Question #1 of 22

Question ID: 1573639

Which of the following is *least likely* an objective of the IAS 19 disclosures regarding defined benefit plans?

A) Explain the characteristics and risks of the firm's defined benefit plan.

B) Identify amounts in the financial statements relating to defined benefit plans.

C) Describe how defined benefit plans affect amounts, timings, and uncertainties relating to future net income.

Explanation

While defined benefit plans do have an impact on future net income, the objective set out in IAS 19 is to describe how defined benefit plans affect amounts, timings, and uncertainties relating to future *cash flows* (not net income). The other two options are objectives of IAS 19.

(Module 36.2, LOS 36.c)

Question #2 of 22

Question ID: 1573627

The *least likely* reason for a corporation to lease rather than buy a fixed asset is to:

A) benefit from appreciation in the asset's value.

B) conserve cash at lease inception.

C) decrease its financing costs.

Explanation

A lessee would not be concerned with the value of the asset at the end of the lease unless the lease included an option to buy the asset. Typically, leases require a small, if any, payment at lease inception. Because a lease is secured by an asset, financing costs may be lower than the rate on a loan to purchase the asset.

(Module 36.1, LOS 36.a)

Question #3 of 22

Question ID: 1573630

ABC Company leases manufacturing equipment for five years with annual payments of $20,000. The company will return the equipment to the lessor at the end of the lease. The term of the lease is equal to the equipment's useful life. Under U.S. GAAP, the company will:

A) report the lease as an operating lease.

B) record a right-of-use asset on the balance sheet.

C) recognize an amortization expense equal to the principal repayment each period.

Explanation

The company will report a finance lease because the lease is in effect for the asset's useful life. With a finance lease, the company will recognize the present value of the lease payments on the balance sheet as a right-of-use asset, and amortize this asset straight-line over the lease term.

(Module 36.1, LOS 36.a)

Question #4 of 22

Question ID: 1573635

A lessor who enters into a finance lease is *least likely* to:

A) add an asset to her balance sheet.

B) amortize a receivable.

C) record a profit.

Explanation

A lessor will recognize a profit or loss on entering a finance lease only if the lease value is greater than its net book value asset on the lessor's balance sheet. At inception, a lessor adds a lease receivable to her balance sheet and amortizes it over the term of the lease.

(Module 36.1, LOS 36.a)

Question #5 of 22

Question ID: 1573637

The difference between the fair value of a defined benefit pension plan's assets and its estimated benefit obligation is recognized:

A) as an actuarial adjustment in other comprehensive income.

B) on the balance sheet as a net pension asset or liability.

C) on the income statement as pension expense.

Explanation

A net pension asset or net pension liability defined benefit plan is the difference between the fair value of the plan's assets and the estimated benefit obligation. A plan with a net pension asset is said to be overfunded, and a plan with a net pension liability is said to be underfunded.

(Module 36.2, LOS 36.b)

Question #6 of 22

Question ID: 1577948

For an operating lease, the lessor must disclose:

A) interest recognized in the income statement relating to the lease receivable asset.

B) impairments of the leased asset.

C) selling profit or loss on derecognition of the leased asset.

Explanation

Because the leased asset remains on the lessor's balance sheet for an operating lease, the lessor must disclose impairments of the asset. The other choices refer to lessor disclosures for finance leases.

(Module 36.2, LOS 36.c)

Question #7 of 22

Question ID: 1573633

For an operating lease, the leased physical asset appears on the balance sheet of:

A) neither the lessor nor the lessee.

B) the lessor.

C) the lessee.

Explanation

With an operating lease, the actual leased asset remains on the lessor's balance sheet and the lessor recognizes depreciation expense on the asset. The lessee is required to recognize an asset and a liability equal to the present value of the promised lease payments.

(Module 36.1, LOS 36.a)

Question #8 of 22

Question ID: 1573623

When a lessee recognizes a balance sheet asset and liability for a new lease:

A) the liability is typically greater than the asset. ✗

B) the asset and liability are equal. ✓

C) the asset is typically greater than the liability. ✗

Explanation

At the initiation of a lease, the lessee records an asset and a liability that are both equal to the present value of the promised lease payments.

(Module 36.1, LOS 36.a)

Question #9 of 22

Question ID: 1573622

An airline leases a new airplane from its manufacturer for 10 years. For financial reporting, the airline must record an asset and a liability on its balance sheet:

A) only if the lease is a finance lease. ✗

B) only if the lease is an operating lease. ✗

C) regardless of whether the lease is a finance or operating lease. ✓

Explanation

For both finance and operating leases, both IFRS and U.S. GAAP require an asset and a liability to be recorded on the lessee's balance sheet, unless the lease is short-term or (under IFRS) for a low-value asset.

(Module 36.1, LOS 36.a)

Question #10 of 22

Question ID: 1573640

Which of the following regarding employer contributions is *least likely* a required disclosure under IFRS?

A) Expected employer contributions for the next period for defined benefit plans.

B) Total employer's contributions expensed in the income statement for defined contribution plans.

C) Reasons for changes in employer contributions for defined contribution plans.

Explanation

Minimum disclosure requirements for defined benefit plans include expected future employer contributions. The only disclosure required for defined contribution plans is the separate disclosure of the employer's contribution expensed in the income statement. No further disclosure regarding changes in employer contributions is required.

(Module 36.2, LOS 36.c)

Question #11 of 22

Question ID: 1573636

An employer offers a defined benefit pension plan and a defined contribution pension plan. The employer's balance sheet is *most likely* to present an asset or liability related to:

A) the defined benefit plan.

B) the defined contribution plan.

C) both of these pension plans.

