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Family Name	
Given Names	
Student Number	
Teaching Period	Semester 1, 2017

FINAL EXAMINATION	DURATION				
ACT204 – Financial 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

Answer all of the 7 Questions stated in the exam paper.

The questions are not of a similar length but the marks and suggested time allocation for each question have been stated.

Total No of Marks for the examination 100

The questions should be answered in the Answer Booklet provided.

Where discounting to present value is required a table of discount factors can be found on page 7.

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) (Accounting Standards)	1 x 20 Page Book 1 x Scrap Paper

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

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BLANK.**

Question 1

Blenkinsop Ltd has prepared its financial statements for the year ended 30th June 2019. The following events have taken place.

- (a) On 28th July 2019, during a cyclone, flooding took place which damaged a warehouse. As a result of the flood inventory with a cost of \$472,800 was destroyed. The warehouse equipment will require a major repair which will cost \$725,000.
- (b) On 12th August 2019, Grouse Ltd, which was a large customer of Blenkinsop Ltd, announced that it was in future going to source all of its material from an offshore supplier in Thailand. Grouse Ltd currently had a zero balance in accounts receivable.
- (c) On 18th August 2019, on the advice of its lawyers, Blenkinsop Ltd settled a negligence claim which had arisen when a customer sued the company for damages. This arose from injuries suffered when one of Blenkinsop Ltd's employees had crushed their foot with a forklift truck. The incident took place at the Darwin distribution hub on 15th March 2019.
- (d) On 30th June 2019, Dastardly Ltd owed Blenkinsop Ltd \$329,648. On 14th July 2019, Blenkinsop Ltd received a letter from Dastardly Ltd's administrator that the company had become insolvent. Blenkinsop Ltd stopped all trading at the end of April 2019.

Required:

Describe, giving detailed explanations and references to the appropriate accounting standard where relevant, how Blenkinsop Ltd should treat the above events when completing the financial statements for the year ended 30th June 2019.

(Recommended time: 11 minutes)(Marks:6)

Question 2

Flash Harry Ltd manufactures high quality racing bicycles. At the time of purchase each customer is given a warranty which states that Flash Harry Ltd will undertake to make good, by repair or replacement, any manufacturing defects that come to notice within a period of three years from the date of the sale.

Required:

Should Flash Harry Ltd record a liability in the form of a provision in its financial statements? Give detailed reasons for your decision and references to the appropriate accounting standard where relevant, and also state how any such liability, if it exists, should be measured and presented to the users of the financial statements.

(Recommended time: 4 minutes)(Marks:2)

Question 3

On 12th April 2018 Pit Bull Ltd enters into a contract with a New Zealand company, Secure Ltd, whereby Secure Ltd will build a printing machine for Pit Bull Ltd. The machine has been priced at NZ\$850000.

The printing machine is completed on 14th June 2019 and shipped FOB Wellington on that date. The debt remains unpaid at 30th June 2019, which is the end of Pit Bulls Ltd's financial reporting period.

The exchange rates at the relevant dates are as follows:

12 th April 2018	A\$1.00 = NZ\$1.20
30 th June 2018	A\$1.00 = NZ\$1.15
14 th June 2019	A\$1.00 = NZ\$1.30
30 th June 2019	A\$1.00 = NZ\$1.25

Required:

Complete the full journal entries for Pit Bull Ltd for the years ending 30th June 2018 and 30th June 2019 to reflect the above events.

(Recommended time: 28 minutes)(Marks:16)

Question 4

New Territory Ltd makes an initial public offering to potential investors to subscribe for 10 million shares. The issue price of the shares was \$2.00 per share. Applications for shares had to be received by close of business on 15th July 2019. \$1.00 was due on application with another \$1.00 being payable within one month of allotment. Applications for 11 million shares were received by 15th July 2019.

The terms of issue allowed the directors to allot shares to subscribers on a pro rata basis, with any excess that was paid on application being set against the amount due on allotment. Allotment of the shares took place on 20th July 2019. All shareholders paid the amount due on allotment with the exception of the holders of 1 million shares who failed to make their payments due within the one month due date of 20th August 2019.

The directors forfeited the 1 million shares on the 31st August which were then auctioned as fully paid. At the auction \$1.50 was received for each share sold. After the discount on reissue the remaining application balance on the forfeited shares was returned to the original applicants.

Required:

Provide full journal entries to account for the above events.

