جامعة بيرزيت
BIRZEIT UNIVERSITY

International Accounting
ACCT439
Midterm Exam

90 minutes

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MCQ	Correct answer
1	b
2	c
3	A
4	c
5	e
6	d
7	d
8	c
9	a
10	~~e~~
11	d
12	~~b~~
13	d

For instructor

Question	Grade
Q1	11 /13
Q2	14 /20
Q3	10 /10
Q4	4 /7
Final Grade	39/50

Part One: Multiple Choice questions (13 marks)

1. From a practical standpoint, what is the goal of accounting standards harmonization?
   a. Creating one set of standards used throughout the world
   b. Reducing the conflict among national accounting standards
   c. Producing accounting standards that are unique for each country
   d. Requiring compliance with IASB regulations

2. Which of the following statements is believed to be true about accounting convergence by proponents of convergence?
   a. Convergence would decrease feelings of nationalism
   b. Convergence is desirable because there is little difference among capital markets in different countries
   c. Convergence would help to raise the quality of accounting practice internationally
   d. None of the above statements is true

3. For inventory, both IFRS and USGAAP would produce the same balance sheet figure when:
   a. Replacement cost exceeds Net realizable value
   b. Net realizable value exceeds replacement cost
   c. The normal profit margin is negative
   d. Never, the two standards have different rules about inventory revaluation

4. A company determined the following values for its inventory as of the end of its fiscal year:

Historical cost	$ 50,000
Current replacement cost	35,000
Estimated selling price	50,000
Estimated cost to complete and sell the inventory	5,000
Net realizable value less a normal profit margin	40,000
Fair value	48,000

What amount would the company report for inventory on its balance sheet under IFRS?

a. $35,000 b. $40,000 c. $45,000 d. $48,000

5. Using the same set of information provided in question 6, what amount would the company report for inventory on its balance sheet under USGAAP?

e. $35,000 f. $40,000 g. $45,000 h. $48,000

6. Under IFRS, an asset is considered to be impaired when its carrying amount is ~~less~~ more than its

a. Net selling price b. Value in use c. Undiscounted future cash flows d. Recoverable amount

7. On January 1, Year 1, an entity acquires a new machine with an estimates useful life of 20 years for $100,000. The machine has an electrical motor that must be replaced every five years at an estimated cost of $20,000. Continued operation of the machine requires an inspection every four years after purchase; the inspection cost $10,000. The company uses the straight-line method of depreciation. What is the depreciation expense for Year 1?

70,000 / 20 = 3500

2500 + 4000 + 3,500

4000 + 2500 + 3500

a. $5,000 b. $5,500 c. $8,000 d. $10,000

8. Revaluation surplus account, used when revaluing assets under IFRS, can be debited when:

a. We record an increase in the value of the asset
b. We record a decrease in the value of the asset for the first time
c. We record a decrease in the value of the asset which reverses a previously recorded loss on revaluation
d. This can is never debited

9. Relative to accounting standards in countries such as Germany, whose accounting laws are only 47 pages long, accounting practice in the U.S. is often described as being subject to:

a. Standard overload
b. Standard minimization
c. The optimal amount of accounting regulation
d. Ideal accounting standards

The following information is related to questions 10-12 below

Product	Cost	Replacement cost (Y1)	Selling price (Y1)	Normal profit margin
A	130	140	160	20%
B	100	90	100	15%

The company expects to incur selling costs equal to 5% of the selling price on each of the products.

10. Under IFRS, product A would be reported at: 160 x 5% = 8
    a. $130
    b. $ 140
    c. $ 152
    d. $ 121.6

11. Under USGAAP, product B would be reported at: 100
    a. $100
    b. $ 80
    c. $ 95
    d. $ 90

90

12. In year 2, the replacement cost of <u>product A</u> increased to $180, whereas it's selling price increased to $200. If all other information remained the same. Then, this product would be reported at: 190
    a. $130 under both IFRS and USGAAP
    b. $ 190 under IFRS, $ 180 under USGAAP
    c. $ 130 under IFRS, $ 180 under USGAAP
    d. $ 155 under IFRS, $ 190 under USGAAP

