

YLIOPISTOTENTTI - UNIVERSITY EXAM

Opiskelijan nimi / Student name:	Opiskelijanumero / Student number:
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Opettaja täyttää / Lecturer fills in:

Opintojakson koodi and nimi / The code and the name of the course: Koodi / Code 721197S Tentin nimi / Exam name Advanced International Accounting	
Tiedekunta / Faculty: Oulu Business School	
Tentin pvm / Date of exam: 7.12.2016	Tentin kesto tunteina / Exam in hours: 3
Tentin nro / No. of the exam: First exam	Opintopistemäärä / Credit units: 6
Tentaattori(t) / Examiner(s): Anna Elsilä, Henry Jarva	Sisäinen postios. / Internal address: 6OyKKK
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:	
Tenttiin vastaaminen / Please answer the questions: <input checked="" type="checkbox"/> Suomeksi / in Finnish <input checked="" type="checkbox"/> Englanniksi / in English Suomenkielisessä tutkinto-ohjelmassa olevalla opiskelijalla on oikeus käyttää arvioitavassa opintosuorituksessa suomen kieltä, vaikka opintojakson opetuskieli olisi englanti. Tämä ei koske vieraan kielen opintoja. (Kts. <u>Koulutuksen johtosäntö 18 §</u>) In a Finnish degree programme a student has a right to use Finnish language for their study attainment, even though the language of instruction is English, (excluding language studies) even when the language of instruction is other than Finnish. (See <u>the Education Regulations 18 §</u>)	
Kysymyspaperi on palautettava / Paper with exam questions must be returned: <input type="checkbox"/> Kyllä / Yes <input checked="" type="checkbox"/> Ei / No	

1. Explain how effective interest rate works and provide examples of situations in which it is used. What does this method attempt to portray?
2. On January 5, 2015, Alpha Inc. acquired 80% of the outstanding voting shares of Beta Inc. for \$2,000,000 cash. Following are the separate balance sheets for the two companies immediately after the stock purchase, as well as fair value information regarding Beta Inc.:

	Alpha	Beta	
		Book Value	Fair Value
Assets			
Current assets	\$1,750,000	\$ 500,000	\$ 500,000
Fixed assets, net	5,000,000	1,625,000	2,000,000
Investment in Beta	2,000,000	—	—
Total Assets	<u>\$8,750,000</u>	<u>\$2,125,000</u>	<u>\$2,500,000</u>
Liabilities			
Current Liabilities	\$ 250,000	\$ 125,000	\$ 125,000
Stockholders' Equity			
Common stock	7,000,000	1,500,000	—
Capital in excess of par	500,000	—	—
Retained earnings	1,000,000	500,000	—
Total Stockholders' Equity	<u>8,500,000</u>	<u>2,000,000</u>	—
Total Liabilities and Stockholders' Equity	<u>\$8,750,000</u>	<u>\$2,125,000</u>	—

Required:

Prepare the consolidated balance sheet immediately after the acquisition following IFRS guidance.

3. Banker Company negotiated a lease with Gilbreth Company that begins on January 1, 2014. The lease term is three years, and the asset's economic life is four year. The annual lease payments are €7,500, payable at the end of the year. The cost and fair value of the asset are €23,000. The lessee's cost of borrowing is 9%.

Required

1. Determine whether Bunker must treat this lease as an operating lease or capital lease.
2. Prepare an amortization table for the lease.
3. Prepare Bunker's journal entries for the first two years of the lease.
4. Assume that all facts remain the same except that the asset's useful life is six years. Is this an operating lease or a capital lease? Prepare journal entries for the first two years of the lease.
5. Compare the financial statement effects of the lease treatment you selected in requirement 3 with the financial statement effects of the treatment you selected in requirement 4. Specifically, compare the effects on assets, liabilities, and equity under the two alternative sets of assumptions as of December 31, 2014, immediately *after* the first lease payment is made.