

**Accounting**  
**Multiple Choice Questions** *(70 minutes)*

1. Alpha Company exchanged a building with Beta Company. The following information about the two buildings are as follows:

	<u>Alpha Co. building</u>	<u>Beta Co. building</u>
	IRR bn.	IRR bn.
Book value	700	800
Fair Value	900	1,050
Cost	1,000	1,000
Boot	(150)	150

The future cash flows of the two buildings are considered to be the same. Which of the following carrying amounts should Alpha Company use to record the new building?

- a. IRR 1,050 bn.
  - b. IRR 900 bn.
  - c. IRR 850 bn.
  - d. IRR 1,050 bn.
2. Which of the following statements is correct in regard to tangible fixed assets depreciation?
- a. The tangible fixed assets depreciation is always charged to profit and loss account.
  - b. Land improvement costs is included in the cost of the land.
  - c. Useful life of an asset is equal to its economic life.
  - d. Useful life and depreciation method of an asset should be reviewed at last at the end of each financial period.

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3. ABC Company sold one of its equipment to Beta Co. at the beginning of year 20xx on installment. Following information regarding to this transaction is available:

Installment sales price	IRR 1,800,000
Book value	IRR 1,200,000
Advance received	IRR 300,000
Interest rate	10%
No. of installments	5 yearly
PVIFA	3.791
Installment amount	IRR 395,696

Which of the following is to be reported gain of the transaction in the profit and loss account for the year 20xx.

- a. IRR 450,000
  - b. IRR 350,000
  - c. IRR 300,000
  - d. IRR 480,000
4. Assume Kashan Co. acquired 80% of Tehran Co. share capital for IRR 400 m. at the beginning of year 20 x1.

Information as to net profit for the year and distributed profit during the year for both companies are as follows:

	<b>Kashan Co.</b>	<b>Tehran Co.</b>
	IRR m.	IRR m.
Net profit	110	240
Distributed profit	200	60

Tehran Co. distributed profit was out of profits earned prior to acquisition. The depreciation of resultant difference on combination for the year 20 x1 is IRR 40.4 m. out of which IRR 2.4 m. is for goodwill. The companies had no inter-company transactions during the year 20 x1. share of consolidated net profit?

Which of the following is Kashan Co. share of consolidated net profit?

- a. IRR 269.2 m.
- b. IRR 221.68 m.
- c. IRR 221.2 m.
- d. IRR 269.68 m.

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5. Shiraz Co. acquired 90% of Tabriz Co. share capital at the beginning of year 20x1. Shiraz Co. sold machinery with 10 years remaining useful life and straight line depreciation method to Tabriz Co. recognizing IRR 2 m. gain during the year. Tabriz Co. sold that machinery back to Shiraz Co. at the end of year 20x5 at a loss of IRR 0.5 m. The salvage value of the machinery is nil. Machinery depreciation expense in the year 20x6 in the consolidated balance sheet should be adjusted by which of the following?
- a. IRR 50,000 increase.
  - b. IRR 100,000 increase.
  - c. IRR 50,000 decrease.
  - d. IRR 100,000 decrease.

6. Mashad Co. acquired 80% of Amol Co. share capital at the beginning of year 20x2. At that date, book value of Amol Co. stocks was IRR 6.5 bn. with a market value of IRR 7.4 bn. Amol Co. sold 50% of that stocks during the year 20x2.

Which of the following is the effect of these sales on the minority shareholders of the subsidiary company's share of consolidated profit for the year 20x2?

- a. IRR 180 m. decrease in minority shareholders' interest.
  - b. IRR 90 m. increase in minority shareholders' interest.
  - c. IRR 90 m decrease in minority shareholders' interest.
  - d. IRR 180 m increase in minority shareholders' interest.
7. Which of the following statements is correct?
- a. If the amount of related party transaction differs from market value, the transaction should be recorded at market value.
  - b. Entities with joint member of the board of directors should be considered as related party.
  - c. Parent-subsidiary relationship should only be disclosed if there is inter-company transactions.
  - d. Sales to a company controlled by an associate company's retirement fund is considered related party transaction.

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8. Accumulated contract revenue as at beginning of the year 20x4 is IRR 8,200 bn. and at the end of the year is IRR 9,450 bn. Accumulated costs of the contract as at the end of year 20x4 is IRR 7,110 bn. Approved contractors statements up to the end of year 20x4 is IRR 8,100 bn. and contract costs as at that date is IRR 6,800 bn.

Which of the following is contract recoverable amount and work- in- progress?

