c. The definitions, recognition criteria, and measurement concepts in the IASB *Framework.*
d. An IASB standard or interpretation that deals with similar and related issues.

12. An entity can justify a change in accounting policy if

a. The change will result in a reliable and more relevant presentation of the financial statements.
b. The entity encounters new transactions that are substantively different from existing or previous transactions.
c. The entity previously accounted for similar, though immaterial, transactions under an unacceptable accounting method.
d. An alternate accounting policy gives rise to a material change in current year net income.

13. As a result of a downturn in the economy, Optiplex Corporation has excess productive capacity. On January 1, Year 3, Optiplex signed a special order contract to manufacture custom-design generators for a new customer. The customer requests that the generators be ready for pickup by June 15, Year 3, and guarantees it will take possession of the generators by July 15, Year 3. Optiplex incurred the following direct costs related to the custom-design generators:

Cost to complete the design of the generators.	$ 3,000
Purchase price for materials and parts	80,000
Transportation cost to get materials and parts to manufacturing facility.	2,000
Direct labor (10,000 labor hours at $12 per hour)	120,000
Cost to store finished product (from June 15 to June 30).	2,000

Because of the company's inexperience in manufacturing generators of this design, the cost of materials and parts included an abnormal amount of waste totaling $5,000. In addition to direct costs, Optiplex applies variable and fixed overhead to inventory using predetermined rates. The variable overhead rate is $2 per direct labor hour. The fixed overhead rate based on a normal level of production is $6 per direct labor hour. Given the decreased level of production expected in Year 3, Optiplex estimates a fixed overhead application rate of $9 per direct labor hour in Year 3.

Required:

Determine the amount at which the inventory of custom-design generators should be reported on Optiplex Corporation's June 30, Year 3 balance sheet.

14. To determine the amount at which inventory should be reported on the December 31, Year 1 balance sheet, Monroe Company compiles the following information for its inventory of Product Z on hand at that date:

• Historical cost	$20,000
• Replacement cost	14,000
• Estimated selling price.	17,000
• Estimated costs to complete and sell	2,000
• Normal profit margin as a percentage of selling price	20%

c. The item is expected to be used in the production or supply of goods or services.
d. The item is identifiable and lacks physical substance.

8. An entity incurs the following costs in connection with the purchase of a trademark:

Purchase price of the trademark	$80,000
Nonrefundable value added tax paid on the purchase of the trademark	4,000
Training sales department staff on the use of the trademark	2,000
Research expenditures incurred prior to the purchase of the trademark	15,000
Legal fees to register the trademark	8,000
Salaries of personnel who negotiated purchase of the trademark during the period of negotiation	10,000

Assuming that the trademark meets the criteria for recognition as an intangible asset, at what amount should the trademark be initially measured?

a. $84,000.
b. $92,000.
c. $104,000.
d. $119,000.

9. Which of the following best describes the accounting for goodwill subsequent to initial recognition?

a. Goodwill is amortized over its expected useful life, not to exceed 20 years.
b. Goodwill is tested for impairment whenever impairment indicators are present.
c. Goodwill is tested for impairment on an annual basis.
d. Goodwill is revalued using a revaluation model.

10. An entity must adjust its financial statements for an event that occurs after the end of the reporting period if

a. The event occurs before the financial statements have been approved for issuance and it provides evidence of conditions that existed at the end of the reporting period.
b. The event occurs before the financial statements have been issued and it changes the value of an asset that existed at the end of the reporting period.
c. The event occurs before the financial statements have been audited and it changes the value of a liability that existed at the end of the reporting period.
d. The event occurs within 15 days of the end of the reporting period and it changes the level of ownership in another entity from a non-controlling to a controlling interest.

11. In selecting an accounting policy for a transaction, which of the following is the first level within the hierarchy of guidance that should be considered?

a. The most recent pronouncements of other standard-setting bodies to the extent they do not conflict with IFRS or the IASB *Framework*.
b. An IASB standard or interpretation that specifically relates to the transaction.

What amount should the company report for inventory on its balance sheet?

a. $35,000.
b. $40,000.
c. $45,000.
d. $48,000.

3. When an entity chooses the revaluation model as its accounting policy for measuring property, plant, and equipment, which of the following statements is correct?

   a. When an asset is revalued, the entire class of property, plant, and equipment to which that asset belongs must be revalued.
   b. When an asset is revalued, individual assets within a class of property, plant, and equipment to which that asset belongs may be selectively revalued.
   c. Revaluations of property, plant, and equipment must be made at least every three years.
   d. Increases in an asset's carrying value as a result of the first revaluation must be recognized in net income.

4. On January 1, Year 1, an entity acquires a new machine with an estimated useful life of 20 years for $100,000. The machine has an electrical motor that must be replaced every five years at an estimated cost of $20,000. Continued operation of the machine requires an inspection every four years after purchase; the inspection cost is $10,000. The company uses the straight-line method of depreciation. What is the depreciation expense for Year 1?

   a. $5,000.
   b. $5,500.
   c. $8,000.
   d. $10,000.

5. An asset is considered to be impaired when its carrying amount is greater than its

   a. Net selling price.
   b. Value in use.
   c. Undiscounted future cash flows.
   d. Recoverable amount.

6. Under IFRS, an entity that acquires an intangible asset may use the revaluation model for subsequent measurement only if

   a. The useful life of the intangible asset can be reliably determined.
   b. An active market exists for the intangible asset.
   c. The cost of the intangible asset can be measured reliably.
   d. The intangible asset has a finite life.

7. Which of the following is a criterion that must be met in order for an item to be recognized as an intangible asset?

   a. The item's fair value can be measured reliably.
   b. The item is part of the entity's activities aimed at gaining new scientific or technical knowledge.

13. Which intangible assets are subject to annual impairment testing?
14. How is goodwill measured in a business combination with a noncontrolling interest?
15. What is a gain on bargain purchase?
16. What is the process for determining whether goodwill allocated to a specific cash-generating unit is impaired?
17. What is the current treatment with respect to borrowing costs?
18. What are the differences in the amount of borrowing costs that can be capitalized under IFRS and U.S. GAAP?
19. How do the criteria for determining whether a lease qualifies as a finance (capitalized) lease differ between IFRS and U.S. GAAP?
20. What is the difference between IFRS and U.S. GAAP with regard to the recognition of gains and losses on sale–leaseback transactions?
21. How does the classification of interest and dividends in the statement of cash flows differ between IFRS and U.S. GAAP?
22. What is the cutoff date for the occurrence of events after the reporting period requiring adjustment to the financial statements?
23. What are the guidelines on selecting and changing accounting policies?

Exercises and Problems

Unless otherwise indicated, exercises and problems should be solved based on IFRS.

1. A company incurred the following costs related to the production of inventory in the current year:

Cost of materials	$100,000
Cost of direct labor	60,000
Allocation of variable overhead costs	30,000
Allocation of fixed overhead costs (based on normal production levels)	25,000
Storage costs (after production, prior to sale)	2,000
Selling costs	8,000

The cost of materials included abnormal waste of $10,000. What is the cost of inventory in the current year?

a. $190,000.
b. $205,000.
c. $215,000.
d. $217,000.

2. A company determined the following values for its inventory as of the end of its fiscal year:

Historical cost	$50,000
Current replacement cost	35,000
Net realizable value	45,000
Net realizable value less a normal profit margin	40,000
Fair value	48,000