



YLIOPISTOTENTTILOMAKEPOHJA / UNIVERSITY EXAM TEMPLATE

Opintojakson koodi and nimi / The code and the name of the course: <u>721197S Advanced International Accounting</u>	
Tiedekunta / Faculty: Oulu Business School	
Tentin pvm / Date of exam: 12.01.2016	Tentin kesto tunteina / Exam in hours: 4
Tentin nro / No. of the exam: 1. retake	Opintopistemäärä / Credit units: 6
Tentaattori(t) / Examiner(s): <u>Anna Elsilä, Henry Jarva</u>	Sisäinen postios. / Internal address: <u>6OyKKK</u>
Sallitut apuvälineet / The devices allowed in the exam: <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: Dictionary	
Tenttiin vastaaminen / Please answer the questions: <input checked="" type="checkbox"/> Suomeksi / in Finnish <input checked="" type="checkbox"/> Englanniksi / in English	
Kysymyspaperi on palautettava / Paper with exam questions must be returned: <input type="checkbox"/> Kyllä / Yes <input checked="" type="checkbox"/> Ei / No	

1. On January 1, 2010 Company A grants 100 share options to each of its 200 employees. The exercise price of these options is set equal to the share price on that day, €40. Each grant is conditional upon the employee working for the company over the next three-year period, during which the options cannot be exercised. The right to exercise the option expires after 10 years. In the past, employees tended to exercise similar 10-year options on average after 7 years. The Chief Financial Officer (CFO) estimates that 5 % of employees will leave during the three-year period and therefore forfeit their rights to the share options. The CFO also estimates that the fair value of each share option is €15. Suppose that 10 employees leave the company during 2010-2012.

Required

- What information did the CFO use to estimate fair value of these options?
- Suppose that all the options are exercised on March 1, 2014 when the share is traded at €55. What journal entries will the firm make in years 2010, 2011, 2012, 2013 and 2014?
- How are historical exercise behavior of employees and expected forfeitures taken into account in the answer to question b)?
- Suppose that during 10 years after the grant the share price does not increase above €40. Hence all the options expire unexercised. What entries should Company A make on December 31, 2020?

2. On January 1, 2015, Dichev Company leased equipment to Ball Corporation. The following information pertains to this lease.
1. The term of the non-cancelable lease is 6 years, with no renewal option. The equipment reverts to the lessor at the termination of the lease.
 2. Equal rental payments are due on January 1 of each year, beginning in 2015.
 3. The fair value of the equipment on January 1, 2015, is €200,000, and its cost is €150,000.
 4. The equipment has an economic life of 8 years, with an unguaranteed residual value of €10,000. Ball depreciates all of its equipment on a straight-line basis.
 5. Dichev sets the annual rental to ensure an 11% rate of return. Ball's incremental borrowing rate is 12%, and it is impracticable for Ball to determine the implicit rate.

Required

- a) Discuss the nature of this lease to Dichev and Ball.
 - b) Calculate the amount of the annual rental payments.
 - c) Prepare all the necessary journal entries for Ball for 2015.
 - d) Prepare all the necessary journal entries for Dichev for 2015.
3. At the end of 2015, OBS Group tests a machine for impairment. The machine is carried at depreciated historical cost, and its carrying amount is €150,000. It has an estimated remaining useful life of 10 years. The machine's recoverable amount is determined on the basis of a value-in-use calculation, using a pretax discount rate of 15%. Management-approved budgets reflect estimated costs necessary to maintain the level of economic benefit expected to arise from the machine in its current condition. The following information related to future cash flows is available at the end of 2015 (amounts in thousands).

<u>Year</u>	<u>Future Cash Flow</u>	<u>Year</u>	<u>Future Cash Flow</u>
2016	€22,165	2021	€24,825
2017	21,450	2022	24,123
2018	20,550	2023	25,533
2019	24,725	2024	24,234
2020	25,325	2025	22,850

Required

- a. Compute the amount of the impairment loss at December 31, 2015. (4 points)
- b. Prepare the journal entry to record the impairment loss, if any, at December 31, 2015. (2 points)