- a. IRR 1,150 bn. and IRR 1,090 bn.
  - b. IRR 1,250 bn. and IRR 2,340 bn.
  - c. IRR 1,350 bn. and IRR 310 bn.
  - d. IRR 990 bn. and IRR 2,340 bn.
9. Which of the following statements is correct regarding to periodic major repair expenditure for aeroplane and ships?
- a. Provision for such expenditure is provided for each year between the two major repairs.
  - b. Such expenditure are capitalized as they incur and are depreciated over the useful life of the asset.
  - c. Such expenditure are capitalized as they incur and are depreciated during the period up to next expected major repair.
  - d. Such expenditure is charged to profit and loss account in the year they incur.
10. How is costs of removing wastes of an iron ore mine is recognized?
- a. Capitalized as non-current asset and amortized.
  - b. Capitalized as cost of stocks.
  - c. Charged to profit and loss account as period expense.
  - d. a and b above.

11. Alpha Co. has investments in Gama Co. and Beta Co. Gama Co. is an associate company. All three companies financial year ends on 19<sup>th</sup> March each year.

Alpha Co. share of distributed profits of Gama Co. in March- April of 20x4 and July- August of 20x5 are IRR 180 m. and IRR 240 m. respectively.

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Alpha Co. share of distributed profits of Beta Co. in April-May 20x4 and April-May 20x5 are IRR 35 m. and IRR 42 m. respectively.

Alpha Co. financial statements for the years ended 19<sup>th</sup> March, 20x4 and 20x5 were approved by the board of directors in June-July 20x4 and 20x5 respectively.

Which of the following should be recognized in the profit and loss account of Alpha Co. as dividend income?

- a. IRR 215 m.
- b. IRR 42 m.
- c. IRR 35 m.
- d. IRR 275 m.

12. Following information are available:

	<b>IRR m.</b>
Foreign currency exchange losses on Trading Debtors	145
Net decrease in Debtors	810
Depreciation expense	115
Doubtful debtors expense	26
Increase in Creditors	226

Which of the following is the adjustment to the operating profit for determination of net cash inflow (outflow) from operating activities by indirect method?

- a. IRR 1,196 bn.
- b. IRR 1,207 m.
- c. IRR 1,322 m.
- d. IRR 1,151 m.

13. Non-operating income and expenses of disposals of investments is reported in the financial statements at...

- a. sales revenue less book value.
- b. sales revenue less book value and sales expenses.
- c. sales revenue less its cost and sales expenses.

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- d. sales revenue.
14. Which of the following is considered as research and development expense?
- a. Evaluation of possible replacements for raw materials.
  - b. Designing moulds according to new technology.
  - c. Testing sample products prior to production process.
  - d. Designing selected replacements for raw materials.
15. Which of the following statements is correct regarding a company increasing its ownership of its subsidiary after obtaining control over it?
- a. Goodwill is determined only at the date of obtaining control so no change is necessary.
  - b. Goodwill is determined at the date of every major acquisition after obtaining control.
  - c. Any increase in previous ownership is recorded as goodwill.
  - d. Goodwill is determined as a whole for the company at the latest increase in ownership.
16. Ahwaz Co. owns 30% of Esfahan Co. share capital. Esfahan Co. is a holding company with subsidiaries and prepares consolidated financial statements. Ahwaz Co. uses equity method of accounting for this investment. Net profit of Esfahan Co. as per its separate financial statements is IRR 1,200 m. and as per its consolidated financial statements is IRR 2,510 m (minority interests of IRR 100 m.). Unrealized profit on sale of goods by Ahwaz Co. to Esfahan Co. is IRR 40 m. Esfahan Co. income from rendering services to Ahwaz Co. is IRR 300 m.
- Considering the above information, which of the following is the increase in book value of investments using equity method of accounting?
- a. IRR 348 m.
  - b. IRR 621 m.
  - c. IRR 711m.
  - d. IRR 258 m.
17. Pars Co. records its current investments at the lower of cost and net sales value. Pars Co. sold 20,000 shares of Abadan Co. and 40,000 Shares of Birjand Co. on 22<sup>nd</sup>

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September, 2016, at IRR 1,540 and IRR 3,150 each share respectively. Pars Co. portfolio includes other shares too.

The following information relates to those two shares:

	Cost of each share	Net sales value on 19 <sup>th</sup> March, 2016 (year end)
	IRR	IRR
Abadan Co.	1,800	1,500
Birjand Co.	3,200	3,080

Abadan co. shares are classified as quickly traded investments and Birjand Co. shares as other investments.

