

YLEISEN TENTIN TENTTILOMAKE - GENERAL EXAM FORM

Opiskelija täyttää / Student fills in

Opiskelijan nimi / Student name:	Opiskelijanumero / Student number:

Opettaja täyttää / Lecturer fills in

Opintojakson koodi / The code of the course: 721197S	
Opintojakson (tentin) nimi / The name of the course or exam: Advanced International Accounting	
Opintopistemäärä / Credit units: 6 Mikäli kyseessä on välikoe, opintopistemääräksi täytetään 0 op. 0 ECTS Credits is used for mid-term exams.	
Tiedekunta / Faculty: Oulun yliopiston kauppakorkeakoulu / Oulu Business School	
Tentin pvm / Date of exam: 2018-12-17	Tentin kesto tunteina / Exam in hours: 3 h
Tentaattori(t) / Examiner(s): Anna Rossi	Sisäinen postiosoite / Internal address: 6OyKKK
Tentissä sallitut apuvälineet / The devices allowed in the exam: Funktiolaskin / Scientific calculator	
Muut tenttiä koskevat ohjeet opiskelijalle (esimerkiksi kuinka moneen kysymyksen opiskelijan tulee vastata) / Other instructions for students e.g. how many questions he/she should answer: [Muut tenttiä koskevat ohjeet opiskelijalle (esimerkiksi kuinka moneen kysymyksen opiskelijan tulee vastata) / Other instructions for students e.g. how many questions they should answer]	

721197S Advanced International Accounting exam questions 17.12.2018.

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:
 - a) What do these items represent? Provide examples of situations which could give rise to these items. (Note: Your examples should contain enough information to clearly distinguish cash flow hedges from other hedge types).
 - b) 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?
 - c) What are the benefits of hedge accounting?

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

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. Assume that on January 1, 2019, *Architech 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.
- The agreement requires equal rental payments of €90,000 beginning on January 1, 2019.
 - The fair value of the building on January 1, 2019, is €6,000,000.
 - The building has an estimated economic life of 100 years. *Architech Inc.* depreciates similar buildings on the straight-line method.
 - The lease is non-renewable. At the termination of the lease, the building reverts back to the lessor.
 - Architech's* incremental borrowing rate is 12% per year. It is impracticable to determine the lessor's implicit rate.
 - The yearly rental payment includes €3,088.14 of executory costs related to taxes on the property.

Required

Prepare the journal entries prepared under IFRS 16 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 2019 and 2020. *Architech's* fiscal year-end is December 31.

