Excercise book and case studies in the field of International Financial Reporting Standards

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PREFACE

This exercise book aims to provide students with an international perspective on financial accounting including theory, practice, and its applications under International Financial Reporting Standards (IFRS), help the students understand the basic accounting concepts related to International Financial Reporting Standards (IFRS) and deepen their knowledge in a few accounting standards.

We also hope that students will be able to understand the information presented in financial statements prepared under International Financial Reporting Standards (IFRS). Nevertheless, students will become capable of accounting for several business transactions and preparing different financial statements or extracts.

Students will be introduced into several basic financial reporting issues, such as accounting for PPEs (property, plant and equipment), investment properties, impairment, inventories,etc.

The exercise book covers the following standards:

1. IAS 1 – Presentation of Financial Statements, focusing on the Statement of Changes in Equity
2. IAS 2 – Inventories
3. IAS 16 Property, plant and equipment
4. IAS 33 – Earnings per shares
5. IAS 36 – Impairment of assets
6. IAS 40 – Investment property
7. IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations

The exercise book contains assignments related to the standards mentioned above. At least one assignment got a solution with a deep and detailed explanation. All the explanations will be from the Companys' point of view. Sometimes I will refer to the Company with "we or I".

In the future, we plan to deal with the other standards (IFRS 15 Revenue from Contracts with Customers, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, IFRS 9 Financial isnruments, etc) which were not the topic of this book due to size constraints, and edit the second part of this book.

I. JOURNAL ENTRIES TO RECORD

1. Assignment 1

The following transactions relate to Rockstar Company.

1. *January 25:* The Company purchased some inventory for $1,000 on credit.
2. *February 13:* The Company borrows $5,000 from a finance business. The loan is to be repaid in five years.
3. *February 16:* A property is purchased at the cost of $2,000 for the land and $3,000 for the buildings. The full price is paid from the bank account.
4. *March 26:* The Company sold some inventory for $2,500. (The inventory was purchased for $1,000). Clients are allowed up to 30 days to pay.
5. *April 18:* Check received from clients in payment of invoices amount to $7,000.
6. *May 22:* The Company paid $2,000 for trade creditors.
7. *June 5:* Bills are received for computer rental: $500 /gas: $10/ electricity: $20/ telephone: $100. (The Company has 60 days to pay).
8. *July 10:* The Company paid all the utility expenses and computer rental.
9. *August 7:* The Company paid the unpaid wages: $4,000.
10. *September 8:* The Company received a $500 dividend in cash.
11. *October 10:* The Company paid back $1,000 and $200 interest from the long-term loan.
12. *November 5:* The Company sold some inventory for $2,000 on credit. (The inventory was purchased for $4,000).
13. *December 8:* The depreciation expenses for the PPE (property, plant and equipment) were $200.
14. *December 15:* The Company declared a $300 dividend.

Required:

I. *Open T-accounts for each of the accounts listed in the balance sheet, and enter the opening balances for 20X2.*

II. *Enter all the above events on the enclosed T-accounts. (journalize the transactions and post them to the T-accounts)*

III. *Carry forward the balance of the Income Statement's accounts to the Income Statement Summary account.*

IV. *Prepare the Income Statement.*

V. *Calculate the balance of the Income Statement Summary account and carry forward the balance to Retained earnings account.*

VI. *Carry forward the balance of the Balance Sheet's accounts to Account – Balance Sheet Closing (Check that assets equal liabilities and equity).*

VII. *Prepare the Balance Sheet as of December 31.*

Journal				
Date	**Account title**	**Debit Record**	**Credit Record**	**Amount**
January 25	II/1	Inventory	Account payables	1,000
February 13	II/2	CCE	Long-term liabilities	5,000
February 16	II/3	PPE	CCE	5,000
March 26	II/4	COGS	Inventory	1,000
		Account receivables	Revenue	2,500
April 18	II/5	CCE	Account receivables	7,000
May 22	II/6	Account payables	CCE	2,000
June 5	II/7	Rental expense	Other short-term liab.	500
		Utility expenses	Other short-term liab.	130
July 10	II/8	Other short-term liab.	CCE	630
August 7	II/9	Unpaid wages	CCE	4,000
September 8	II/10	CCE	Dividend income	500
October 10	II/11	Long-term liabilities	CCE	1,000
		Interest expense	CCE	200
November 5	II/12	COGS	Inventory	4,000
		Account receivables	Revenue	2,000
December 8	II/13	Depreciation expense	Accumulated dep for PPE	200
December 15	II/14	RE	Other short-term liab.	300

Intangibles

I. B/F 7,000	**VI. C/F 7,000**
7,000	7,000

PPE

I. B/F 13,000 **II./3. 5,000**	**VI. C/F 18,000**
18,000	18,000

Invested financial assets

I. B/F 10,000	**VI. C/F 10,000**
10,000	10,000

Inventory

I. B/F 14,000 **II./1. 1,000**	**II./4. 1,000** **II./12. 4,000** **VI. C/F 10,000**
15,000	15,000

Account receivables

I. B/F 9,000 **II./4. 2,500** **II./12. 2,000**	**II./5. 7,000** **VI. C/F 6,500**
13,500	13,500

Marketable securities

I. B/F 5,000	**VI. C/F 5,000**
5,000	5,000

Cash and cash equivalents

Share capital

I. B/F 21,000	II./3. 5,000
II./2. 5,000	II./6. 2,000
II./5. 7,000	II./8. 630
II./10. 500	II./9. 4,000
	II./11. 1,000
	II./11. 200
	VI. C/F 20,670
33,500	33,500

VI. C/F 5,000	I. B/F 35,000
35,000	35,000

Share premium

VI. C/F 3,000	I. B/F 3,000
3,000	3,000

Revaluation surplus

VI. C/F 2,000	I. B/F 2,000
2,000	2,000

Retained Earnings

II./14. 300	I. B/F 5,000
V. 1,030	
VI. C/F 3,670	
5,000	5,000

Long-term liabilities

II./11. 1,000	I. B/F 21,000
VI. C/F 25,000	II./2. 5,000
26,000	26,000

Account payables

II./6. 2,000	I. B/F 7,000
VI. C/F 6,000	II./1. 1,000
8,000	8,000

Other short-term liabilities

II./8. 630	I. B/F 2,000
VI. C/F 2,300	II./7. 500
	II./7. 130
	II./14. 300
2,930	2,930

Unpaid wages

II./9. 4,000	I. B/F 4,000
4,000	4,000

Revenue

III. C/F 4,500	II./4. 2,500
	II./12. 2,000
4,500	4,500

COGS

II./4. 1,000	III. C/F 5,000
II./12. 4,000	
5,000	5,000

Rental expense

II./7. 500	III. C/F 500
500	500

Utility expenses	
II./7. 130	**III. C/F 130**
130	130

Dividend income	
III. C/F 500	**II./10. 500**
500	500

Depreciation expense	
II./13. 200	**III. C/F 200**
200	200

Interest expenses	
II./11. 200	**III. C/F 200**
200	200

Accumulated depreciation for PPE	
VI. C/F 200	**II./13. 200**
200	200

Account – Balance Sheet Opening	
I. 35,000 (SC) **I. 3,000 (SP)** **I. 2,000 (RS)** **I. 5,000 (RE)** **I. 21,000 (LTL)** **I. 7,000 (AP)** **I. 2,000 (OSTL)** **I. 4,000 (Unpaid W)**	**I. 7,000 (Intangible)** **I. 13,000 (PPE)** **I. 10,000 (Inv Fin A.)** **I. 14,000 (Inv)** **I. 9,000 (AR)** **I. 5,000 (Mark Sec)** **I. 21,000 (Cash)**
79,000	79,000

Account – Balance Sheet Closing	
VI. 7,000 (Intang.) **VI. 18,000 (PPE)** **VI. 10,000 (IFA.)** **VI. 10,000 (Inv)** **VI. 6,500 (AR)** **VI. 5,000 (Ma. Sec.)** **VI. 20,670 (Cash)**	**VI. 35,000 (SC)** **VI. 3,000 (SP)** **VI. 2,000 (RS)** **VI. 3,670 (RE)** **VI. 25,000 (LTL)** **VI. 6,000 (AP)** **VI. 2,300 (OSTL)** **VI. 200 (Acc Dep)**
77,170	77,170

Account – Income Statement Summary	
III. 5,000 (COGS) **III. 500 (Rent exp)** **III. 130 (Ut exp)** **III. 200 (Depr exp)** **III. 200 (Int exp)**	**III. 4,500 (Revenue)** **III. 500 (Div inc)** **V. C/F 1,030 (RE)**
6,030	6,030

Total Comprehensive Income		
	December 31, 20X1	**December 31, 20X2**
Revenue		4,500
Cost of Goods sold		(5,000)
Gross profit		**(500)**
Dividend income		500
Rental expense		(500)
Utility expenses		(130)
Interest expense		(200)
Depreciation expense		(200)
Net Profit		**(1,030)**
Other Comprehensive Income		**0**
Total Comprehensive Income		**(1,030)**

Statement of Financial Position		
	December 31, 20X1	**December 31, 20X2**
Non-current assets	**30,000**	**34,800**
Intangibles	*7,000*	*7,000*
Property, Plant and Equipment	*13,000*	*17,800*
Invested financial assets	*10,000*	*10,000*
Current assets	**49,000**	**42,170**
Inventory	*14,000*	*10,000*
Account receivable	*9,000*	*6,500*
Marketable securities	*5,000*	*5,000*
Cash and cash equivalents	*21,000*	*20,670*
Total Assets	**79,000**	**76,970**
Equity	**45,000**	**43,670**
Share capital	*35,000*	*35,000*
Share premium	*3,000*	*3,000*
Revaluation surplus	*2,000*	*2,000*
Retained Earnings	*5,000*	*3,670*
Liabilities	**34,000**	**33,300**
Long-term liabilities	**21,000**	**25,000**
Short-term liabilities	**13,000**	**8,300**
Account payables	*7,000*	*6,000*
Other Short-term Liabilities	*2,000*	*2,300*
Unpaid wages	*4,000*	*0*
Total Equity and Liabilities	**79,000**	**76,970**

II. IAS 36 – IMPAIRMENT OF ASSETS

1. Assignment 1 – IAS 36 – Amusement parks - CGU

An Entity has two amusement parks. The first one is Sydneyland, and the second one is Bixkeyland. Both amusement parks had the following Assets:

numbers in thousands dollar

	Sydneyland		Bixkeyland	
	Carrying amount	Fair value less cost of disposal	Carrying amount	Fair value less cost of disposal
Goodwill	50	not determined	50	not determined
Intangibles	200	not determined	260	250
Property	650	490	600	480
Equipment	630	670	560	500
Equipment Held for Sale	-	-	70	80
Total	1,530		1,540	

The recoverable amount for both parks are based on the value-in-use:

- Sydneyland has a value-in-use of $1,360,000.
- Bixkeyland has a value-in-use of $1,300,000.