Explanation

Only a defined benefit plan has a funded status that would appear on the balance sheet as an asset or liability. Employer payments into a defined contribution plan are recognized as expenses in the period incurred.

(Module 36.2, LOS 36.b)

Question #12 of 22

Question ID: 1573629

A lease is *most likely* to be reported as a finance lease when:

A) the present value of the lease payments is less than the asset's fair value.

B) ownership of the leased asset transfers to the lessee.

C) the lessor would otherwise operate the asset in its normal course of business.

Explanation

A lease is reported as a finance lease when ownership of the leased asset transfers to the lessee. Among the other conditions for a finance lease are that the present value of the lease payments is greater than or equal to the asset's fair value, and that the lessor has no other use for the asset.

(Module 36.1, LOS 36.a)

Question #13 of 22

Question ID: 1577947

Under which reporting standards are share-based compensation expensed to the income statement over the vesting period?

A) IFRS, but not U.S. GAAP.

B) U.S. GAAP, but not IFRS.

C) Both IFRS and U.S. GAAP.

Explanation

Both IFRS and U.S. GAAP require companies to estimate the fair value of share-based compensation at the grant date and to expense it to the income statement over the vesting period.

(Module 36.2, LOS 36.b)

Question #14 of 22

Question ID: 1573641

Which of the following is *least likely* included in the disclosures for share-based compensation reporting?

A) Share price at the reporting date.

B) Impact of share-based transactions on the balance sheet.

C) How the fair value at the grant date was determined.

Explanation

The required disclosures are the nature of the plan as well as key details such as grant date, vesting date, service period, and settlement characteristics; how the fair value at the grant date was determined; and the effect on earnings and the financial position (i.e., income statement and balance sheet). Share price at the reporting date is not a required disclosure, although it may be helpful for the users' understanding.

(Module 36.2, LOS 36.c)

Question #15 of 22

Question ID: 1573631

Which of the following is *most accurate* regarding financial reporting of an operating lease from a lessor's perspective?

A) The lessor recognizes the lease payments as income.

B) At lease inception, the lessor removes the asset from the balance sheet.

C) The lessor does not record the depreciation expense.

Explanation

For an operating lease, the lessor reports the lease payments as income. The lessor does not remove the leased asset from the balance sheet and continues to record the depreciation expense over the life of the asset.

(Module 36.1, LOS 36.a)

Question #16 of 22

Question ID: 1573628

When the risks of ownership of an asset are not substantially transferred to the lessee, a lease is *most likely* to be reported as:

A) a finance lease.

B) an operating lease.

C) an investing lease.

Explanation

Both the lessee and lessor report a lease as an operating lease when the risks of ownership are not substantially transferred to the lessee.

(Module 36.1, LOS 36.a)

Question #17 of 22

Question ID: 1573634

A lessor will remove the leased asset from its balance sheet and record interest income from the lease only if the lease is classified as:

A) an operating lease.

B) a sales-type lease.

C) a finance lease.

Explanation

Under IFRS and U.S. GAAP, a lessor will classify a lease as either an operating lease or a finance lease. If it is classified as a finance lease, the leased asset is removed from the lessor's balance sheet and interest income is recognized over the life of the lease. A sales-type lease is a classification under U.S. GAAP that does not affect the accounting treatment.

(Module 36.1, LOS 36.a)

Question #18 of 22

Question ID: 1573625

A lessee is *most likely* to be required to classify a lease as a finance lease if:

A) the lease is long term.

B) the sum of the lease payments is equal to the value of the leased asset.

C) the lessor has no other use for the asset.

Explanation

A lessee is required to classify a lease as a finance lease if the lessor has no other use for the asset. Long-term leases can be either operating or finance leases. A lease must be classified as a finance lease if the *present value* of the lease payments is equal to or greater than the value of the leased asset.

(Module 36.1, LOS 36.a)

Question #19 of 22

Question ID: 1573632

A lessor retains the leased asset on its balance sheet for:

A) neither finance leases not operating leases.

B) finance leases, but not operating leases.

C) operating leases, but not finance leases.

Explanation

For an operating lease, the lessor retains the leased asset on its balance sheet and recognizes depreciation expense over its life. For a finance lease, the lessor removes the leased asset from its balance sheet and recognizes a lease receivable.

(Module 36.1, LOS 36.a)

Question #20 of 22

Question ID: 1573626

For a lessee, the portion of a lease payment that represents repayment of principal is a cash flow from:

A) operations. ✗

B) financing. ✓

C) investing. ✗

Explanation

The principal portion of a lease payment is a financing outflow on the lessee's cash flow statement. The interest portion is an operating cash outflow under U.S. GAAP and may be treated as an operating or financing outflow under IFRS.

(Module 36.1, LOS 36.a)

Question #21 of 22

Question ID: 1573624

For a long-term lease, the amount recorded initially by the lessee as a liability is:

A) the present value of the lease payments. ✓

B) the total of the lease payments. ✗

C) the fair value of the leased asset. ✗

Explanation

With a finance lease, both an asset and liability are reported on the lessee's balance sheet, equal to the present value of the promised lease payments.

(Module 36.1, LOS 36.a)

Question #22 of 22

Question ID: 1573638

Which of the following must both the lessee and lessor disclose under IFRS 16?

A) Restrictions and covenants imposed by the lease.

B) Interest expense included in the income statement resulting from the lease.

C) Maturity analysis of future payments.

Explanation

Both the lessee and lessor are required to disclose a maturity analysis of the lease liabilities (lessee) and lease payments receivable (lessor). Only the lessee must disclose the restrictions and covenants imposed by the lease. The lessee will disclose the interest expense resulting from the lease; the lessor will disclose the interest income.

(Module 36.2, LOS 36.c)