Applying IFRS Standards 4th edition Picker Test Bank

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Testbank

to accompany

Applying IFRS® Standards 4e

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CHAPTER 2

Owners' equity: share capital and reserves

Learning Objectives

2.1 Describe the essence of the equity section in the statement of financial position
2.2 Describe in general terms what a for-profit company is
2.3 Outline the key features of the corporate structure
2.4 Discuss the different forms of share capital
2.5 Account for the issue of both no-par and par value shares
2.6 Account for share placements, rights issues, options, and bonus issues
2.7 Discuss the rationale behind and accounting treatment of share buy-backs
2.8 Outline the nature of reserves and account for movements in retained earnings, including dividends
2.9 Prepare note disclosures in relation to equity, as well as a statement of changes in equity.

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Multiple Choice Questions

1. For-profit companies may be
   Learning Objective 2.2 Describe in general terms what a for-profit company is
   I Unlimited
   II Listed
   III Limited by guarantee
   IV No-liability

   a. II and III only;
   b. I, II and III only;
   c. II, III and IV only;
   *d. I, II, III and IV.

2. Which of the following statements is incorrect?
   Learning Objective 2.3 Outline the key features of the corporate structure
   a. Each share in a company carries a right to share in the assets on the liquidation of the company;
   *b. Each share in a company carries a right to share proportionately in all new share issues of a company;
   c. A share represents an ownership right in a company;
   d. Each share in a company carries a right to vote for directors of the company.

3. In respect to the issue of shares by a company, what is an IPO?
   Learning Objective 2.5 Account for the issue of both no-par and par value shares
   a. Investment in Preference and Ordinary shares;
   *b. Initial Public Offering of shares;
   c. Investment Prospectus for an issue of Options;
   d. Instruments Providing Options to ordinary shareholders.

4. When a public share issue is made, the offer comes from:
   Learning Objective 2.5 Account for the issue of both no-par and par value shares
   a. the company issuing the shares;
   b. the relevant oversight body once it has reviewed the prospectus documentation;
   c. the broker handing the share issue for the company;
   *d. the applicant.

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5. ABC Ltd was registered as a corporation on 1 July 2016. On 4 July 2016, ABC Ltd issued a prospectus offering 100 000 ordinary shares at an issue price of £2.50 each, payable £1.50 on application and £1.00 on allotment.
Application closed on 1 August 2016 with the company having received applications for 110 000 shares. The shares were allotted on 15 August 2016, with the over-subscription amount being refunded to unsuccessful applicants. All allotment monies were received by 31 August 2016. Following the allotment the balance in the Share Capital account would be:
Learning Objective 2.5 Account for the issue of both no-par and par value shares
a. £100 000 Credit;
*b. £250 000 Credit;
c. £100 000 Debit;
d. £250 000 Debit.

Use the following information to answer questions 6 to 8.

A company's capital consists of 50 000 ordinary shares issued at £2 and paid to £1 per share. On 1 September, a first call of 50c was made on the ordinary shares. By 30 September, the call money received amounted to £22 500. No further payments were received, and on 31 October, the shares on which calls were outstanding were forfeited. On 15 November, the forfeited shares were reissued as paid to £1.50 for a payment of £1 per share. The appropriate cash amount from the reissue was received on 19 November. Costs of reissue amounted to £2 000. The company's constitution provided for any surplus on resale, after satisfaction of unpaid calls, accrued interest and costs, to be returned to the shareholders whose shares were forfeited.

6. The entry to record the forfeiture of shares is:
Learning Objective 2.5 Account for the issue of both no-par and par value shares

*a.	Share capital	Dr	7 500	
	First Call – Ordinary shares	Cr		2 500
	Forfeited shares	Cr		5 000
b.	Share capital	Dr	7 500	
	First call – Ordinary shares	Cr		5 000
	Forfeited shares	Cr		2 500
c.	Share capital	Dr	5 000	
	Forfeited shares	Cr		5 000
d.	Forfeited shares	Dr	2 500	
	Share capital	Cr		2 500

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7. The entry to record the reissue of forfeited shares is:
Learning Objective 2.5 Account for the issue of both no-par and par value shares