Which of the following is the gain (Loss) on disposal of the above shares?

- a. IRR 3.6 m. gain.
- b. IRR 2.4 m. loss.
- c. IRR 1.2 m. loss.
- d. IRR 7.2 m. loss

18. Following information about Kavir Company is available:

	Financial year 20x1	Financial year 20x2
	IRR	IRR
Net profit for the year	IRR 6,400 m.	IRR 7,200 m
No. of ordinary shares as at the beginning of x1	3 m.	-
Stock right option	One for every three shares	-
Stock option price	IRR 1,500	-
Stock option approval date	1 <sup>st</sup> May, 20x2	-
Subscription dead- line	30 <sup>th</sup> June, 20x2	-
Market price of each share immediately before stock option approval date	IRR 2,000	
Reporting date	each year end	

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Which of the following is the basic earnings per share of financial year 20x2 and basic restated earnings per share of financial year 20x1 considering the stock option factor?

- a. IRR 2,060 and IRR 2,000.
- b. IRR 2,000 and IRR 2,130.
- c. IRR 2,060 and IRR 2,130.
- d. IRR 2,000 AND IRR 2,000

19. ABC Company acquired a building for IRR 400 m. This building is reported at cost less depreciation then after. At the end of fiscal year 20x1 when accumulated depreciation was IRR 110 m., an impairment loss of IRR 35 m. was recognized. Sometime after this loss recognition, the company decided to move to another building and classified this building as kept for sale. Net sales value of the building when classified as kept for sale was IRR 250 m. At the end of fiscal year, 20x2, net sales value was revalued at IRR 265 m. Six months later net sales value was revalued at IRR 300 m. and the building was sold for IRR 300 m.

Which of the following is the effect of the sale of the building on fiscal year 20x3 profit and loss account?

- a. IRR 10 m decrease in profit.
- b. IRR 35 m. increase in profit.
- c. IRR 10 m. increase in profit.
- d. IRR 35 m. decrease in profit.

20. Which of the following statements in *not* correct?
- a. A change in functional currency results in re-measuring the items measured prior to the change by new functional currency.
  - b. An entity determines its functional currency according to its conditions, events and transactions.
  - c. the effects of a change in functional currency is accounted for as of the date of the change.
  - d. A change in monetary unit may result in a change of functional currency if it affects basically the sales prices of goods and services.



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21. Beta Company functional currency is IRRial. Beta Co. has investments in an Italian investee company and accounts for its investments by equity method. The investee company's functional currency is Euros. Beta Co. at the end of 20x3 concluded that recoverable value of its investments should be revalued due to existing conditions and, as a result, an impairment loss was recognized.

Which of the following is the method of determining the economic value of foreign currency investments Beta Co. should use?

- a. Present value of the investment is calculated based on the Euro cash flows and applicable discount rate for monetary unit, and then is translated into IR Rials using Euro exchange rate as at the end of 20x3.
- b. First, Euro cash flows are translated into IRRials using Euro exchange rate and then present value of the cash flows is discounted by applicable discount rate for IRRials.
- c. Present value of the investment is calculated based on the Euro cash flows and applicable discount rate for Euro, and then is translated into IRRials using Euro exchange rate as at the end of 20x3.
- d. First, Euro cash flows are calculated into IRRials using Euro exchange rate, and then present value of the cash flows is discounted by applicable discount rate for Euro.

22. Following information relates to trading segments of Alpha Co.:

	A	B	C	D
	IRR m.	IRR m.	IRR m.	IRR m.
External operating income	1,000	3,500	3,000	-
Internal operating income	1,500	1,000	200	1,500

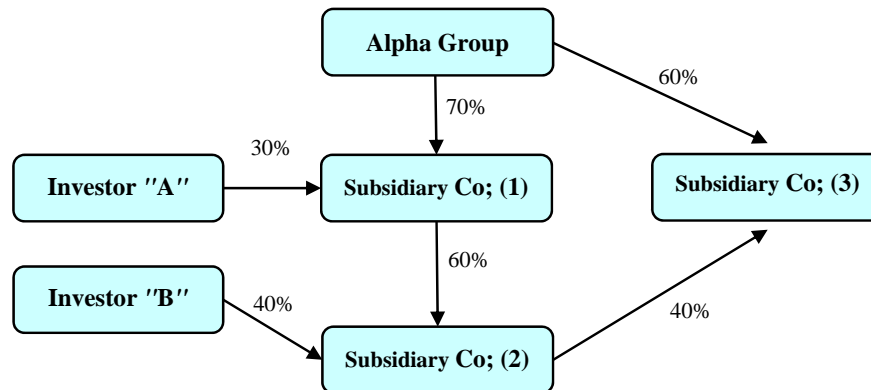
Which of the following is reportable segments?

