourth option is correct because an entity has a choice. IAS 1 para. 79 states: 'An entity shall disclose the following, either in the statement of financial position or the statement of changes in equity, or in the notes: (a) for each class of share capital: (i) the number of shares authorised; (ii) the number of shares issued and fully paid, and issued but not fully paid.'

All the other options are incorrect because they are one of the 18 categories of line items listed in IAS 1 para. 54 which must be presented in the statement of financial position where relevant.