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FINAL EXAM

Course # 171032
Accounting For Derivatives

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Accounting For Derivatives
by: Delta CPE, 2014, 58 pages

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Chapter 0 - Course Material

1. A derivative must contain which attributes?

   - ______ It has an underlying interest rate, security or commodity price, foreign exchange rate, or index with one or more notional amounts
   - ______ It has no initial cash outlay
   - ______ The terms permit net settlement between counterparties.
   - ______ All of the above

2. Derivatives can be either on the balance sheet or off the balance sheet. They include

   - ______ Futures.
   - ______ Bonds.
   - ______ Mortgage backed securities.
   - ______ All of the above.

3. Which of the following is the risk that arises from the possibility that future changes in market prices may make a financial instrument less valuable or more onerous?

   - ______ Market risk.
   - ______ Correlation risk.
   - ______ Systematic risk.
   - ______ Valuation risk.

4. Which of the following risks is(are) inherent in an interest-rate swap agreement: I) The risk of exchanging a lower interest rate for a higher interest rate; or II) The risk of nonperformance by the counterparty to the Agreement.

   - ______ I only.
   - ______ II only.
   - ______ Both I and II.
   - ______ Neither I nor II.

5. The FASB's definition of derivatives excludes:

   - ______ Forward contracts
   - ______ Swaps
   - ______ Certain insurance contracts
   - ______ All of the above

6. A company enters into derivative contracts for ___________ purposes.

   - ______ Trading
   - ______ Hedging
   - ______ Timing
   - ______ A and B only

7. The accounting for fair value hedges records the derivative at its

- ______ Amortized cost.
- ______ Carrying value.
- ______ Fair value.
- ______ Historical cost.

8. All of the following statements regarding accounting for derivatives are correct EXCEPT that

- ______ They should be recognized in the financial statements as assets and liabilities.
- ______ They should be reported at fair value.
- ______ Gains and losses resulting from speculation should be deferred.
- ______ Gains and losses resulting from hedge transactions are reported in different ways, depending upon the type of hedge.

9. An option to convert a convertible bond into shares of common stock is a(n)

- ______ Embedded derivative.
- ______ Host security.
- ______ Hybrid security.
- ______ Fair value hedge.

10. Disclosure of information about significant concentrations of credit risk is required for

- ______ Most financial instruments.
- ______ Financial instruments with off-balance-sheet credit risk only.
- ______ Financial instruments with off-balance-sheet market risk only.
- ______ Financial instruments with off-balance-sheet risk of accounting loss only.

11. Gains or losses on cash flow hedges are

- ______ Ignored completely.
- ______ Recorded in equity, as part of other comprehensive income.
- ______ Reported directly in net income.
- ______ Reported directly in retained earnings.

12. To the extent the hedge is effective, a loss arising from the decrease in fair value of a derivative is included in current earnings if the derivative qualifies and is designated as a

- ______ Fair-Value hedge
- ______ Cash-Flow hedge
- ______ Both a Fair-Value hedge and Cash-Flow hedge
- ______ Neither a Fair-Value hedge nor a Cash-Flow hedge

13. Which of the following transactions may NOT be eligible for cash flow hedge treatment?

- ______ A hedge of future cash interest outflows associated with floating rate debt.
- ______ A hedge of a forecasted future purchase of a commodity to protect against rising prices.
- ______ A hedge of an exposure to changes in the fair value of a recognized asset or liability or of an unrecognized firm commitment.

- ______ A hedge to lock in the future cost of borrowing for the company.

14. Under IFRS, companies record unrealized holding gains or losses on cash flow hedges as:

- ______ Current income or loss.
- ______ Adjustments to the value of the hedged item.
- ______ Other comprehensive income.
- ______ Retained earnings.

15. All of the following are requirements for disclosures related to financial instruments EXCEPT

- ______ Disclosing the fair value and related carrying value of the instruments.
- ______ Distinguishing between financial instruments held or issued for purposes other than trading.
- ______ Combining or netting the fair value of separate financial instruments.
- ______ Displaying as a separate classification of other comprehensive income the net gain/loss on derivative instruments designated in cash flow hedges.

16. For a hedging relationship to qualify as "highly effective," the change in fair value or cash flows of the hedge must fall between _________ and ____________ of the opposite change in fair value or cash flows of the exposure that is hedged.

- ______ 50%, 100%.
- ______ 80%, 125%.
- ______ 0%, 100%.
- ______ 75%, 100%.

17. A highly-effective hedge of an existing asset or liability that is reported on the balance sheet would be recorded using

- ______ Modified Cash Basis Accounting.
- ______ Critical Term Hedge Analysis.
- ______ Fair Value Hedge.
- ______ Hedge of Net Investment in Foreign Subsidiary.

18. A fair value hedge differs from a cash flow hedge because a fair value hedge

- ______ Cannot be used for firm purchase or sales commitments.
- ______ Is not recorded unless it is a highly-effective hedge.
- ______ Records gains or losses in the value of the derivative directly to earnings of the company in the period of change.
- ______ Defers the gains or losses in the value of the derivative using Other Comprehensive Income.

19. When a cash flow hedge is appropriate, the effective portion of the gain or loss on the derivative is

- ______ Recorded in equity as part of other comprehensive income.
- ______ Recognized immediately at the time the agreement is made.
- ______ Recognized over time, amortized over the period of the agreement.
- ______ Recognized over time, offset by the fluctuation in the value of the hedged asset or liability.

20. When preparing their year-end financial statements, the Warner Company includes a footnote regarding their hedging activities during the year. Which of the following is NOT required to be

disclosed?

- [ ] How hedge effectiveness is determined and assessed
- [ ] The specific types of risks being hedged, and how they are being hedged
- [ ] Alternative hedging options declined
- [ ] The net gain or loss reported for the period for fair value hedges and where in the financial statements it is reported

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