



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: 17.02.2016	Tentin kesto tunteina / Exam in hours: 4
Tentin nro / No. of the exam: 2. 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. Below is an excerpt from the 2014 Annual Report of Finnair Oyj. Use it to answer the questions below.

Hybrid bond

Shareholders' equity includes a 120 million euro hybrid bond issued in 2012. The hybrid bond coupon is fixed 8.875 per cent per year for the first four years and thereafter at least 11.875 per cent per year. Finnair can postpone interest payment, if it does not distribute dividends or any other equity to its shareholders. The bond has no maturity date, but the company has the right to redeem it four years after the date of issue. The hybrid bond is unsecured and in a weaker preference position than promissory notes. A holder of hybrid bond notes has no shareholder rights.

Questions:

- a) Why did Finnair classify the bond as equity rather than as liability?
 - b) How does existence of this hybrid bond affect calculation of basic and diluted earnings per share (EPS)?
 - c) What are the benefits to Finnair from financing its operations with the hybrid bonds instead of straight bonds?
2. What is fair value according to IFRS 13? How should firms estimate fair values?
3. Assume that on January 1, 2015, Dechow Inc. signs a 10-year, non-cancelable lease agreement to lease a storage building from Storage Company. The following information pertains to this lease agreement.
- a. The agreement requires equal rental payments of €90,000 beginning on January 1, 2015.
 - b. The fair value of the building on January 1, 2015, is €550,000.
 - c. The building has an estimated economic life of 12 years, with unguaranteed residual value of €10,000. Dechow depreciates similar buildings on the straight-line method.
 - d. The lease is non-renewable. At the termination of the lease, the building reverts back to the lessor.
 - e. Dechow's incremental borrowing rate is 12% per year. It is impracticable to determine the lessor's implicit rate.
 - f. The yearly rental payment includes €3,088.14 of executory costs related to taxes on the property.

Required:

Prepare the journal entries on the lessee's books to reflect the signing of the lease agreement and to record the payments and expenses related to this lease for the years 2015 and 2016- Dechow's corporate year-end is December 31.