*a.	Cash	Dr	5 000	
	Forfeited shares	Dr	2 500	
	Share capital – Ordinary	Cr		7 500
b.	Cash	Dr	2 500	
	Forfeited shares	Dr	2 500	
	Share capital – Ordinary	Cr		5 000
c.	Cash	Dr	5 000	
	Share capital – Ordinary	Cr		5 000
d.	Share capital	Dr	7 500	
	Forfeited shares	Cr		7 500

8. The amount of the surplus payable to the shareholders whose shares were forfeited is:
Learning Objective 2.5 Account for the issue of both no-par and par value shares
a. £5000;
*b. £500;
c. £2500;
d £3000.

9. If the balance in a forfeited shares account is refundable to the owners of those shares, then the forfeited shares account is classified as a component of:
Learning Objective 2.5 Account for the issue of both no-par and par value shares
a. income;
*b. liabilities;
c. equity;
d. expense.

10. The appropriate account to record any excess proceeds received and retained (not refunded) by a company from an oversubscription to a share offer application, is the:
Learning Objective 2.5 Account for the issue of both no-par and par value shares
a. Share issue costs account;
b. Forfeited Shares account;
c. Share capital account;
*d. Calls in advance account.

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11. Which of the following journal entries demonstrates the appropriate accounting treatment for share issue costs?
Learning Objective 2.5 Account for the issue of both no-par and par value shares
a. Dr Deferred asset Cr Cash;
b. Dr Cash Cr Deferred asset;
*c. Dr Share capital Cr Cash;
d. Dr Cash Cr Share capital.

12. The bonus issue of shares has the following impact on the equity of a company;
Learning Objective 2.6 Account for share placements, rights issues, options, and bonus issues
a. total equity increases;
b. total equity decreases;
*c. one equity account increases and another equity account decreases by an equal amount;
d. only the amount of issued share capital changes.

13. A company issued share option is an instrument that gives the holder the right but not the obligation to:
Learning Objective 2.6 Account for share placements, rights issues, options, and bonus issues
*a. buy a certain number of shares in the company by a specified date at a stated price;
b. sell a certain number of shares in the company by a specified date at a stated price;
c. receive a certain dividend declared by the company by a specified date;
d. receive a bonus issue of shares in a proportion as notified by the company.

14. Valdez Limited issued 10 000 share options to subscribe for ordinary shares. The exercise price on the options was $3 per share. If all options were exercised on due date the following journal entry would be recorded:
Learning Objective 2.6 Account for share placements, rights issues, options, and bonus issues

a.	Share capital - Ordinary	Dr	30 000	
	Cash	Cr		30 000
b.	Share options – Ordinary	Dr	30 000	
	Share capital - Ordinary	Cr		30 000
c.	Share options reserve	Dr	30 000	
	Cash	Cr		30 000
*d.	Cash	Dr	30 000	
	Share capital - Ordinary	Cr		30 000

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15. Which of the following is not a reason that companies may undertake a share buy-back?
Learning Objective 2.7 Discuss the rationale behind and accounting treatment of share buy-backs
*a. as a defence against a hostile takeover;
b. to manage the capital structure;
c. to increase the worth per share of the remaining shares;
d. as a way to efficiently manage surplus funds.

16. In relation to an asset revaluation surplus, an entity
Learning Objective 2.8 Outline the nature of reserves and account for movements in retained earnings, including dividends
a. is not able to use this surplus for the payment of future dividends;
*b. is able to use this surplus for the payment of future dividends;
c. is not able to transfer this surplus to any other reserve account;
d. can transfer the surplus to current period profit or loss when the asset is disposed of.

17. The balance in the retained earnings account is affected by the transfer to that account of:
Learning Objective 2.8 Outline the nature of reserves and account for movements in retained earnings, including dividends
I Issued share capital
II Dividends paid or provided for
III Transfers to or from other reserve accounts
IV Changes in accounting policies and errors

a. II and III only;
b. I, II and III only;
*c. II, III and IV only;
d. I, II, III and IV.

