accountests

CHARTERED ACCOUNTANT

Example Questions

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Example Question

1

Example Question 1

You are holding some forward exchange contracts at year end to cover receivables and inventory.

No payment was made to enter in to the contracts.

Under IFRS how should these be valued for accounting purposes?

A Cost (i.e nil)

B Mark to market

C Mark to market adjusted for the forward points in the contract

D At the expected forward rate when delivered

E At the expected forward rate when taken out

Answer

1

Mark to market

IFRS requires derivatives to be valued at fair value. In this case fair value is a 'mark to market' approach whereby the exchange rate under the contract is compared to the actual rate at year end, and the difference is a fair value gain or loss

A Cost (i.e nil)

B Mark to market

C Mark to market adjusted for the forward points in the contract

D At the expected forward rate when delivered

E At the expected forward rate when taken out

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Example Question

2

Example Question 2

For Capital Allowance purposes your business has brought forward WDV as at 1 April 2022 in its Main Pool of £1,250,000.

Spending on plant and equipment this year is £550,000.

What is the total Capital Allowance to claim for the year ended 31 March 2023?

- **A** £734,000
- **B** £488,000
- **C** £775,000
- **D** £324,000
- **E** £529,000

Answer

2

£775,000

AIA allowance is £1,000,000.

Writing down allowance is 18%.

Total Capital Allowances is therefore
£550,000 + £1,250,000 x 18% = £775,000

A	£734,000
B	£488,000
C	£775,000
D	£324,000
E	£529,000

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Example Question

3

Example Question 3

In which order would you find these acronyms for profitability in a set of management reports presented to directors (first to last)

- **A** EBITDA / EBIT / NPBT / NPAT
- **B** EBIT / EBITDA / NPBT / NPAT
- **C** NPAT / NPBT / EBIT / EBITDA
- **D** NPBT / EBITDA / EBIT / NPAT
- **E** EBIT / EBITDA / NPAT / NPBT

Answer

3

EBITDA / EBIT / NPBT / NPAT

EBITDA is the closest to operating cash flow, with later acronyms reducing this by including depreciation, amortization, interest and tax.

- A — EBITDA / EBIT / NPBT / NPAT
- B — EBIT / EBITDA / NPBT / NPAT
- C — NPAT / NPBT / EBIT / EBITDA
- D — NPBT / EBITDA / EBIT / NPAT
- E — EBIT / EBITDA / NPAT / NPBT

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Example Question

4

Example Question 4

Your business working capital ratio in your business has reduced to 1.4

To meet bank funding requirements it needs to be 1.5

Which of these actions should achieve that?

- **A** Offer extended credit terms to customers to get more sales
- **B** Increase bank overdraft limits
- **C** Defer a capital project that was to be funded from term debt
- **D** Obtain additional credit from suppliers
- **E** Reduce inventories to repay bank overdraft

Answer

4

Reduce inventories to repay bank overdraft

Working capital ratio is
"current assets : current liabilities".

To increase the ratio either current assets have to rise faster than current liabilities, or both current assets and current liabilities need to both reduce at the same rate. This option is the only one guaranteed to achieve this.

A. Offer extended credit terms to customers to get more sales

B. Increase bank overdraft limits

C. Defer a capital project that was to be funded from term debt

D. Obtain additional credit from suppliers

E. Reduce inventories to repay bank overdraft

Thanks for your interest in the

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Example Questions

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