Tentin päivämäärä / Date of exam: 12.12.2013

Opintojakson koodi, nimi ja tentin numero / The code and the name of the course and number of the exam:

721197S Advanced International Accounting (1)

Tentaattori(t)/ Examiner(s): Henry Jarva

Sallitut apuvälineet / The devices allowed in the exam:

☐X Laskin (ei graafinen/ohjelmoitava)/Calculator (not graphic, programmable) ☐X Sanakirja/Dictionary

☐ Muu materiaali, tarkennettu alla/Other material, specified below

Tenttiin vastaaminen / Please answer the questions ☐X suomeksi/ in Finnish   ☐X englanniksi/ in English

Kysymyspaperi on palautettava / Paper with exam questions must be returned: ☐ Kyllä/Yes   ☐X Ei/No

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1. Explain what cash generating unit means and how is it defined based on IAS 36. (6 points)

2. Explain what sale and leaseback transaction means. How is it treated in bookkeeping according to IAS 17? (6 points)

3. On August 1, 2013, Entity A purchased a two-year bond, which is classified as available for sale. The bond had a stated principal amount of €100,000, which Entity A will receive on August 1, 2015. The stated coupon interest rate was 10% per year, which is paid semiannually on December 31 and July 31. The bond was purchased at a quoted annual yield of 8% on a bond-equivalent yield basis.[1] Thus, Entity A purchased the bond at a premium and paid a price of €103,629.90 for the bond (please see the computation below):

Date	Cash flow	Discount factor	Present value
12/31/2013	€5,000	$1/(1+0.04)=0.9615$	€4,807.69
7/31/2014	€5,000	$1/(1+0.04)^2=0.9246$	€4,622.78
12/31/2014	€5,000	$1/(1+0.04)^3=0.8890$	€4,444.98
7/31/2015	(€100,000+€5,000)	$1/(1+0.04)^4=0.8548$	€89,574.44
Total			€103,629.90

Required:
a) Prepare a bond amortization schedule for years 2013 to 2015. For each period, show cash interest receivable, recognized interest revenue, amortization of bond premium, and the carrying amount of the bond at the end of the period.
b) Prepare the journal entries to record cash interest receivable and interest revenue on July 31, 2014.
c) If the quoted market yield for the bond changes from 8% to 9% on December 31, 2014, should Entity A recognize an increase, a decrease, or no change in the carrying amount of the bond on that date? If you conclude that the carrying amount should change, compute the change and prepare the corresponding journal entries. (6 points)

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[1] On a bond-equivalent yield basis, the semiannual effective yield is simply half of the annual effective yield (i.e., 8%/2=4%). In other words, the semiannual interest payment is half of that (i.e., €10,000/2=€5,000). This convention is commonly used in the marketplace.