The Value-in-use for individual assets cannot be determined.

Required:
Determine the carrying amount after impairment in the case of both amusement parks.

1.1. Assignment 1 – IAS 36 – Amusement parks – CGU – Solution and explanation:

This Company had two amusement parks, those parks are considered Cash Generating Units (CGU), and the Company needs to deal with the impairment.
In the case of an impairment test, the Company will follow these simple steps:

1- Determine the carrying amount (carrying value or net book value).
2- Find the recoverable amount for the CGU (in this assignment for both CGUs separately). The recoverable amount will be the higher of fair value less costs of disposal (fair value less cost to sell) and value-in-use.
3- Compare the carrying amount to the recoverable amount.
There will be no impairment if the carrying amount is lower than the recoverable amount. In case the carrying amount is higher than the recoverable amount, the Company needs to apply impairment.

Let us start with the Sydneyland amusement park, where the carrying amount is $1,530,000. According to the given information, the recoverable amount of the first amusement park is going to be the value-in-use, which is $1,360,000. Comparing the two values, we can tell that the Company should apply impairment since the carrying amount

is greater than the recoverable amount. Therefore, the impairment loss is going to be the difference between the carrying amount and the recoverable amount.

$$Carrying\ Amount > Recoverable\ Amount$$
$$\$1{,}530{,}000 > \$1{,}360{,}000$$

The impairment loss is going to be $1,530,000 - $1,360,000 = $170,000.

Now we need to allocate the impairment loss properly.

- First, we will apply impairment on goodwill until the carrying amount after impairment reaches zero or the recoverable amount of the individual asset. Beacuse the carrying amount of any individual asset should not be reduced below the highest of its fair value less cost to sell, its value in use, and zero.
- If there is impairment loss left, we need to allocate it to the individual assets pro rata on the basis of the carrying amount of each asset.

Now let us start with the first CGU:

numbers in a thousand dollars

	Sydneyland		
	Carrying amount	impairment loss	Carrying amount after impairment
Goodwill	50	(50)	0
Intangibles	200	(28.24)	171.76
Property	650	(91.76)	558.24
Equipment	630	-	630
Equipment held for sale	-		
Total	1,530		1,360

The first step is to reduce the carrying amount of goodwill, and since we need to allocate $170,000, the goodwill impairment loss will be $50,000.

Since there is information about fair value less cost of disposal regarding the individual assets (except intangibles), we need to make sure that an asset cannot go below its fair value less cost of disposal. So regarding the equipment, the Company cannot apply impairment.

The impairment loss will be allocated on the basis of 200/850 against the intangibles ($28,235), and 650/850 against the property ($91,765).

The carrying amount after the impairment can be determined easily by deducting the impairment loss for each asset from its carrying amount.

Since the intangibles' fair value less cost of disposal cannot be determined, the intangibles can be written down to zero. Although we need to be careful with the rest of the assets since all of them got a fair value less cost of disposal, and the impairment loss cannot be

greater than the difference between the carrying amount and the fair value less cost of disposal.

After that, we can move into the second amusement park (Bixkeyland). To calculate the impairment loss (if any), we need to compare the carrying amount with the recoverable amount.

$$Carrying\ Amount\ > Recoverable\ Amount$$
$$\$1{,}540{,}000\ > \$1{,}300{,}000$$

The impairment loss is going to be $1,540,000 - $1,300,000 = $240,000.

To follow the previous steps, the Company will start with goodwill. Since the Company will allocate $240,000 impairment loss, the goodwill can be written down to zero.

numbers in a thousand dollars

	Bixkeyland		
	Carrying amount	impairment loss	Carrying amount after impairment
Goodwill	50	(50)	0
Intangibles	260	(10)	250
Property	600	(120)	480
Equipment	560	(60)	500
Equipment Held for Sale	70	-	70
Total	1,540		1,300

When it comes to equipment held for sale, we need to keep in mind that IAS 36 does not apply for non-current assets held for sale. So no impairment loss can be allocated here. Unfortunately, equipment held for sale will be evaluated under IFRS 5, so the Company will choose the lower between the carrying amount and the net realizable value.

Now the impairment loss will be allocated on the basis of 260/1,420 against the intangibles ($34,789), 600/1,420 against the property ($80,282), and 560/1,420 against the property ($74,930). After examining the fair value less cost of disposal regarding those assets, we can see that the intangibles got a $250,000 fair value less cost of disposal, and the equipment' fair value less cost of disposal is $500,000. The problem is if we apply the impairment loss into intangibles and equipment on the basis of the carrying amount, both intangibles and equipment will go below its recoverable amount. The intangibles can only be impaired with $10,000, the equipment with $60,000, and the rest will be allocated into the property (which also cannot go below its recoverable amount).

2. Assignment 2 – IAS 36 - CGU

A cash-generating unit has these net assets:

numbers in a million dollars

Assets	Carrying amount
Goodwill	35
Property	20
Plant	30
Equipment	15
Total	100

The CGU's fair value less cost of disposal is $48 million, and the Value-in-Use has been determined as $55 million.

At the impairment test date, the equipment has totally damaged and could not be sold.

Required

(i) Allocate the impairment loss to the net assets of the entity.

(ii) Calculate the carrying amount after impairment in the case of each asset.

3. Assignment 3 – IAS 36 - CGU

A Company has allocated the following assets at carrying amount to a cash-generating unit.

numbers in a thousand dollars

Assets	Carrying amount
Land and buildings	2,400
Equipment and machinery	800
Goodwill	1,200
Intangibles	400

The CGU can be sold at the price of $4,400,000, and the Value-in-use was detainment at the cost of $4,500,000.

In the case of selling, there will be a few additional costs: Legal costs ($5,000) and the cost of removing the assets ($6,000).

Required

(i) Allocate the impairment loss to the net assets of the entity.

(ii) Calculate the carrying amount after impairment in the case of each asset.

4. Assignment 4 – IAS 36 – Reversing an impairment loss

FUNNY Inc. purchased machinery on January 1, 20X2, for $300,000. The Company estimated the useful life of the asset (three years). The Straight-Line-Method is used in the case of depreciation. The machinery had no residual value. On December 31, 20X2, the Company determined that the machinery had an impairment loss of $20,000. At the end of 20X3, the Company determines that the machinerys' recoverable amount is $96,000.

Required:

(i) Calculate the carrying amount of the machinery at the end of 20X3.
(ii) Show all the double-journal entries.

5. Assignment 5 – IAS 36 – Reversing an impairment loss

SERIOUS Inc. purchased machinery on January 1, 20X2, for $300,000. The Company estimated the useful life of the asset (three years). The straight-line method is used in the case of depreciation. The machinery had no residual value. On December 31, 20X2, the Company determined that the machinery had an impairment loss of $20,000. At the end of 20X3, the Company determines that the machinerys' recoverable amount is $108,000.

Required:

(i) Calculate the carrying amount of the machinery at the end of 20X3.
(ii) Show all the double-journal entries.

6. Assignment 6 – IAS 36 – Value-in-use

At the end of 20X0, Pan Inc. tests a machine for impairment. The machine had been purchased at the end of 20X9 for $300,000. On the day of purchase, the Pan Inc. estimated the useful life for the machine (6 years) and used the straight-line method. The machine had a unique nature, so there was no market-related information. The Company estimated the cash inflows and outflows based on internal information to determine the value-in-Use. According to the estimation, the estimated cash inflows will be $90,000 for five years. Due to the increasing need for repair and maintenance at the end of the useful life, the cash outflows for the first two years will be $30,000, $50,000 for year 3, and $60,000 for the last two years. Pan Inc. uses a discount rate of 8 percent.

Required:

(i) Calculate the machine value-in-use.
(ii) Calculate the carrying amount of the machine at the end of 20X0.

7. Assignment 7 – IAS 36

AK Inc. had three assets that he performed the impairment test at.
The result of the test were the followings:

numbers in a thousand dollars

	Asset "A"	Asset "B"	Asset "C"
Carrying amount	200	300	100
Fair value less cost of disposal	220	150	90
Value-in-use	250	270	65
Recoverable amount			
Impairment loss			
Carrying amount after impairment			

Required

(i) Calculate the assets' recoverable amount.
(ii) Determine the impairment loss that the Company will apply on each asset.
(iii) Calculate the carrying amount after impairment.