18. Dividends declared after the balance date but before the financial statements are authorised for issue:
Learning Objective 2.8 Outline the nature of reserves and account for movements in retained earnings, including dividends
a. meet the criteria for recognition as a liability;
b. satisfy the criteria for recognition as an expense;
c. are recognised in the Statement of Financial Position as they meet the definition of equity;
*d. do not meet the IAS 37 criteria of a present obligation.

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19. IAS 1 Presentation of Financial Statements requires the following items to appear on the face of the Statement of Changes in Equity
Learning Objective 2.9 Prepare note disclosures in relation to equity, as well as a statement of changes in equity
I The net amount of cash from the issue of any securities during the period
II The cumulative effect of changes in accounting policy and the correction of errors
III Each item of income or expenses that are required to be recognised directly in equity
IV Profit or loss for the period.

a. I, II, III and IV;
*b. II, III and IV only;
c. I, III and IV only;
d. II and IV only.

20. Laws in relation to share buy-backs are primarily designed to protect the interests of the company's:
Learning Objective 2.7 Discuss the rationale behind and accounting treatment of share buy-backs
a. shareholders;
*b. creditors;
c. directors;
d. option holders.

21. Accounting for share buy-backs is prescribed by
Learning Objective 2.7 Discuss the rationale behind and accounting treatment of share buy-backs
a. an IFRS;
b. an IFRIC interpretation;
c. an IAS;
*d. generally accepted accounting practices.

22. Whether a dividend is paid by a company depends on the decisions made by the:
Learning Objective 2.8 Outline the nature of reserves and account for movements in retained earnings, including dividends
a. creditors of the company;
b. International Accounting Standards Board;
c. auditors of the company;
*d. directors of the company.

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23. Gains or losses that arise as a result of translating foreign currency denominated operations into the reporting currency are recognised in income:
Learning Objective 2.8 Outline the nature of reserves and account for movements in retained earnings, including dividends
    a. in the reporting period in which they arise;
    *b. only when the interest in the foreign operation is sold;
    c. only if they are material items;
    d. only when they are settled in cash.

24. Gains and losses on available-for-sale financial assets are recognised directly in equity until the financial asset is derecognised. At this time the cumulative gain or loss previously recognised is:
Learning Objective 2.8 Outline the nature of reserves and account for movements in retained earnings, including dividends
    *a. recognised in profit and loss;
    b. transferred to a revaluation reserve account in equity;
    c. charged against a provision for gains and losses account;
    d. set-off against the relevant financial asset.

25. Retained earnings are a component of
Learning Objective 2.8 Outline the nature of reserves and account for movements in retained earnings, including dividends
    a. Contributed equity;
    *b. Reserves;
    c. Other equity;
    d. Comprehensive income.

26. IAS 1 requires that a reconciliation between the carrying amount of each class of contributed equity capital and each reserve at the beginning and end of each period be disclosed in:
Learning Objective 2.9 Prepare note disclosures in relation to equity, as well as a statement of changes in equity
    a. the Statement of Changes in Equity only;
    b. the notes only;
    *c. either the Statement of Changes in Equity or the notes;
    d. Statement of Comprehensive Income.

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27. Which of the following does not appear in the Statement of Changes in Equity?
Learning Objective 2.9 Prepare note disclosures in relation to equity, as well as a statement of changes in equity
*a. The non-controlling interest share of equity;
b. Dividends declared but not yet paid at year end;
c. Appropriations from retained earnings;
d. The payment of a bonus dividend from a reserve.

28. In relation to share capital, IAS 1 does not require disclosure in the financial report of:
Learning Objective 2.9 Prepare note disclosures in relation to equity, as well as a statement of changes in equity
a. the number of shares on issue at the end of the year;
*b. the amount of any over or under subscription of new share issues during the year;
c. restrictions on dividends payable to certain classes of shareholders;
d. the total dollar value of share capital at the end of the year.

29. IAS 1 requires that information in relation to dividends paid or declared during the year be disclosed in:
Learning Objective 2.9 Prepare note disclosures in relation to equity, as well as a statement of changes in equity
a. the Statement of Changes in Equity only;
b. the notes only;
*c. either the Statement of Changes in Equity or the notes;
d. the Statement of Comprehensive Income.

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