(Recommended time: 31 minutes)(Marks:17)

Question 5

Winnellie Packing Ltd started business on 1st July 2016 with 12 employees. On the 30th June 2019, three years later, all of these employees were still with the company. On 1st July 2018 the company hired 15 more people but by 30th June 2019 only 10 of those employed at the beginning of that year were still employed by Winnellie Packing Ltd. Once employees have completed a conditional period of 10 years employment they are entitled to 13 weeks' long-service leave. At 30th June 2019 Winnellie Packing Ltd estimates that:

- (i) the aggregate annual salaries of all employees hired on 1st July 2016 is now \$600,000.
- (ii) the aggregate annual salaries of all current employees hired on 1st July 2018 is now \$400,000
- (iii) the probability that employees hired on 1st July 2016 will continue to be employed for the duration of the conditional period is 40 per cent.
- (iv) the probability that employees hired on 1st July 2018 will continue to be employed for the duration of the conditional period is 20 per cent.

Salaries are expected to increase indefinitely at 1 per cent per annum. The interest rates on high-quality corporate bonds are as follows:

	1 st July 2018	30 th June 2019
Corporate bonds maturing in seven years	4%	6%
Corporate bonds maturing in eight years	5%	8%
Corporate bonds maturing in nine years	5%	8%
Corporate bonds maturing in ten years	6%	10%

At 30th June 2018 the provision for long-service leave was \$6,000. PV of \$1 in n periods table on page 7.

Required:

- (a) Calculate the total accumulated long-service leave benefit as at 30th June 2019.
- (b) What amount should be reported for the long-service leave provision as at 30th June 2019 in accordance with AASB 119?
- (c) Prepare the journal entry for the provision for long-service leave for 30th June 2019 in accordance with AASB 119.

(Recommended time: 26 minutes)(Marks:14)

Question 6

The Territory Holiday Extravaganza Company Ltd had a bad year in 2016 when it suffered a net loss. Some of the measures of return deteriorated due to the loss. The management of the company are wondering how they can improve their ratios for the following year to keep their jobs and the banks and the shareholders happy. They have come up with the following ideas.

- 1 Borrow \$100 million on long-term debt.
- 2 Buy back shares for \$500 million cash.
- 3 Expense one-quarter of the goodwill carried on the books.
- 4 Create a new holiday planning division at a cash cost of \$300 million.
- 5 Purchase a new travel app from "Where do we holiday now?" Ltd, paying \$20 million cash.

Requirement

Write a short report to the management showing whether the ideas that they have suggested will cause the current ratio, the debt ratio and the rate of return on ordinary shareholders' equity to either increase, decrease or have no effect, giving your reasons for your decision.

Current ratio = current assets / current liabilities, Debt ratio = total liabilities / total assets

Rate of return on ordinary shareholders' equity = net income / ordinary shareholders' equity.

(Recommended time: 20 minutes)(Marks:11)

Question 7

These are the account balances of Berrimah Ltd as at 30th June 2016 and 30 June 2017:

	2017	2016
	(\$000)	(\$000)
Sales (all on credit)	250	350
Cost of goods sold	130	110
Doubtful debts expense	25	30
Interest expense	20	30
Salaries	30	25
Depreciation	10	15
Cash	144	139
Inventory	180	160
Accounts receivable	270	250
Allowance for doubtful debts	30	35
Land	150	150
Plant	100	90
Accumulated depreciation	20	30
Bank overdraft	20	19
Accounts payable	200	190
Accrued salaries	22	18
Long-term loan	90	70
Share capital	120	100
Opening retained earnings	<u>307</u>	<u>187</u>

Additional information:

The share capital was increased by the bonus issue of 20,000 shares valued at \$1.00 each out of retained earnings. Plant was purchased during the period at a cost of \$30,000, with plant with a carrying amount of \$nil (cost of \$20,000; accumulated depreciation of \$20,000) being scrapped.

Required:

Prepare a statement of cash flows for Berrimah Ltd for the year ending 30 June 2017 showing in Note 1 the reconciliation of net profit to net cash from operating activities and Note 2 showing the reconciliation of cash balances.

(Recommended time: 60minutes)(Marks:34)

Present value of \$1 in n periods

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	.9901	.9804	.9709	.9615	.9524	.9434	.9346	.9259	.9174	.9091
2	.9803	.9612	.9426	.9246	.9070	.8900	.8734	.8573	.8417	.8264
3	.9706	.9423	.9151	.8890	.8638	.8396	.8163	.7938	.7722	.7513
4	.9610	.9238	.8885	.8548	.8227	.7921	.7629	.7350	.7084	.6830
5	.9515	.9057	.8626	.8219	.7835	.7473	.7130	.6806	.6499	.6209
6	.9420	.8880	.8375	.7903	.7462	.7050	.6663	.6302	.5963	.5645
7	.9327	.8706	.8131	.7599	.7107	.6651	.6227	.5835	.5470	.5132
8	.9235	.8535	.7894	.7307	.6768	.6274	.5820	.5403	.5019	.4665
9	.9143	.8368	.7664	.7026	.6446	.5919	.5439	.5002	.4604	.4241
10	.9053	.8203	.7441	.6756	.6139	.5584	.5083	.4632	.4224	.3855