8. Assignment 8 – IAS 36 – Reversing an impairment loss on CGU

YUME Inc. had a cash-generating unit. At the end of 20X0, the Company applied an impairment test with the following results:

numbers in a million dollars

Assets	Carrying amount at 31.12.20X1 before impairment loss	Impairment loss	Carrying amount at 31.12.20X1 after the impairment loss	Carrying amount at 31.12.20X2
Goodwill	200	(200)	0	
Limited-life intangibles	400	(100)	300	
Indefinite-life intangibles	300	(75)	225	
Land	800	-	800	
Vehicles	300	(75)	225	
Equipment	600	(150)	450	
Total	2,600	600	2,000	

Note:

- The Company uses the straight-line method in the case of property, plant and equipment, and intangibles.
- Intangibles' useful life is 6 years and was purchased at the beginning of 20X1.

- On 31.12.20X1, the Lands' fair value less cost of disposal was $900 million.
- The initial cost of vehicles was $405,000,000, and the Company estimated a $5,000,000 scrap value and a 4 years' useful life. The Company purchased the vehicles on 31.12.20X0.
- The Company decided to sell the equipment at 31.12.20X1. The equipment had a potential buyer, but due to the world pandemic, the purchase was not completed until the end of 20X2. The Company planned to sell the equipment for $500 million, and the cost of sale will be $50 million.

Required:

(i) Determine the value of each unit in the CGU at 31.12.20X2.

The Company applied an impairment test at the end of 20X2 and found that the recoverable amount of the CGU was $2,115 million.

Required:

(ii) Determine the carrying amount of each unit in the CGU at 31.12.20X2 after reversing the impairment loss.

9. Assignment 9 – IAS 36

Red Inc. is testing the value of its assets and preform them into an impairment test. The following information is available in terms of the assets.

numbers in a thousand dollars

	Initial cost	Accumulated depreciation	Accumulated impairment loss	Value-in-use	Fair value
Asset "AA"	5,000	1,100	700	2,200	3,600
Asset "BB"	3,000	1,000	500	1,050	1,550
Asset "CC"	1,800	100	-	1,500	1,500

In the case of selling each of the assets there is a legal cost, which is $60,000 for each, in addition, $10,000 cost of removing the asset (for each). Asset "AA" has a dismantling cost ($100,000), which already forms part of the asset cost.

Required:

(i) Calculate the carrying amount of each asset.
(ii) Determine the fair value less cost of disposal for each asset.
(iii) Determine the recoverable amount for each asset.
(iv) Calculate the impairment loss of each asset (if needed).
(v) Calculate the carrying amount after impairment loss.

III. IAS 16 – PROPERTY, PLANT AND EQUIPMENT, IAS 40 – INVESTMENT PROPERTY, IFRS 5 – NON-CURRENT ASSETS HELF FOR SALE AND DISCONTINUED OPERATIONS

1. Assignment 1 - IAS 16 – IAS 40

Solo Inc. has the following properties:

	Historical cost (January 01, 20X5):	Fair value (December 31, 20X5):	Fair value (December 31, 20X6):
1.	$22,000	$25,000	$35,000
2.	$56,000	$70,000	$65,000
3.	$70,000	$62,000	$75,000
SUM	$148,000	$157,000	$175,000

The estimated useful life of the three properties is 30 years, whereas the residual value is zero—the properties held for rental by the Company. The Company and the renter of the second property are in the same group (subsidiary). The investment properties are valued by *the fair value* model, and the other properties *are valued by the historical cost* model. The Company uses a straight-line method in the case of depreciation.

Required
How these properties should be treated in the individual and consolidated financial statements?

1.1. Assignment 1 - IAS 16 – IAS 40 – Solution and explanation:

When the Company is preparing the **individual financial statement,** all the properties will be considered investment properties. According to this, the Company will use the fair value model, where no depreciation is charged, and any gain or loss due to the change in fair value will be recognized in the profit or loss.

In the financial statement, the investment property in the balance sheet (statement of financial position) will be affected, and the value of the investment property will be calculated according to the fair value of the three properties at the end of each financial year. All the properties were $148,000 at the beginning of the financial year (20X5). Due to our information, all the properties had a $157,000 fair value at the end of the financial year (20X5). That is $9,000 higher than the historical value at the beginning of the financial year (20X5). So the Company will record an increase in the value of the three properties by $9,000.

On the other hand, the Company should record a gain on investment property, which will increase the net profit in the income statement (statement of total comprehensive

income). Due to the increase in the net profit, the retained earnings will also be affected and will increase by the same amount.

On December 31, 20X6, the three properties were still used by a third party, which is still considered an investment property. So basically, we need to look at the fair value of the three properties on December 31, 20X6, which is $18,000 higher than the fair value on the previous year on the exact date. This means that the Company should carry all the investment properties at fair value as of December 31, 20X6.

At the end of 20X6, the Company will record an increase in the Investment property by $18,000, so the investment property will be $175,000 in the balance sheet (statement of financial position). On the other hand, the increase will be recognized in the profit or loss (statement of total comprehensive income) and will increase the year's net profit. Since the retained earnings are an accumulation of profits and losses, the retained earnings will be affected too and increased by the same amount.

The results can be seen below:

Individual Financial Statement

	December 31, 20X6	December 31, 20X5
Investment property (1st, 2nd, 3rd) (B/S)	175,000	157,000
Retained earnings (B/S)	9,000 + 18,000 = 27,000	9,000
Gain (P/L) or loss (P/L) on investment property	18,000 (gain)	9,000 (gain)

In the case of the **consolidated** financial statement, the Company should look at the group (holding and subsidiaries) as one Company. Basically, the consolidation requires a holding company (parent company) to integrate and combine all the resources and sources together in one huge financial statement. As if there is a mother with children. The mother will prepare an individual financial statement when she wants to present her own money, buildings, lands, etc., separately from her children. And then, she will prepare another financial statement (the consolidated financial statement) where the wealth of the whole "family" can be seen. So in the consolidated financial statement, the Company should consider the group as ONE Company.

In this assignment, we need to look at the properties one by one and decide whether the property is considered occupied and used by the owner or is an investment property because the treatment will be different.

In the case of the first and the third property, we know that it's rented out to another company and that Company is not part of our group, so those will be considered as investment properties. And will be valued using the fair value model as we did in individual financial statements. In the case of the second property, the rental of the property is a subsidiary company in the same group. So that the property will be considered an owner-occupied property and we valued under IAS 16 by the historical cost model.

The main point from the historical cost model is to apply depreciation on the property, and the carrying amount will be the initial cost of the property less accumulated depreciation, and accumulated impairment losses.

The first step will treat the first and third property as investment property and value them according to the fair value model. The first and third properties were $92,000 ($22,000 + $70,000) at the beginning of the year (20X5). On December 31, 20X5, their fair value was $87,000 ($25,000 + $62,000), which is $5,000 less than at the beginning of the financial year. So, on the one hand, the Company will record a decrease in the value of the first and third properties by $5,000. On the other hand, there will be a loss ($5,000) on investment property, which should be recognized in the profit or loss (statement of total comprehensive income). Of course, the retained earnings will be affected as well.

As the second step, let us look into the second property, which will be owner-occupied in the consolidated financial statements since the holding and the subsidiary are in the same group. The Company will record a depreciation expanse regarding the second property. The deprecating expense for one year will be ($1,867) since there is no residual value, the useful life was estimated at 30 years and the method used is the straight-line method. The calculation can be seen below:

$$\frac{\$56{,}000}{\$30} = \$1{,}867$$

According to this the second property will be $56,000 - $1,867 = $54,133 at the end of 20X5. The Company must record a depreciation expense as well, which will be part of the profit or loss and decrease the net profit. The decrease in the net profit will affect and decrease the retained earnings with the same amount.

On December 31, 20X6, the Company will treat the properties the same as it was done the previous year. The first and third property had a $110,000 ($35,000 + $75,000) fair value, which is $23,000 higher than the fair value on December 31, 20X5. According to this, the Company will record an increase in the value of the investment property by $23,000, which will be recognized as a gain on an investment property in the profit or loss and increase the Company's net profit.

In terms of the second (owner-occupied) property, the Company will record another depreciation expense with the same amount, which will be recognized in the profit or loss and decrease the net profit. Therefore, the value of the second property will be the difference between the initial cost and the accumulated depreciation ($56,000 - $3,734 = $52,266).

At the end of 20X6, the retained earnings will contain all the accumulated profits and losses. Not only will the $23,000 gain on investment property and the ($1,867) depreciation expense be accumulated there, but also the previous year's retained earnings ($6,867).

Consolidated Financial Statements

	December 31, 20X6	December 31, 20X5
Investment property (1st, 3rd) (B/S)	110,000	87,000
Property, plant and equipment (2nd) (B/S)	56,000 - 1,867 - 1,867 = 52,266	56,000 - 1,867 = 54,133
Retained earnings (B/S)	(6,867) + 23,000 + (1,867) = 14,266	(5,000) + (1,867) = (6,867)
Gain (P/L) or loss on investment property (P/L)	23,000	(5,000)
Depreciation expense (P/L)	(1,867)	(1,867)

2. Assignment 2 - IAS 16 – IAS 40

Goode Inc. has four properties:

	Carrying amount (January 01, 20X8):	Fair value (December 31, 20X8):	Fair value (December 31, 20X9):
1.	$20,000	$22,000	$30,000
2.	$50,000	$56,000	$70,000
3.	$100,000	$90,000	$80,000
4.	$35,000	$35,000	$50,000
SUM	$205,000	$203,000	$230,000

Note:

- The four properties had 20 years of remaining useful life.
- The Company uses the straight-line method in case of depreciation.
- The residual value is zero in the case of all properties.
- The first property is owner-occupied; the rest are held for rental.
- The renter of the third property is Goode Inc. subsidiary Company.
- The investment properties are valued by the fair value model.
- The owner-occupied properties are valued by the revaluation model. The frequency of the revaluation is every three years; the next revaluation will have occurred on December 31, 20X8.

