

COMMONWEALTH OF AUSTRALIA

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Family Name	
Given Names	
Student Number	
Teaching Period	Semester 2, 2016

FINAL EXAMINATION	DURATION				
ACT305 – Corporate Accounting	<table border="1"> <tr> <td>Reading Time:</td> <td>10 minutes</td> </tr> <tr> <td>Writing Time:</td> <td>180 minutes</td> </tr> </table>	Reading Time:	10 minutes	Writing Time:	180 minutes
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INSTRUCTIONS TO CANDIDATES

1.1 The examination has 2 sections

Section A:

Suggested Time: 1 hour 30 mins

Total Marks 50

Multiple Choice Questions: Answer ALL questions

Section B:

Suggested Time: 1 hour 30 mins

Total Marks 50

Calculation and Report Questions: Answer ALL Questions

Section A must be answered on the Answer sheet provided and must be handed in with your answer booklet. Please ensure that your name and student number are clearly indicated on your Answer Sheet and at the top of this examination paper.

Section B is to be answered in separate booklet.

Please ensure that your Name and Student Number are written clearly in the space provided at the top of this page.

1.2 Note that questions ARE NOT of equal value.

1.3 Read ALL questions carefully.

EXAM CONDITIONS

You may begin writing from the commencement of the examination session. The reading time indicated above is provided as a guide only.

This is a RESTRICTED OPEN BOOK examination

Any non-programmable calculator is permitted

No handwritten notes are permitted

Hard copy, unannotated English translation dictionary only

ADDITIONAL AUTHORISED MATERIALS	EXAMINATION MATERIALS TO BE SUPPLIED
Relevant Legislation (Unannotated)	1 x 16 Page Book 1 x 4-Multiple Choice Answer Sheet

**THIS EXAMINATION IS PRINTED
DOUBLE-SIDED.**

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BLANK.**

Section A
Multiple Choice Questions
Total No of Marks for this section: 50

This section should be answered on the Answer Sheet provided. Please ensure that your name and student number have been written on the Answer sheet and place in the answer booklet which you can use for your workings.

Marks for each question are indicated. Suggested Time allocation for Section A: 90 mins

Section B

Total Number of Marks for this section: 50

This section should be answered in the Answer Booklet provided. Please ensure that your name and student number have been written on the Answer Booklet and show all your workings.

Marks for each question are indicated. Suggested Time allocation for Section B: 90 mins

Question 22

Art House Ltd is reviewing its deferred tax for the year.

1. The company purchased a printing machine at the beginning of the year for \$100 000. It has an accounting annual straight-line depreciation rate of 20%. The tax depreciation rate is 30% straight-line.
2. The company's provision for long-service leave at the start and end of the financial year were \$160 000 and \$155 000 respectively. During the year \$20 000 was paid to a long-standing employee as long-service leave.
3. On 1st July this year the company spent \$50 000 on development expenditure which was capitalised as an asset and is amortised on a straight-line basis over 5 years. The company is not entitled to any additional deduction above the 100% of costs incurred for tax purposes.
4. The opening and closing balances on the allowance for doubtful debts account were \$5,000 and \$8000 respectively. During the year \$10 000 was written off as being uncollectable. The opening and closing balances on the accounts receivable account were \$62 000 and \$60 000 respectively.
5. The company has interest receivable of \$10 000 at the end of the year. No interest was receivable at the beginning of the year. Interest income is included in taxable profit only when received.
6. The company revalued plant at the beginning of the year from \$400 000 to \$500 000. The plant is being depreciated at the rate of 10% per year for accounting purposes and 5% per year for tax purposes.

Required

In each of the above situations prepare the end-of-period adjustment JOURNAL ENTRIES to account for income tax on the initial appearance or reversal of any temporary differences. A deferred tax worksheet is NOT required. EXPLAIN in each case why particular accounts are affected. Show your workings.

