

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: 20.02.2017	Tentin kesto tunteina / Exam in hours: 3
Tentin nro / No. of the exam: Second retake	Opintopistemäärä / Credit units: 6
Tentaattori(t) / Examiner(s): Anna Elsilä, Henry Jarva	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:	
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 johtosääntö 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	

Question 1

A consolidated statement of comprehensive income of Kone Corporation for the year ended December 2015 appears below. Referring to the items "Cash flow hedges" explain:

- What do these items represent? Provide examples of situations from which these items can stem. (Note: Your examples should contain enough information to clearly distinguish cash flow hedges from other hedge types).
- Explain why these items are reported in Other Comprehensive Income instead of Income Statement.
- Under what conditions would Kone report these items in Income Statement?

Consolidated statement of comprehensive income

MEUR	Note	Jan 1-Dec 31, 2015	Jan 1-Dec 31, 2014
Net income		1,053.1	773.9
Other comprehensive income, net of tax:	10		
Translation differences		177.4	152.7
Hedging of foreign subsidiaries		-23.5	-27.5
Cash flow hedges		-10.7	-12.9
Items that may be subsequently reclassified to statement of income		143.2	112.4
Remeasurements of employee benefits		-11.6	-41.5
Items that will not be reclassified to statement of income		-11.6	-41.5
Total other comprehensive income, net of tax		131.6	70.9
Total comprehensive income		1,184.6	844.8
Total comprehensive income attributable to:			
Shareholders of the parent company		1,163.9	826.5
Non-controlling interests		20.7	18.4
Total		1,184.6	844.8

Question 2

Cheery Company follows IFRS for its financial reporting. On January 1, 2012 Cheery issued €250 million of 10-year convertible notes that pay interest at 5% annually on December 31. Investors pay €250 million for the notes even though the company's credit risk at the time implies a 10% interest rate for traditional debt of similar duration. When the cash flows associated with the debt are discounted at 10%, the resulting value is €175 million.

Required:

- Prepare all necessary journal entries in 2012.

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Question 3

On January 1, 2014, Railcar Leasing Inc. (the lessor) purchased 10 used boxcars from Railroad Equipment Consolidators at a price of €8,345,640. Railcar leased the boxcars to the Reading Railroad Company (the lessee) on the same date. The lease calls for eight annual payments of €1,500,000 to be made at the beginning of each year (that is, the first payment is due at the inception of the lease on January 1, 2014). The boxcars have an eight-year remaining useful life, the lease contains no renewal or bargain purchase option, and possession of the boxcars reverts to the lessor at the lease's end. The lease does not require the lessee to guarantee any residual value for the boxcars. The payment's collectability is reasonably certain with no important uncertainties regarding unreimbursable costs to be incurred by the lessor. The lessor has structured the lease to earn a rate of return of 12.0%.

Required

1. What method must Railcar Leasing Inc. use to account for the lease?
 2. Prepare an amortization schedule for the lease for Railcar.
 3. Prepare all journal entries for Railcar for 2014 and 2015. Assume that it reports on a calendar-year basis.
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Appendix: Present value table

periods	discount rate per period					
	7 %	8 %	9 %	10 %	11 %	12 %
1	0.93458	0.92593	0.91743	0.90909	0.90090	0.89286
2	0.87344	0.85734	0.84168	0.82645	0.81162	0.79719
3	0.81630	0.79383	0.77218	0.75131	0.73119	0.71178
4	0.76290	0.73503	0.70843	0.68301	0.65873	0.63552
5	0.71299	0.68058	0.64993	0.62092	0.59345	0.56743
6	0.66634	0.63017	0.59627	0.56447	0.53464	0.50663
7	0.62275	0.58349	0.54703	0.51316	0.48166	0.45235
8	0.58201	0.54027	0.50187	0.46651	0.43393	0.40388