Required
Show how these properties should be treated in the individual and consolidated financial statements!

3. Assignment 3 – initial cost – IAS 16

Dr. Chocolate Inc. incurs the following costs in relation to constructing a new chocolate factory and introducing its products to the local market.

numbers in a thousand dollars

Site preparation costs	600
The purchase price of the raw material used for the construction (The price contains $100,000 import duties)	2,400
Initial delivery and handling of the used raw material costs	200
handling of raw materials related to another construction	510
Labor costs, including $80,000 incurred during a disagreement between the workers and the employer about the working conditions. The workers were on strike for one month. No construction occurred during that time.	2,280
Testing of various processes in the factory	50
Decorating materials	250
Legal fees regarding chocolate factory building	100
Relocation of staff to the new factory	110
CEO salary during the construction	900
Maintenance contract for ten years	1,300
Assembly costs	220
Installation costs	100
Costs to dismantle the factory at the end of its useful life in 50 years (used discount rate is 7 percent)	3,600

Required:

(i) Determine which of the costs above should be capitalized?

(ii) What would be the initial cost of the factory?

4. Assignment 4 – initial cost – IAS 16 – IFRS 5

LetUsGoAirwayes Inc. incurs the following costs in relation to a new airplane.

numbers in a thousand dollars

The purchased price of the airplane	300,000
Assembly costs	19,000
Installation costs	960
Administration costs	2,080
Legal and professional fees	1,200
Costs of testing whether the airplane is functioning	2,400
Retraining the staff (pilots and cabin crew) for the new airplane	28,330
General overheads	790
Maintenance contract for three years	38,300

The airplane was ready to use on July 1, 20X7, but the Company started to use it on August 1, 20X7.

The aircraft was estimated to have a useful life of fifty years and
an estimated residual value of $3,560,000.
The Company record the depreciation under the straight-line method.
Due to the world pandemic, the Company decided to sell the airplane on December 31, 20X9. The fair value less cost of disposal of the aircraft was $300,000,000.

Required:

(i) Determine which of the costs above should be capitalized?
(ii) What would be the initial cost of the factory?
(iii) Calculate the carrying amount and the accumulated depreciation of the plane at the end of 20X7, 20X8, and 20X9.
(iv) What would be the carrying amount of the airplane on December 31, 20X9?

5. Assignment 5 – Historical cost model – IAS 16

Mr. Bolton purchased a motor vehicle on credit on October 31, 20X3, costing $12,000, and depreciates the asset by using the Sum-of-the-Years-Digits Method (the asset's useful life is 5 years). Mr. Bolton sold the motor vehicle for $11,000 on February 1, 20X5.

Mr. Bolton has a year-end of December 31 each year, and he used the historical cost model for the property, plant, and equipment.

Required

(i) Show the journal entries to record the disposal and complete the disposals ledger account.
(ii) Calculate the profit/loss arising on the disposal.

6. Assignment 6 – Historical cost model – IAS 16

Banana Company purchased a printer machine by cash on January 31, 20X3, costing $3,800 (salvage value = $800) and depreciates the machine using the Performance-Related Method (the assets useful life is 3 years). Banana Company sold the printer machine for $2,675 on May 1, 20X4.

Banana Company has a year-end of December 31 each year, and he used the historical cost model for the property, plant, and equipment.

Year 1	100 days
Year 2	50 days
Year 3	150 days

Required

(i) Show the journal entries to record the disposal and complete the disposals ledger account.
(ii) Calculate the profit/loss arising on the disposal.

7. Assignment 7 – Revaluation model – IAS 16

Linda Inc. applies revaluation to equipment purchased on January 1, 20X7, for $1,000,000.

The equipment has a useful life of 5 years and no residual value. The method of depreciation is straight-line method.

At the end of 2017, independent appraisers determine that the asset has a fair value of $850,000.

Linda Inc. applies the revaluation model on the property, plants, and equipment.

Required
What is the asset's carrying amount at the end of 20X7 and 20X8?

8. Assignment 8 – Initial cost – Revaluation model – IAS 16

Lannister Inc. purchased a new machine from a Valyrian manufacturer. $20,000 was charged out as a sales price. Lannister Inc., due to the great relationship between Lannister Inc. and the manufacturer, the Company managed to get a trade discount, which was $600. A legal expert received $300 for participation in the contracting process as the buyer's advisor. Lannister Inc. paid out $500 as the transportation costs of the machine to the gates of the Company and $3,400 as import duty to the authorities.

Before the start of operations on the machine, $250 modification cost appeared; furthermore, a $50 fee had to be paid to the Environmental Protection Agency for permission.

The new machine uses new technology to produce and improve the quality of the output; hence, the Company decided to retrain the workers to use the new machine, which was $220.

Lannister Inc. started to use the machine on July 1. 20X7, but the machine was ready to use on January 1. 20X7.

The Company has a year-end of December 31 each year.

Required

(i) *Determine the initial cost of the machine.*

(ii) *What is the carrying amount of the machine, which is stated in the statement of financial position on December 31, 20X7, if the straight-line method of depreciation is used with a 10% annual depreciation rate?*

The Company uses the revaluation method regarding property, plant, and equipment. Meanwhile, the investment property is valued with the historical cost method.

The frequency of the revaluation is every few years; the next revaluation will occur on December 31, 20X9. On the date of revaluation, the fair value of the machine was $17,000, and the cost of disposal was $1,000.

Required

(iii) Determine the carrying amount of the machine at the end of 20X9.

(iv) Show all the double-journal entries that are related to the machine.

9. Assignment 9 – Initial cost – IAS 16

Styx Corporation purchased production equipment for $200,000 on January 1, 20X1, to get the production equipment to the proper location, the Company paid $2,000 as well as installation costs of $4,800. The production machine was estimated to have a useful life of ten years and an estimated residual value of $12,000. On January 1, 20X2, additional costing $14,400 were made to the production equipment, which will significantly improve the quality of the produced goods. After the improvement was made, the Company re-estimated the useful life and residual value of the equipment, but no change was found. The Company records depreciation under the straight-line method.

Required

(i) Determine the initial cost of the production equipment.

(ii) Calculate the depreciation expense for 20X2.

(iii) Calculate the carrying amount at the end of 20X2.

10. Assignment 10 – Revaluation method – Revaluation loss – Revaluation loss reversal – IAS 16

Flame Inc. purchased a building on June 30, 20X3, for $720,000. The building was estimated to have a useful life of ten years and the estimated residual value of zero. Flame Inc. uses the revaluation model in terms of property, plant and equipment. The frequency of the revaluation is every two years, and the details of fair value are as follows:

Date	Fair value
December 31, 20X4	$646,000
December 31, 20X6	$416,000
December 31, 20X8	$334,000

The Company had a year-end of December 31.

Required

(i) Determine the carrying amount of the building at the end of each year from the year of purchase until December 31, 20X8.

(ii) Calculate the other comprehensive income (OCI) and the net profit at the end of each year from the year of purchase until December 31, 2018.

(iii) Show the double journal entries that are related to the building.

11. Assignment 11 – Fair value model – IAS 40

KY Inc. has an investment property. The carrying amount of investment property is $133,000. An independent valuer determined that the fair value of the property on December 31 was $100,000.

Required

(i) What is the carrying amount of the property at the end of the year?

(ii) Show the journal entries.

12. Assignment 12 – Fair value model – IAS 40

Maddie Inc. has a property with the following information (December 31, 20X7):

- Land: $320,000
- Building on land: $550,000
- Restoration costs: $170,000

The property is held for rental, and the Company uses the fair value model in the case of investment property. At the end of the year, independent appraisers determine that the fair value of the property is:
a) $1,290,000.
b) $960,000.

Required

(i) Determine the carrying amount of the property at the end of the year in each case.

(ii) Show the double journal entries.

13. Assignment 13 – Transfer – From IAS 16 to IAS 40

Ash Flame decided to move out of his former headquarter and use the previous one by leasing. The office building is graded from July 1, 20X9, as an investment property.
The initial cost of the property was $500,000,000.

The carrying amount of the property on January 1. 20X9 is $300,000,000.

Ash Flame uses the straight-line method in terms of depreciation with a 2% annual depreciation rate.

The fair values of the property are as follows:

Date	Fair value
January 1, 20X9	$350,000,000
July 1, 20X9	$370,000,000
December 31, 20X9	$400,000,000

Ash Flame uses the fair value model of the investment properties and the historical cost model to value the other properties.

Required

(i) Show the valuation of the headquarter and how this property should be treated in the financial statements.

(ii) Show the double-journal entries.

14. Assignment 14 – Transfer – From IAS 16 to IAS 40

Viking Inc. decided to transfer an owner-occupied property into an investment property due to the change in use. As a result, the property graded from May 1, 20X0, as an investment property.

The initial cost of the property was $6,000,000,
The accumulated depreciation on January 1, 20X0 is $1,000,000
The property's residual value is zero.
The Company uses the straight-line method in terms of depreciation with a 10% annual depreciation rate.

The Company also uses the historical cost model in terms of investment properties and other properties.

The fair values of the property are as follows:

Date	Fair value
January 1, 20X0	$4,900,000
May 1, 20X0	$5,100,000
December 31, 20X0	$5,000,000

Required

(i) Show the valuation of the property and how this property should be treated in the financial statements.