(Marks: 18)

Question 23

Berry Springs Ltd acquired all the issued shares (*cum div.*) of Litchfield Ltd on 1 July 2014. At this date the shareholders' equity of Litchfield Ltd was:

Share capital – 100 000 shares	\$	450 000
General reserve		45 000
Asset revaluation surplus		45 000
Retained earnings		15 000

At 1 July 2014, the accounting records of Litchfield Ltd contained a dividend payable of \$30 000. This dividend was paid in August 2014. All the identifiable assets and liabilities at acquisition date were recorded at amounts equal to their fair values except for:

	Carrying amount	Fair value
Plant (cost \$290 000)	\$220 000	\$227 500
Inventory	160 000	175 000

The plant was considered to have a further 5-year life. It was sold on 1 January 2017 for \$118 000. The inventory was all sold by 30 June 2015. Litchfield Ltd did not record a contingent liability relating to a lawsuit by a customer for faulty goods. Litchfield Ltd considered this liability had a fair value of \$18 000. The lawsuit was settled in May 2015 when Litchfield Ltd was required to pay damages of \$20 000.

Additional information

- On 1 July 2015, Berry Springs Ltd sold plant to Litchfield Ltd at a before-tax profit of \$6000. This class of non-current asset is depreciated at 20% p.a. on cost by Berry Springs Ltd while Litchfield Ltd uses a rate of 10% p.a. on cost.
- In June 2016 Litchfield Ltd sold \$50 000 worth of inventory to Berry Springs Ltd at a before-tax profit of \$5400. At 30 June 2017, inventory on which Litchfield Ltd had made a profit of \$750 on sale to Berry Springs Ltd was still on hand.
- On 10 February 2017, Litchfield Ltd used the whole of the general reserve existing at 1 July 2014 to pay a bonus dividend of three shares for every ten held.
- Both Berry Springs Ltd and Litchfield Ltd use the valuation method to measure land. In June 2017, Berry Springs Ltd recorded revaluation increases of \$15 000 while Litchfield Ltd recorded increases of \$12 000.
- The tax rate is 30%.

(continue over)

Financial information provided by the companies at 30 June 2017 was as follows:

	Berry Springs Ltd	Litchfield Ltd
Plant	\$ 558 750	\$ 318 000
Accumulated depreciation – plant	(318 000)	(165 000)
Land	531 300	397 500
Shares in Litchfield Ltd	594 000	—
Inventory	270 000	240 000
Receivables	43 500	22 500
Cash	37 500	15 000
<i>Total assets</i>	<u>\$1 717 050</u>	<u>\$ 828 000</u>
Dividend payable	15 000	6 000
Other current liabilities	52 050	60 000
Loans	150 000	60 000
<i>Total liabilities</i>	<u>\$ 217 050</u>	<u>\$ 126 000</u>
Share capital	\$1 200 000	\$495 000
Asset revaluation surplus	225 000	120 000
Retained earnings (1/7/16)	22 500	18 000
Revenues	162 000	210 000
Expenses	(48 000)	(80 000)
Gains/(losses) on sale of non-current assets	6 000	5 000
Tax expense	(52 500)	(60 000)
Dividend declared	(15 000)	(6 000)
<i>Total equity</i>	<u>\$1 500 000</u>	<u>\$ 702 000</u>

Required

Prepare the consolidation worksheet JOURNAL ENTRIES for the preparation of consolidated financial statements by Berry Springs Ltd at 30 June 2017.

NOTE a consolidation worksheet is NOT required.

Your answer should include an acquisition analysis with a calculation of goodwill, business combination valuation entries, pre-acquisition entries, dividend adjustments, intragroup sales and transfers.

(Marks: 18)

Question 24

Middle Point Ltd was wound up on 1 June 2017.

Middle Point Ltd Trial Balance as at 1 June 2017			
	Debit	Credit	
Cash	\$9 000		
Inventories	188 800		
Plant and machinery	211 400		
Land and buildings	60 000		
Accumulated losses	80 800		
Accounts payable		\$160 000	
Mortgage (secured over land and buildings)		40 000	
Share capital: 350 000 ordinary shares issued for \$1 each, fully paid		<u>350 000</u>	
	<u>\$550 000</u>	<u>\$550 000</u>	

The following information is relevant

(a) The sale proceeds of assets realised the following amounts in cash:

Inventories	\$120 000
Plant and machinery	140 000

(b) The mortgage holder took possession of the land and buildings and sold them for \$90 000 and after settlement of the debt paid any excess funds to the liquidator.

(c) Liquidation costs amounted to \$19 000.

(d) The liquidator paid all liabilities.

Required

Prepare the JOURNAL ENTRIES to wind up the affairs of Middle Point Ltd and to calculate any deficiency and distribution to the shareholders.

T accounts are NOT required.

(Marks: 14)