- a. B and C.
- b. A, B and C.
- c. B and D.
- d. A, B and D.

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23. Considering the following figure, what is the minority interest percentage in Subsidiary Co. 3?



- a. 23.2%
- b. 18%
- c. 16.8%
- d. 40%
24. Which of the following statements best describes other disclosures in the financial statements?
- Other disclosures include contingent assets and liabilities and other financial information.
  - Other disclosures include contingent liabilities, commitments and other financial and non-financial information.
  - Other disclosures include contingent assets and liabilities, capital commitments and other financial information.
  - Other disclosures include non-financial information.
25. Arvand Co. uses direct labour hours for its overhead absorption at IRR 150 per hour. The company's fixed overhead budget is IRR 2.5 m. Budgeted and actual capacity are 25,000 and 22,500 units of production respectively. Each production unit require tow (2) hours to complete.
- Which of the following is Arvand Co. overhead budget allowance?
- IRR 4.75 m.
  - IRR 4.5 m.
  - IRR 2.5 m.
  - IRR 7 m.

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26. ABC Manufacturing Company produces only one type of product. During its first year of operation, its sales revenue and cost of sales amounted to IRR 930 m. and IRR 920 m. respectively. Its stocks of finished goods, work-in-progress (50% complete) and raw materials at the end of the year amounted to IRR 195 m., IRR 70 m. and IRR 120 m. respectively. The Company received a government grant of IRR 160 m. during the year as compensation of part of its production costs. Which of the following statements is correct?
- a. Cost of sales should be reported at IRR 792 m. in the profit and loss account.
  - b. Cost of sales should be reported at IRR 720 m. in the profit and loss account.
  - c. Sales revenue should be reported at IRR 1,090 m. in the profit and loss account.
  - d. The grant should be reported as non-operating income and expenses in the profit and loss account to reflect actual activities of the company.

27. Alpha Co. profits for years  $x_1$  and  $x_2$  is IRR 4m. and IRR 4.8 m respectively. Its sales for the said years is IRR 35 m. and 40 m. respectively. Sales prices and variable costs of each unit of production in the year  $x_2$  have decreased by 10% compared with year  $x_1$ , but fixed costs increased by IRR 1.2 m.

Which of the following is total change in contribution margin of the year  $x_2$  compared with year  $x_1$ ?

- a. IRR 2 m. decrease.
  - b. IRR 0.8 m. increase.
  - c. IRR 2 m. increase.
  - d. IRR 0.8 m. decrease.
28. XYZ Co. revalued all of its land and buildings on 01.07.  $x_1$  at IRR 8,000 m. and IRR 5,000 m. respectively where their cost was IRR 5,500 m. and IRR 9,500 m. and related accumulated depreciation (10 years straight line) as at revaluation date was IRR 6,000 m. As explained in the notes to the financial statements, revaluation shall be made every 5 years. At the end of year  $x_4$  and in compliance with Iranian Accounting Standard 32, the realizable value of those assets are determined at IRR 7,000 and IRR 5,000 m. respectively.

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Which of the following is the impairment loss to be reported in the profit and loss account for the years x4?

- a. IRR 750 m.
- b. IRR 250 m.
- c. IRR 1,000 m.
- d. No amount is charged to profit and loss account in this respect.

29. Alpha Company intends to acquire equipment as a result of which an annual operating cash expenses of IRR 5 m. would be saved. The cost of the equipment is IRR 21 m., its useful life is 10 years and its estimated residual value is IRR 1 m. Its depreciation method is straight line and corporate tax rate is 25%.

Which of the following is the net cash benefits in 10<sup>th</sup> year of acquiring the equipment?

- a. IRR 5 m.
- b. IRR 4.25 m.
- c. IRR 2.25 m.
- d. IRR 5.55 m.

30. Which of the following is *not* correct in regards to ABC Costing?

- a. In ABC Costing, overhead expenses are traced to activities and then traced to products, services or other cost drivers and allocated to them.
- b. Where relatively high overhead and indirect costs exists which are not generally related to the volume and quantity of each type of products or services, usefulness of ABC Costing is decreased.
- c. Where overhead costs unrelated to volume constitute a major part of production costs, ABC Costing may be a more appropriate model of calculating the cost of production.
- d. The higher the quantity of goods produced, the more reliability on cost of production by use of ABC Costing.