(ii) Show the double-journal entries of the transfer from owner-occupied property to investment property.

15. Assignment 15 – Transfer – From IAS 40 to IAS 16

Soda Inc. is a soft drink producer. The Company had many properties, and most of them owner-occupied. Soda Inc. uses the fair value model in terms of investment property and the revaluation model in terms of other properties.

On November 30, 20X8, one of the buildings that was used for administration burned down, the fire was caused by a short circuit. The chief executive officer decided to move the economic department to another building, and luckily one of their investment properties had been vacated before a few weeks.

The carrying amount of the investment property on December 31, 20X7 was $60,800,00 The fair values of the investment property are as follows:

Date	Fair value
December 31, 20X7	$60,800,000
November 30, 20X8	$60,000,000
December 31, 20X8	$61,200,000

The economic department moved into the investment property on December 1, 20X8. The Company estimated the useful life of the property with twelve years with no residual value. The Company uses the straight-line method in case of depreciation.

Required

(i) Show the valuation of the property and how this property should be treated in the financial statements.

(ii) Show the double-journal entries of the transfer from investment property to owner-occupied property.

IV. IAS 33 – EARNINGS PER SHARE

1. Assignment 1 – Basic EPS with a new issue

On September 30, 20X2, Crow Co. made an issue at a full market price of 1,000,000 ordinary shares. The Company's accounting year runs from January 1 to December 31. Relevant information for 20X1 and 20X2 is as follows:

	20X1	**20X2**
Shares in issue as at 31 December	8,000,000	9,000,000
Profits after tax and preferred dividend	$3,280,000	$3,300,000

Required:
Calculate the EPS for 20X1 and 20X2.

1.1. Assignment 1 – Basic EPS with a new issue – Solution and explanation:

You are required to calculate the basic EPS for both years 20X1 and 20X2.
We will start by writing down the formula of the basic EPS.

$$EPS = \frac{Net\ Profit\ - Preferred\ Dividends}{Weighted\ Average\ of\ Ordinary\ Shares\ Outstanding}$$

Let us examine the formula; we need to know the net profit and the preferred dividend, and we also need information about the weighted average of ordinary shares outstanding.

Let's start with the first year, which is 20X1. We knew that the net profit − preferred dividends was $3,280,000.

Note: Profits after tax and preferred dividend means net profit − preferred dividends.

Now, if we go to the denominator part, we need to find the numbers of shares outstanding, and in case we have any shares issued that year, we need to weight the numbers with the fraction of the period. So since all the information we've got is about newly issued shares in 20X2, the number of outstanding shares at 20X1 was constantly 8,000,000.
The equation will be:

$$EPS = \frac{\$3{,}280{,}000}{8{,}000{,}000} = \$0.41\ per\ share$$

Now let us calculate the EPS for 20X2:

$$EPS = \frac{Net\ Profit\ - Preferred\ Dividends}{Weighted\ Average\ of\ Ordinary\ Shares\ Outstanding}$$

The numerator part is provided by the assignment, which is $3,300,000. But if we look at the table, we can see that the share numbers changed from 8,000,000 to 9,000,000, and happily, we've got information about the date of issuing new shares.

On September 30, 20X2, Crow Co. made an issue at a full market price of 1,000,000 ordinary shares.

Basically, the Company had 8,000,000 shares from January 1 till September 30. And from September 30 till December 31, the Company got 9,000,000 outstanding shares.

Now, we need to calculate the weighted average of outstanding shares related to 20X2.

Dates Outstanding	Shares Outstanding	Fraction of Year	Weighted Shares
January 1 – September 30	8,000,000	$\frac{9}{12}$	$8{,}000{,}000 \times \frac{9}{12} = 6{,}000{,}000$
September 30 – December 31	9,000,000	$\frac{3}{12}$	$9{,}000{,}000 \times \frac{3}{12} = 2{,}250{,}000$

In the first column, we need to record a time period where outstanding shares were constant. And in the second column, we need to give the number of the outstanding shares. Basically, we started on January 1, and until September 30, we did not have any changes in the number of outstanding shares, which was 8,000,000. The change started from September 30 until December 31, so the number of outstanding shares was 9,000,000.

The fraction of the year will be by counting the months that the numbers of outstanding shares were constant. So from January 1 till September 30, it's 9 months (January, February, March, April, May, June, July, August, September). Then from September 30 till December 31, it's 3 months (October, November, December). The denominator is 12, since in total we've got 12 months in a year.

After calculating the weighted shares for each period, then adding the numbers up, we can tell the weighted average of ordinary shares outstanding, which is 6,000,000 + 2,250,000 = 8,250,000.

Now we have all the needed information for basic EPS. So let us solve the equation:

$$EPS = \frac{\$3{,}300{,}000}{8{,}250{,}000} = \$0.40\ per\ share$$

2. Assignment 2 – Diluted EPS

In 20X2, Spider Co. had a basic EPS of 105 cents based on earnings of $105,000 and 100,000 ordinary $1 shares. It also had in issue $40,000 15% Convertible Loan Stock which is convertible in two years at the rate of 4 ordinary shares for every $5 of stock. The rate of tax is 30%. In 20X2, gross profit of $200,000 and expenses of $50,000 were recorded, including interest payable of $6,000.

Required:
Calculate the diluted EPS!

2.1. Assignment 2 – Diluted EPS – Solution and explanation:

First, let us see what the word diluted means.

Dilute: to make something less strong or less valuable. (Cambridge Dictionary).

But how does this come to the EPS?
Some Companies have a complex capital structure, which means they have securities that could be potential ordinary shares. These potential ordinary shares can have a dilutive effect on earnings per ordinary share. So basically, these securities can be converted into ordinary shares under different circumstances but still considered securities at the moment of calculation. Therefore, when it comes to calculating diluted EPS, we need to treat these securities as ordinary shares (as if they have been converted to ordinary shares) at the moment of calculation. Since the numbers of ordinary shares are at the fraction's denominator, the diluted EPS will give less value than the basic one.

Now let us look into the assignment.
In 20X2, Spider Co. had a basic EPS of 105 cents based on earnings of $105,000 and 100,000 ordinary $1 shares.

Spider Co has a basic EPS of $1.05 per share → this ratio came from $105,000 net profit and 100,000 ordinary shares. The par value for ordinary shares is $1.

It also had in issue $40,000 15% Convertible Loan Stock which is convertible in two years at the rate of 4 ordinary shares for every $5 of stock

What does the convertible loan stock mean? Convertible loan stock is loans, which can be converted into shares at a later date. The lender will get the interest after the loan he gave until the maturity date, and then they can decide either to demand the principal from the Company or covert the loan principal into shares.

Why is this information important in the case of diluted EPS? Because we need to treat these convertible loans at the moment of calculation as ordinary shares. The information we have here is that the principle of the convertible loan is $40,000, and the lender is receiving 15% interest every year after this loan. The loan can be convicted into a share in two years, and the lender can get 4 ordinary shares after $5 of the loan. So basically, if the lender decided to convert the loan into ordinary shares, he would get 32,000 ordinary shares

$$\$40{,}000 \times \frac{4}{\$5} = 32{,}000\ ordinary\ shares$$

So the lender either gets 32,000 ordinary shares or a $40,000 repayment.
Since we are calculating diluted EPS, we need to consider these loans as ordinary shares.

The rate of tax is 30%. In 20X2, gross profit of $200,000 and expenses of $50,000 were recorded, including interest payable of $6,000.

Now here we've got information about the tax rate, gross profit, expenses, and interest expenses.

Let us start with the formula of the diluted EPS.

$$EPS = \frac{Net\ Profit\ - Preferred\ Dividends\ + adjustments}{Weighted\ Average\ of\ Ordinary\ Shares\ Outstanding + adjustments}$$

The adjustments here are that we have these covetable loans, which we need to treat as ordinary shares.
First of all, let us start with the numerator. There is no information about the preferred dividend, so basically, the Company does not have any. Now we need to start determining the net profit based on the fact that these convertible loans should be treated as ordinary shares.

We knew that the net profit is the difference between all the Company's incomes and expenses. So we need to start to gather these incomes and expenses. We do not really have information about the revenues or COGS, but we knew that the gross profit for the year was $200,000, so basically, we can start from this point.

Now we need to find out what else can affect the net profit.

We've got information about an extra expense, which is $50,000, but this $50,000 expense contains interest expenses that is came from ($40,000 × 15% = $6,000) paying to the lenders. BUT suppose we assume that these convertible loans do not exist, and instead of these convertible loans, we have ordinary shares. In that case, we do NOT have to pay the interest because no one pays interest after an ordinary share. So it will look like this:

Gross profit	$200,000	Given in the assignment
Expenses	($44,000)	The difference between the expenses and the $6,000 interest expense ($50,000 - $6,000)
Profit/earnings before tax	$156,000	We can calculate the profit before tax by deducting the expenses from the gross profit.
Corporation tax	($46,800)	$156,000 ×30% = $46,800
Net profit	$109,000	Net profit is the profit after tax which is the difference between profit/earnings before tax and corporate tax

So the net profit is $109,200 after the adjustments.

Now we can move to the denominator, which is the weighted average of ordinary shares outstanding, and we need to make the adjustments here as well. It means that we need to determine the number of outstanding shares as if the convertible loans are already ordinary shares. From the assignment, we can see that the Company has 100,000 ordinary shares, and if we consider the convertible loans ordinary shares, then we have an extra 32,000 shares. So the weighted average of ordinary shares outstanding + adjustments will be 100,000 + 32,000 = 132,000 shares.