130 =

13. Which of the following is a criterion that must be met in order for an item to be recognized as an intangible asset under IFRS?
    a. The item must have substance
    b. The item is part of the entity's activities aimed at gaining new scientific or technical knowledge
    c. The item is expected to be used in the production or supply of goods and services
    d. The item is identifiable and lacks physical substance

Part Two: Accounting Diversity and accounting harmonization (20 marks)

A. Tugba, a listed Turkish clothing company headquartered in Istanbul, started their business in 2000. For several years, Tugba sold their designs within Turkey only and the business was very successful. In 2011, the growing popularity of social media incentivized Tugba to set up a Facebook and an instagram account to promote and sell their products. Soon, Tugba's brand name became very popular in Dubai, Amman, Damascus, and Algeria. However, because of increasing shipping costs and Tugba's desire to move to Just-In-Time inventory systems, management decided to acquire a production facility in Amman and in Algeria. Tugba's forecasts predict that Tugba's growth needs in 2017 will exceed available financing, and therefore, they're thinking about listing their shares on Dubai's stock exchange.

Required: Based on this case, identify the stages of company growth, and for each stage, identify one international accounting issue that might arise as a result of Tugba's 'internationalization' (8 marks)

Stage	International accounting issue
1. Local	Tax issues ~~the cost of implement acc. standard~~.
2. National stage	the cost of implementing acc. standards.
3. Regional stage	exchange rate.
4. multinational company	comparability between ~~MN~~ MNC companies. ->

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B. Differences in financing are cited as a reason for differences in accounting practices

1. What are the two main sources of finance across the globe? (2 marks)
   a. Equity -> Investors.
   b. Debt -> Bank / Government.

2. Legal origins and sources of financing are presumably related. How? (4 marks)
   Common (a. Case Law........ Countries tend to depend on .....Equity........... financing
   b. Romman(code) Law. Countries tend to depend on .....Debt................. financing

3. Very briefly, explain how the relative importance of these sources affects accounting disclosures. Provide an empirical example. (6 marks)

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It affect the type of information the company will disclose. If it depends on Debt, the bank want information that guarentee that his loan will be repaid. for example for equity market the investor want to know how much dividends the company make every year.

Part Three: International Financial Reporting Standards I (10 marks)

In 2007, Société Générale, A French bank, committed fraud by recognizing losses in 2007 when in fact those losses were incurred in 2008. The bank defended its position by claiming that they have only used an exemption which allows them to depart from accounting standards in order to maintain a 'true and fair' view. Société Générale said that its two audit firms, Ernst & Young and Deloitte & Touché, approved of the accounting, as did French regulators.

a. Which standard allows for this exemption? (2 marks) IAS 1 ! Fair presentati

تمضابح b. This method of earnings manipulation is known as 'taking a bath', why would banks resort to such a tactic? (4 marks) when the company make high Revenues they increase losses. and when it make low Revenues, they ~~[illegible]~~ Reduce losses. so the company seems work well in all years, or maybe the MGR want the company to success in his period so he reduce losses,

c. This incident, and other similar incident, highlighted the limitations of IASB's role as a regulator. Do you agree with this statement? Very briefly explain your position (4 marks)

~~[illegible]~~

yes, I agree. because the rules must be more specific, and conservatism must be applied when setting the standard. ~~[illegible]~~ also the IASB must be supported with ~~an~~ an authority to make sure that standards are applied.

the IASB has no authority.

Yes. perfect :)

Part Four: Inten at onal Financial Rep orting Stand ards II (7 marks)

A. The following information is available for Astra Inc at the end of year 3 (3 marks)

Cost of Equipment	$1,000,000
Expected Useful Life	40 years
Expected future cash flows	705,000
Present value of expected future cash flows	700,000
Net selling price after 3 years (f.V.)	$740,000
Recoverable amount-IFRS	~~705,000~~
Impairment Loss - IFRS	185,000
Impairment Loss – USGAAP	~~225,000~~

975,000

-2

Based on net selling price.

B. At the end of year 5, a test indicated that the recoverable amount is now $900,000. Make the necessary entry under IFRS and USGAAP. (4 marks)

875,000

740,000
− 40,000
700,000

IFRS ~~Building~~

Building 200,000

~~Revaluation surplus~~ 200,000

recovery of impairment loss

-1

GAAP. No entry, we don't reverse the impairment Loss.