



## YLIOPISTOTENTTILOMAKEPOHJA / UNIVERSITY EXAM TEMPLATE

Koskee tiedekuntia LuTK, OyKKK, KaTK, TTK, TST ja BMTK (Linnanmaan tentit) /  
Concerns Faculties SCI, OBS, OMS, TECH, ITEE and BMM (Linnanmaa campus)

<b>Tentin päivämäärä / Date of exam:</b> <u>30.11.15</u>	<b>Tentin kesto tunteina / Exam in hours:</b> <u>4</u>
<b>Tiedekunta / Faculty:</b> <u>Oulu Business School</u>	
<b>Opintojakson koodi, nimi ja tentin numero / The code and the name of the course and number of the exam:</b> <u>721197S Advanced International Accounting</u>	
<b>Tentaattori(t) / Examiner(s):</b> <u>Anna Elsilä, Henry Jarva</u>	<b>Sisäinen postios. / Internal address</b> <u>6OyKKK</u>
<b>Sallitut apuvälineet / The devices allowed in the exam:</b>	
<input checked="" type="checkbox"/> Nelilaskin / Standard calculator	<input type="checkbox"/> Funktiolaskin / Scientific calculator
<input type="checkbox"/> Ohjelmoitava laskin / Programmable calculator	
<input type="checkbox"/> Muu materiaali, tarkennettu alla / Other material, specified below: <u>Dictionary</u>	
<b>Tenttiin vastaaminen / Please answer the questions:</b>	
<input checked="" type="checkbox"/> Suomeksi / in Finnish	<input checked="" type="checkbox"/> Englanniksi / in English
<b>Kysymyspaperi on palautettava / Paper with exam questions must be returned:</b>	
<input type="checkbox"/> Kyllä / Yes	<input checked="" type="checkbox"/> Ei / No

Your feedback is very important for developing and improving the course. Please, do not hesitate to provide your course feedback through WebOodi.

1. On January 1, 2014 Company C purchases a bond which matures in 4 years. The bond has a face value of €125 and a stated interest rate of 8% paid annually on December 31. On January 1, 2014 the market rate of interest for similar bonds is 10%. At the end of 2014 the similar bonds are traded at €112.

**Questions:**

- a) What price did Company C pay to purchase the bond?
  - b) What are the possible ways to classify this bond according to IFRS? In what cases will Company C be able to assign the bond in each of the classification categories?
  - c) What amounts will Company C report in the 2014 income statement under each of the classification methods from part b)?
  - d) What is the carrying amount of the bond on December 31, 2014 under each of the classification methods?
2. Answer the following questions related to hedge accounting:
    - a) What is fair value hedge and what is cash flow hedge according to IFRS?
    - b) How is each type of the hedges accounted for according to IFRS?
    - c) Why hedge accounting treatment is considered favorable for companies?
    - d) The situation described in the excerpt below is an example of fair value hedge. What would you modify in the problem to convert it into a cash flow hedge situation?

**Silverado Inc. buys titanium from a supplier that requires a six-month firm commitment on all purchases. On January 1, 2011, Silverado signs a contract with the supplier to purchase 10,000 pounds of titanium at the current forward rate of \$310 per pound with settlement on June 30, 2011. However, Silverado wants to actually pay the June 30 market price for titanium.**

To achieve this goal, the company enters into a forward contract to sell 10,000 pounds of titanium at the current forward price of \$310 per unit. The firm commitment contract and the forward contract both have zero value at inception.

3. On January 1, 2015, Sloan Corporation signed a 5-year, non-cancelable lease for a machine. The terms of the lease called for Sloan to make annual payments of €9,968 at the beginning of each year, starting January 1, 2015. The machine has an estimated useful life of 6 years and a €5,000 unguaranteed residual value. The machine reverts back to the lessor at the end of the lease term. Sloan uses a straight-line method of depreciation for all of its plant assets. Sloan's incremental borrowing rate is 10%, and the lessor's implicit rate is unknown (it is impracticable to determine).

**Required**

- a) What type of lease is this? Explain.
- b) Compute the present value of the minimum lease payments.
- c) Prepare all necessary journal entries for Sloan for this lease through January 1, 2016.