Now after determining the numerator and the denominator, let us calculate the diluted EPS.

$$Diluted\ EPS = \frac{\$109{,}200}{132{,}000} = \$0.83\ per\ share$$

If you compare the basic EPS to the diluted EPS, you can see that the diluted EPS is less than the basic EPS, which is basically logical since we have more number of shares.

3. Assignment 3 – Weighted average of ordinary shares outstanding

Cameron Co. – a listed Company – has the following share transactions during 20X2:

Date	Details	Shares issued	Treasury shares	Shares outstanding
January 1	Balance at the beginning of the year	200,000	30,000	
May 31	Issue of new shares for cash	80,000	-	
December 1	Purchase of treasury shares	-	25,000	
December 31	Balance at year end			

Required:

(i) Complete the table and calculate the weighted average number of shares outstanding for 20X2.

(ii) Calculate the basic EPS for the year 20X2 if the net profit was $4,490,000 and there is no preferred dividend.

4. Assignment 4 – Basic EPS

Flame Co. is a Company with 100,000 ordinary shares of $1 each and 20,000 10% preferred shares of $1 each. The Company manufactures gas appliances. During its financial year to December 31, the Company had to pay $50,000 in compensation and costs arising from an uninsured claim for personal injuries suffered by a customer while on the company premises.

The gross profit was $200,000. Flame Co. paid the required preferred share dividend and declared an ordinary dividend of 42c per share.

Required:

Calculate the basic EPS for the year if the corporate tax rate was 30%.

5. Assignment 5 – Basic EPS

In 20X2, N&N Co. has the following data:

Revenues	$200,000
Cost of Goods Sold	$130,000
Interest expenses	$500
Preferred dividend	$700
Corporation tax rate	10%
declared dividend after ordinary shares	$800
Share capital	$500,000 (par value $2.5)
Treasury share	2,000 share

Required:
Calculate the basic EPS for the year.

6. Assignment 6 – Basic EPS – Weighted average of ordinary shares outstanding

Rabbit Co. – a listed Company – has the following share transactions during 20X2:

Date	Details	Shares issued	Treasury shares	Shares outstanding
January 1	Balance at the beginning of the year	700	100	
February 1	Issue of new shares for cash	50		
May 1	Issue of new shares for cash	80	-	
October 31	Purchase of treasury shares		150	
December 1	Purchase of treasury shares	-	65	
December 31	Balance at year-end			

Required:

(i) *Complete the table and calculate the weighted average number of shares outstanding for 20X2.*

(ii) *Calculate the basic EPS for the year 20X2 if the net profit was $1,900 and there is no preferred dividend.*

7. Assignment 7 – Basic and Diluted EPS

Z Co. is a retail Company. The Company is trading with office supplies. In 20X2, the Company gained $200,000 in revenues. The cost of revenues (Cost of Goods Sold) was $130,000. The Company does not have any other income but revenues. The Company's only expense apart from the COGS is an interest expense after a $100,000 convertible loan. The interest expense was $500. During 20X2 the Company declared $800 after its ordinary shares. The Company had $500,000 share capital (par value $200). The Company had 480 shares in treasury. The convertible loan stock is convertible in three years at the rate of 1 ordinary shares for every $50 of the convertible loan.

Required:

(i) Calculate the basic EPS for the year if the corporate tax rate was 25%.
(ii) Calculate the diluted EPS for the year if the corporate tax rate was 25%.

8. Assignment 8 – Basic and Diluted EPS

In 20X2 ALEX Co. had profit before tax of $205,000 and 200,000 ordinary shares (par value $2). It also had in issue $60,000 20% Convertible Loan Stock which is convertible in three years at the rate of 1 ordinary share for every $2 of stock. The rate of tax is 9%. The preferred dividend $1,000.

Required:

(i) Calculate the basic EPS for the year.
(ii) Calculate the diluted EPS for the year.

9. Assignment 9 – Basic and diluted EPS – Weighted average of ordinary shares outstanding

In 20X2, Budapest Co. is a retail Company. The Company trades with board games. The Company had the following data regarding the year:

Income came from selling board games	$480,700
Cost of the board games	$250,800
Interest income	$810
Interest expenses	$50
Preferred dividend	$1,700
Corporation tax rate	10%
Convertible loan	$800
Share capital at January 1, 20X2	$500,000 (par value $8)
Share capital at December 1, 20X2	$564,000 (par value $8)

The convertible loan is convertible in three years at the rate of 1 ordinary share for every $1 of stock. The Company had no other liabilities other than the convertible loan.

Required:

(i) Calculate the weighted average number of shares outstanding for 20X2
(ii) Calculate the basic EPS for the year.
(iii) Calculate the diluted EPS for the year.

V. IAS 1 – PRESENTATION OF FINANCIAL STATEMENTS – STATEMENT OF CHANGES IN EQUITY

1. Assignment 1 – SOCIE

On January 1, 20X2, The Two Towers Company had the following equity balances:

Share Capital (400,000 shares issued):	$800,000
Share Premium:	$500,000
Retained Earnings:	$600,000

During 20X2, the following transaction and events occurred:

a) Issued 25,000 ordinary shares for cash at $4 per share.
b) The Company purchased 22,000 ordinary shares for the treasure at $5 per share.
c) Declared and paid a cash dividend of $111,000.
d) The Company sold 8,000 treasury shares for cash at $5 per share.
e) Earned net income of $360,000.

Required:
Prepare a statement of changes in equity for the year.

1.1. Assignment 1 – SOCIE – Solution and explanation:

numbers in a thousand dollars

The Two Towers Company Statement of Changes in Equity January 1, 20X2 – December 31, 20X2					
	Share Capital	Share Premium	Retained Earnings	Treasury Shares	Total
Brought forward / Opening value / Balance, beginning of the year	800	500	600	0	1,900
Issued 25,000 ordinary shares for cash	25,000×2 = 50	25,000×2 = 50			100
Treasury share purchased				22,000×5 = (110)	(110)
Dividend			(111)		(111)
Sold 8,000 treasury shares				40	40
Total Comprehensive Income			360		360
SUM Carry forward to the next year / Closing / Balance, ending of the year	850	550	849	(70)	2,179

Companies under the IFRS must prepare a Statement of Changes in Equity (acronym: SOCIE), which reports how profits, dividends, shares, and other items have affected shareholders' equity. Information from this statement helps users watch and assess equity to make the right decisions about financing. To understand the statement of Changes in Equity, we must first understand and learn what makes up the element of equity. Equity is usually made up of share capital, share premium, retained earnings, revaluation surplus and treasury shares.

Share capital: is the par or stated value of shares issued by the Company.

Share premium: The excess or extra amounts that are paid-in over the par value sometimes called additional paid-in capital.

Retained earnings: The Company's undistributed earnings. An accumulation of the Company's profits or losses.

Revaluation surplus: In some cases, non-current assets can be revalued to the asset market value. So that the difference between the assets' fair value and the book value is recorded

as a revaluation surplus. We can say that it is a surplus that is come from a revaluation, and it contains the accumulation of unrealized gains and incomes. Treasury shares: It is the amount of the ordinary shares that were repurchased. So when the Company purchases back his own shares, it goes to the Treasury Shares in the equity with a negative sign decreasing the shareholders' equity at the end. The reason behind repurchasing our own shares can be things like resale (reissue) it with a higher price or when the Company decided to retire its own shares. Before doing that, they repurchase them, and it became a treasury share from the moment of repurchase.

Now let us take a look at the structure of the SOCIE, which can be seen above.

As you see, it is a movement table that follows the increase and the decrease in the Equity items.

The SOCIE always starts with the heading, including the Company name, the title of the financial statement, and the time period covered. The SOCIE has been set up in columns. The order of the columns usually follows the order of the items in the balance sheet (SFP) under the equity section. The statement's body always starts with the beginning balances, which is the amount that the Company brought forward from the previous year (opening). Then it is always followed by the transactions that impacted the different equity items with an increase or decrease.

In the very first row, we will write the Companys' name (The Two Towers Company), the title of the financial statement (Statement of Changes in Equity), and the time period covered (January 1, 20X2 – December 31, 20X2).

The second row will contain the shareholders' equity element that the Company had.

As you see, we have: Share Capital, Share Premium, and Retained Earnings. We can also see that there is an extra column there with no opening (Treasury shares).

Due to the fact that we always start with the brought forward amount, we need to fill up the third row with the given information. Usually, we record the numbers in a thousand dollars. So share capital will be $800, share premium will be $500, and Retained Earnings $600, and of course, we need to calculate the total as well (last column), which will be $1,900.

Now we need to move to the part where we can see the events that occurred during the financial year:

a) Issued 25,000 ordinary shares for cash at $4 per share.

Here the Company issued 25,000 shares. We already know that in the case of issuing shares, the share capital can be affected by the shares' par (nominal) value, and the rest will go to the share premium. In this assignment, we do not have direct information about the par value, but we do have some extra information that can be used to find out what is the par value of a share.

Let us look at the share capital opening. We know that the opening (brought forward) amount is $800,000, and we also know that this is the total par value of 400,000 shares as a number *(400,000 shares issued)*. So if we have the total par values and all the share numbers, we can easily calculate the par value (nominal value) for ONE share. → $800,000 ÷ 400,000 = $2/share.

After calculating the par value for one share, we can tell that the cash we received after the shares contained $2 par value, and the rest is the premium. The one who purchased the Companys' share paid $4 for each share. Any extra amount above the par value paid by the shareholders in order to purchase the share will be share premium

Now let us think it over.
The Company is issuing shares, and the shareholders' are purchasing them. The shareholders are willing to pay $4 for each share, so the Companys' CCE will increase by $4 × 25,000 (the number of the shares) = $100,000. So DR. CCE at $100,000. On the other hand, the Company cannot record an increase in the share capital by $100,000 because this amount contains a premium; only the $2 is the par value. So basically, we will record an increase at the share capital by $2 × 25,000 = $50,000, and the share premium will be the excess amount, which is $2 × 25,000 = $50,000.

So if we move to the fourth row in the SOCIE, we need to record an increase at the share capital by $50, and an increase at the share premium by $50.

Remember: recording the amount in thousand dollars

Let us move to the next transaction, which is:

b) The Company purchased 22,000 ordinary shares for the treasure at $5 per share.

Here the Company repurchased some of its own share (Treasury Share).

Why will the repurchase of our own shares cause a decrease in the shareholders' equity? First of all, Companies usually reissue or retire treasury shares so that the treasury shares won't last that much time in the Companys' books. There are two general methods of handling treasury shares in the accounts: the cost method and the par value method. Both methods are acceptable, but we will focus on the cost method which is more used in this term.

In case of cost method, the Company will end up by debiting (DR.)
the treasury shares account **for the reacquisition cost** and crediting (CR.) the CCE. This account will be reported as a deduction from the shareholders' equity at the balance sheet.

Note: Treasury Shares are NOT assets. It is inappropriate to imply that a company can own a part of itself.

At the beginning of the year, the Company had no treasury shares, so the opening balance was 0. Now let us think this event over. The Company will end up debiting (DR.) the treasury share account **for the reacquisition cost** and crediting (CR.) the CCE. This account will be reported as a deduction from the shareholders' equity on the balance sheet. Since the treasury shares decrease the equity, we need to record a decrease by the amount of (22,000 × $5 = $110,000).

Remember to record the numbers in a thousand dollars.

Now we will do the record in the fifth row by ($110).

Let us move to the next event:

c) Declared and paid a cash dividend of $111,000.

Here the Company declared and paid dividends which were $111,000. We know that the declared (and maybe paid) dividend will be removed from the retained earnings, so we need to record the decrease of the retained earnings in the sixth row. And of course, we need to add up the row and record it into the total column as well. Don't forget that when we are deducting any amount from any element, it will be by recording the amount and putting it in parentheses.

Now let us move to the next transaction:

d) The Company sold 8,000 treasury shares for cash at $5 per share.

The purpose of repurchasing shares is to reissue or retire them. In this assignment, the Company decided to reissue the treasury shares that they purchased back before a few events ago.

In this event, you can see that the Company sold some of the treasury shares at the same price of cost ($5). In this case, the CCE will increase, and the treasury shares will decrease by (8,000 × $5 = $40,000). **It is important to understand** that since the increase of the treasury shares causes a decrease in shareholders' equity, the decrease of the treasury shares will increase the Shareholders' Equity.

In case the treasury shares sold above cost (so let us say that they were sold for $6), the difference ($6 - $5 = $1) will go to the share premium.

In case the treasury share sold below the cost (so let us say that they were sold for $4), the difference ($5 - $4 = $1) will be deducted from the share premium.

Let us move to the last event:

e) Earned Net Income of $360,000.

Net Income is another way of saying (Net profit or net loss). So
basically, the event here says: The Company gained $360,000 profit this year. Since the net profit can be found at the Statement of Total Comprehensive Income, we will write Total Comprehensive Income in the first column, row number 8. So we will record the $360 as an increase in the retained earnings column because the net profit or loss at the end of the year goes to the retained earnings. Here, the effect must come from the total comprehensive income (TCI).

If we finish all the additional events, our next step is to calculate the closing (carry forward) balance, which you can find at the bottom of the SOCIE. Again, each column should be treated separately.

Also, we need to calculate the last column, which will give you the sum of changes that happened during this financial year.

2. Assignment 2 – SOCIE – Repurchasing and reissuing treasury shares

On January 1, 20X2, Northern Company had the following equity balances:

Share capital (par value $10)	$400,000,000
Share premium:	$500,000
Revaluation surplus	$1,600,000
Retained earnings	($600,000)

The Company had $930,000 profit for the year and $90,000 other comprehensive income. In addition, the Company declared and paid a $10,000 dividend for the year.

Suppose that Northern Company issued 200,000 shares of $10 par value ordinary share at $15 per share. After that, the Company repurchases 2,500 shares of its own ordinary shares at $80 per share. After that, the Company reissued 1,000 shares out of its treasury share at $110 per share. After that, the Company reissued 500 more shares from its treasury shares at a price of $50 per share.

Required:

(i) Show the double journal entries related to the treasury shares.

(ii) Prepare the statement of changes in equity (SOCIE) as of December 31

2.1. Assignment 2 – SOCIE – Repurchasing and reissuing treasury shares – Solution and explanation:

numbers in a thousand dollars

Northern Company Statement of Changes in Equity January 1, 20X2 – December 31, 20X2						
	Share capital	Share premium	Treasury share	Revaluation surplus	Retained earnings	Total
Brought forward / Opening value as of January 1	4,000	500		1,600	(600)	5,500
Total comprehensive income				90	930	1,020
declared dividend					(10)	(10)
Share issued (200,000 shares)	2,000	1,000				3,000
Repurchase (treasury share)			(200)			(200)
Reissued – price above cost		30	80			110
Reissued – price below cost		(15)	40			25
Closing, as of December 31	6,000	1,515	(80)	1,690	320	9,445

In the very first row, we will write the Companys' name (Northern Company), the title of the financial statement (Statement of Changes in Equity), and the time period covered (January 1, 20X2 – December 31, 20X2).

The second row will contain the shareholders' equity element that the Company had.
As you see, we have: Share capital, share premium, revaluation surplus, and retained earnings. We can also see that there is an extra column there with no opening (Treasury shares).

Due to the fact that we always start with the brought forward amount, we need to fill up the third row with the given information. Usually, we record the amounts in a thousand dollars. So share capital will be $4,000, share premium will be $500, revaluation surplus $1,600 and retained earnings ($600), and of course, we need to calculate the total as well (last column), which will be $5,500.

Before looking into the events that occurred during the year that is related to the treasury shares, the profit or loss and the other comprehensive income should be recorded and added to the correct equity element. This is because the net profit and the OCI are part of the total comprehensive income, affecting the equity. The net profit will increase (or decrease if it's a net loss) the retained earnings, and the OCI will increase the revaluation

surplus. So in the fourth row, the amount of the total comprehensive income should be split between the retained earnings (net profit) and revaluation surplus (OCI). The Net profit will increase the retained earnings by $930,000, and the OCI will increase the revaluation surplus by $90,000.

Remember to record the numbers in a thousand dollars in the SOCIE.

Moving to the declared dividend, a $10,000 should be deducted from the retained earnings since the dividend will be taken from the companys' accumulated profit. So in the fifth row, the retained earnings will decrease by $10,000. Numbers should be recorded in a thousand dollars.

Now we need to move to the part where we can see the events that occurred related to the issued shares and treasury shares during the financial year.

The first event was **Northern Company issued 200,000 shares of $10 par value ordinary share at $15 per share.**

At the first event, the Company issued new shares, and the investor paid $15 for each share. Since the number of shares was 200,000, the Company will receive 200,000 × $15 = $3,000,000, which means the cash and cash equivalent will increase by $3,000,000 on the one hand. On the other hand, when it comes to equity, the amount should be split up into two parts since the share capital can only contain the par value, which we know is $10. Therefore, any amount between the par value and the received cash should be recorded in the share premium. Therefore, the double journal entries will be:

Journal		
Debit Record	**Credit Record**	**Amount**
CCE	Share capital	2,000,000
CCE	Share premium	1,000,000

In the SOCIE, the share capital will increase by $2,000,000, which is 200,000 shares × $10. The share premium will increase by the rest, which is 200,000 shares × $5 = $1,000,000.

Remember to record the numbers in a thousand dollars in the SOCIE.

Now let us move to the second event which was:
The Company repurchases 2,500 shares of its own ordinary shares at $80 per share.

As it was mentioned previously handling the treasury shares had two methods (the cost method and the par value method). If the par value method is used, then the treasury share's initial cost will be at par value, which will lead to additional steps and corrections in the equity. In terms of the cost method (this is the common method), the initial cost of the treasury shares will be the purchase price. In this case, we will use the cost method, leading to an increase in the treasury shares by $200,000 (2,500 shares × $80). On the other hand, the CCE will decrease by the same amount.
The double journal entries will be:

Journal		
Debit Record	**Credit Record**	**Amount**
Treasury shares	CCE	200,000

In the SOCIE, the treasury share will be affected and will increase, but the increase in the treasury share means a decrease in equity. So increasing the treasury shares will increase a negative amount. That is why a negative $200,000 will be recorded in the SOCIE.

Now let us move to the third event: **The Company reissued 1,000 shares out of its treasury share at $110 per share.**

The transaction is a reissuing above cost, which means that the Company reissued their treasury shares (sold them again) at a higher price. If we look into the previous event, we can see that the Company purchased back the treasury shares for $80/share; the same share was sold for $110. So it is as if we have a $30 profit from selling the treasury shares.

In this case the CCE will increase by $110 × 1,000 shares = $110,000. On the other hand, the treasury share will decrease since we reissued it and no longer own it. The treasury share cannot decrease by $110,000, since it the companys' books it is recorded for $80 × 1,000 shares = $80,000. So the extra "*gain*" the Company had on reissuing the treasury shares will be share premium.

Note: some companies use the additional paid-in capital instead of share premium, which is also acceptable.

The double journal entries will be:

Journal		
Debit Record	**Credit Record**	**Amount**
CCE	Treasury share	80,000
CCE	Share premium	30,000

In the SOCIE the treasury share will be affected and will decrease, but the decrease in the treasury share means an increase in the equity. That is why a positive $80,000 will be recorded in the SOCIE. On the other hand, the share premium will increase by $30,000.

Remember to record the numbers in a thousand dollars in the SOCIE.

Now let us move to the last event, which was: **The Company reissued 500 more shares from its treasury shares at a price of $50 per share**

The transaction is a reissuing below cost, which means that the Company reissued their treasury shares (sold them again) at a lower price. If we look into the event related to the repurchase, we can see that the Company purchased back the treasury shares for $80/share; the same share was sold for $50. So it is as if we have a $30 loss from selling the treasury shares.

In this case the CCE will increase by $50 × 500shares = $25,000. On the other hand, the treasury share will decrease since we reissued it and no longer own it. The treasury share will not only increase by $25,000 since it the companys' books it is recorded for $80 × 500 shares = $40,000. So the "*loss*" the Company had on reissuing the treasury shares will be deducted from the share premium. It is important that share premium cannot go below zero, so if share premium is not available or is not sufficient, the retained earnings account is debited.

Note: some companies use the additional paid-in capital instead of share premium, which is also acceptable.

The double journal entries will be:

Journal		
Debit Record	**Credit Record**	**Amount**
CCE	Treasury share	25,000
Share premium	Treasury share	15,000

In the SOCIE the treasury share will be affected and will decrease, but the decrease in the treasury share means an increase in the equity. That is why a positive $40,000 will be recorded in the SOCIE. On the other hand, the share premium will decrease by $15,000.

Remember to record the numbers in a thousand dollars in the SOCIE.

If we finish all the events, our next step is to calculate the closing (carry forward) balance, which you can find at the bottom of the SOCIE. Again, each column should be treated separately.

Also, we need to calculate the last column, which will give you the sum of changes that happened during this financial year.

3. Assignment 3 – SOCIE – Repurchasing and reissuing treasury shares

Helsinki Ltd. Statement of Profit or Loss and Other Comprehensive Income extracts for the year ended December 31, 20X2:

Net profit for the year	$421,000
Declared dividend	$98,000

During the year, the following important events took place (The net profit of the year does NOT include these events):

- Properties were revalued by a $105,000 increase.
  $200,000 of $1 share capital was issued at a 25c premium during the year.
- A non-current asset with a carrying value of $130,000 was revalued to $95,000 (downward revaluation). The revaluation surplus account contains $25,000 relating to this asset.

Opening equity was:

Issued capital	$400,000
Share premium	$50,000
Revaluation surplus	$165,000
Retained earnings	$310,000

Required:
Prepare the statement of changes in equity (SOCIE) as of December 31 by completing the table below

numbers in thousand dollars

Helsinki Ltd. Statement of Changes in Equity January 1, 20X2 – December 31, 20X2					
	Share capital	Share premium	Revaluation Surplus	Retained Earnings	Total

4. Assignment 4 – SOCIE – Statement of total comprehensive income – basic and diluted EPS

On January 1, 20X2, Unstoppable Company had the following equity balances:

Share capital (par value $10)	$500,000
Share premium:	$1,000,00
Revaluation surplus	$250,000
Treasury shares	$40,000
Retained earnings	($630,000)

During the year, the following events took place:
1) Issued 1,000 ordinary shares for cash at $4 per share. Par value: $1. Date of issue: April 30
2) The Company pays back the long-term liabilities. $900
3) The Company sold some inventory for $600. (The inventory were purchased for $1,100). Clients are allowed up to 30 days to pay.
4) Declared, still not paid a dividend of $50
5) Dividend income $580.
6) Depreciation expense $30
7) PPE was revalued by a $65 increase (upward revaluation).
8) A machine that costs $290 is purchased for cash.
9) Inventory was purchased for $500 on credit.
10) Corporate tax rate is 30%

Required:

(i) *Show the double journal entries for all the transactions above.*
(ii) *Prepare the statement of total comprehensive income.*
(iii) *Prepare the statement of changes in equity (SOCIE).*
(iv) *Calculate the basic EPS.*
(v) *Calculate the diluted EPS.*

VI. IAS 2 – INVENTORIES

1. Assignment 1 – Inventory – Net realizable value

TELI Ltd. is a retailer of cell phones and trades with five major brands: Kokia, Fansung, Uphone, Shoeme, and Booble. On December 31, 20X2, quantity on hand, cost per unit, and net realizable value (NRV) per unit of the product are as follows:

Product	Quantity on hand	Cost per unit	NRV per unit
Kokia	100	$1,000	$1,020
Fansung	200	$500	$450
Uphone	300	$1,500	$1,600
Shoeme	400	$750	$770
Booble	500	$250	$200

Required:
Calculate the value of the closing inventory of TELI Ltd. on December 31, 20X2, under IAS 2.

1.1. Assignment 1 – Inventory – Net realizable value – Solution and explanation:

Product	Quantity on hand	Cost per unit	NRV per unit	Closing Inventory
Kokia	100	$1,000	$1,020	100 × $1,000 = $100,000
Fansung	200	$500	$450	200 × $450 = $90,000
Uphone	300	$1,500	$1,600	300 × $1,500 = $450,000
Shoeme	400	$750	$770	400 × $750 = $300,000
Booble	500	$250	$200	500 × $200 = $100,000
SUM	1,500			$1,040,000

TELI Company had five main products at the end of the year. Each product has a cost, which is the initial cost of the inventory. The cost that has been recorded in the books would be visible for the users of the financial report. Meanwhile, there is information about the net realizable value (acronym: NRV) of each product, representing the value that the Company can make from selling the products. According to IAS 2 inventories should be measured at the lower of cost and net realizable value.

The net realizable value is an estimated selling price of the products minus the cost of sale/disposal. For example, suppose a company had a product that could be sold for $100, and the Company should handle the transportation cost. In that case, the net realizable

value will be the $100 minus the transportation cost, since that is kind of expense comes with selling the inventory.

In this assignment, we must determine the inventory value as of December 31, 20X2. Following the rule – inventory should be measured at the lower of cost and NRV. We should compare the cost of inventory to the NRV that is given. In terms of the first product, "*Kokia*," the cost is lower than the NRV, so this product will be carried at cost, which can be determined by multiplying the cost per unit by the quantity (100 units × $1,000 = $100,000). In terms of the second product, "*Fansung*," the NRV is lower than the cost, so this product will be carried at NRV, which can be determined by multiplying the cost per unit by the quantity (200 units × $450 = $90,000). For "*Uphone*" the lower would be the cost, so the inventory should be carried at cost (300 units ×$1,500 = $450,000). Then the fourth product will also be carried at cost (400 units × $750 = $300,000). For the last product, the lower terms to be the NRV, which means the inventory will be carried at NRV instead of cost, leading to $100,000 (500 units × $200) at the end of the year in the books. In total, the inventory will be carried at $1,040,000 instead of $1,075,000, which is the total value of inventory at cost.

2. Assignment 2 – NRV

The inventory of a motor vehicles dealer at the end of an accounting period includes the following used vehicles:

	Costs incurred to date	Expected further costs before the sale	Expected selling price
Vehicle A	$14,200	$1,250	$18,000
Vehicle B	$17,500	$1,000	$20,000
Vehicle C	$11,900	$1,240	$14,000
Vehicle D	$13,000	$2,760	$15,000

Required:
Fill the table below and calculate the inventory closing value, assuming that the sales agent's commission fee is 5 percent on the sales price.

	Cost	Net realizable value	Closing inventory
Vehicle A	$14,200		
Vehicle B	$17,500		
Vehicle C	$11,900		
Vehicle D	$13,000		
SUM	$56,600		

3. Assignment 3 – Journal entries – Inventory

A Company purchased an inventory for $2,000 by credit. After 4 months, the Company sold the inventory for $2,500.

Required:

(i) Show the journal entries.
(ii) Calculate the profit or loss that occurred on the transaction.

4. Assignment 4 – Journal entries – Inventory

A Company purchased an inventory for $2,000 in cash. After 4 months, the Company sold $1,500 of the inventory for $800.

Required:

(i) Show the journal entries.
(ii) Calculate the profit or loss that occurred on the transaction.

5. Assignment 5 – Journal entries – Inventory

A Company purchased an inventory for $9,000 on credit. After a few months, the Company sold half of the inventories for $4,000.

Required:

(i) Show the journal entries.
(ii) Calculate the profit or loss that occurred on the transaction.

6. Assignment 6 – Initial cost – Inventory

Entity Sun purchases motorcycles from various countries and exports them to Europe and has incurred these expenses during 20X2:

1. Cost of purchases (based on vendors' invoice)
2. Trade discounts on purchase
3. Import duty
4. Insurance on purchases
5. Other handling costs relating to imports
6. Salaried of the accounting department
7. Sales commission payable to sales agents
8. After-sales warranty costs

Required:
Entity Sun is seeking your advice on which costs are permitted under IAS 2 to be included in the cost of inventory.

7. Assignment 7 – FIFO

The following information was available from the inventory record of Queen Company for July:

	Units	Units Cost	Total Cost
Balance at July 1:	30,000	$2.25	$67,500
Purchases:			
July 6	20,000	$2.55	$51,000
July 26	27,000	$2.60	$70,200
Sales:			
July 7	(25,000)		
July 31	(40,000)		
Balance at July 31:			

Note: The Company sells the inventory for $3 each.
Required:

(i) *What should be the inventory reported on Queen's July 31 statement of financial position using the FIFO inventory method?*

(ii) *Show the double journal entries.*