

## **WARNING**

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Family Name					
Given Name/s					
Student Number					
Teaching Period	Semester 2, 2017				

<b>ACT503 – Corporate Accounting</b>	<b>DURATION</b>	
	Reading Time:	<b>10 minutes</b>
	Writing Time:	<b>180 minutes</b>
<b>INSTRUCTIONS TO CANDIDATES</b>		
<p>Please complete both sections A and B</p> <p>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.</p> <p>Section B is to be answered in separate booklet.</p>		
<b>EXAM CONDITIONS</b>		
<p><u>You may begin writing from the commencement of the examination session.</u> The reading time indicated above is provided as a guide only.</p>		
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		
<b>ADDITIONAL AUTHORISED MATERIALS</b>	<b>EXAMINATION MATERIALS TO BE SUPPLIED</b>	
Relevant Legislation (Unannotated)	1 x 20 Page Book 1 x 4-Multiple Choice Answer Sheet 1 x Scrap Paper	

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

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**Section A**  
**Multiple Choice Questions**  
**Total No of Marks for this section: 30**

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: 70 mins

**Please note that Discount Tables are available on Page 19 of this exam paper.**

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## Section B

**Total Number of Marks for this section: 70**

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: 110 mins

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### Question 1:

MyFinalWork Ltd commences operations on 1 July 2018 and presents its first statement of profit and loss and other comprehensive income and first statement of financial position on 30 June 2019. The statements are prepared before considering taxation. The following information is available:

<i>Statement of profit or loss and other comprehensive income for the year ended 30 June 2019</i>		
Gross Profit		730,000
<i>Expenses</i>		
Administration expenses	80,000	
Salaries	200,000	
Long-service Leave	20,000	
Warranty expenses	30,000	
Depreciation expense - plant	80,000	
Insurance	20,000	430,000
Accounting profit before tax		<u>300,000</u>
Other comprehensive income		<u>Nil</u>

  

<i>Assets and liabilities as disclosed in the statement of financial positions as at 30 June 2019</i>		
<i>Assets</i>		
Cash		20,000
Inventory		100,000
Accounts receivable		100,000
Prepaid Insurance		10,000
Plant - cost	400,000	
Less: Accumulated depreciation	<u>80,000</u>	<u>320,000</u>
Total assets		<u>550,000</u>
<i>Liabilities</i>		
Accounts payable		80,000
Provision for warranty expenses		20,000
Loan payable		200,000
Provision for long service leave expenses		<u>20,000</u>
Total liabilities		<u>320,000</u>
Net assets		<u>230,000</u>

*Other information*

- All administration and salaries expenses incurred have been paid as at year end.
- None of the long service leave expense has actually been paid.
- Warranty expenses were accrued, and at year end, actual payments of \$10 000 have been made (leaving an accrued balance of \$20 000).
- Insurance was initially prepaid to the amount of \$30 000. At year end, the unused component of the prepaid insurance amounted to \$10 000.
- Amounts received from sales, including those on credit terms, are taxed at the time of sale is made.
- The plant is depreciated over five years for accounting purposes, but over four years for taxation purposes.
- The tax rate is 30 per cent

**Required:**

A. Compute the following for MyFinalWork Ltd as at 30 June 2019:

- Taxable Income (**Marks 4**)
- Deductible Temporary Differences (**Marks 2**)
- Taxable Temporary Differences (**Marks 2**)
- Current Tax Liability (**Marks 2**)
- Income Tax Expense (**Marks 2**)

B. Prepare journal entries for MyFinalWork Ltd as at 30 June 2019 to account for tax in accordance with AASB 112 (**Marks 8**)

## Question 2

At 1 July 2015, Twist My World Ltd acquired the following non-current assets:

Equipment	\$100 000
Vehicles	80 000

They are in different classes of non-current assets and are to be measured at fair value. The expected useful lives of vehicles and equipment are 5 years and 10 years, respectively.

At 30 June 2016, the fair values of both assets were assessed. The equipment had a fair value of \$82 000, and the vehicles, \$70 000. The remaining useful lives were assessed to be 7 years for vehicles and 8 years for equipment.

At 30 June 2017, the fair value of equipment was assessed to be \$81 750 and the fair value of vehicles was \$55 000.

The tax rate is 40%.

### Required

- A. Prepare the journal entries for Twist My World Ltd for the years ending 30 June 2016 and 2017. Show calculations where possible **(Marks 18)**
- B. According to accounting standards, on what basis may management change the method of asset measurement, for example from cost to fair value? Very brief answer is expected. **(Marks 2)**

### Question 3

On 1 July 2013, ICanDoThis Ltd acquired (*ex div.*) all of the issued capital of IPass Ltd. The recorded equity of IPass Ltd at this date consisted of:

Share capital	\$120 000
General reserve	25 000
Retained earnings	55 000

At 1 July 2013, all the identifiable assets and liabilities of IPass Ltd were recorded at fair value except for the following assets:

	Carrying amount	Fair value
Land	\$100 000	\$130 000
Inventory	78 500	86 100
Machinery (cost \$86 000)	52 000	56 000
Vehicles (cost \$58 000)	47 000	53 000

Additionally, IPass Ltd.'s records showed a dividend payable at 1 July 2013 of \$8000. This dividend was paid on 31 October 2013. The assets of IPass Ltd at acquisition date included goodwill recorded at \$15 000 arising from a business combination transaction in 2009.

At 1 July 2013, IPass Ltd owned but had not recorded an internally generated brand name. This brand name was considered by ICanDoThis Ltd to have a fair value of \$29 000 and an indefinite useful life. An impairment test conducted with respect to the brand name on 30 June 2016 concluded that its recoverable amount at that date was \$2000 less than its carrying amount.

The vehicles and machinery were expected to have a further useful life of 6 and 8 years respectively, with benefits to be received evenly over those periods. Inventory on hand at 1 July 2013 was all sold by 31 January 2014. The land owned at 1 July 2013 was sold in September 2014 for \$150 000. The machinery on hand at 1 July 2013 was sold on 1 January 2016 for \$38 000.

Adjustments for the differences between carrying amounts and fair values of assets and liabilities on hand at acquisition date are recognised on consolidation. When assets are sold or derecognised, any related valuation reserves are transferred to retained earnings.

In June 2015, IPass Ltd paid a share dividend worth \$20 000 from the general reserve on hand at 1 July 2013.



The trial balances of both companies at 30 June 2016 showed the following balances:

Debit balances	ICanDoThis Ltd	IPass Ltd
Cash	\$ 2 500	\$ 1 250
Receivables	27 000	13 000
Inventory	39 700	24 500
Other current assets	15 200	8 200
Deferred tax assets	7 500	3 500
Vehicles	88 000	158 000
Equipment	—	42 000
Land	140 000	180 000
Financial assets	68 000	14 800
Goodwill	28 000	15 000
Shares in IPass Ltd	250 000	—
Debentures in ICanDoThis Ltd	—	25 000
Dividend paid	10 000	5 000
Dividend declared	20 000	12 000
Transfer to general reserve	10 000	5 000
Cost of sales	210 000	192 550
Income tax expense	30 000	32 000
Depreciation and other expenses	39 000	36 000
Carrying amount of machinery sold	—	30 500
Carrying amount of equipment sold	21 000	—
	\$1 005 900	\$798 300
Credit balances	ICanDoThis Ltd	IPass Ltd
Share capital	\$ 200 000	\$ 140 000
General reserve	35 000	10 000
Retained earnings (1/7/15)	51 300	67 500
Accounts payable	69 500	36 000
Loan payable (due 30/6/20)	25 000	15 000
Dividend payable	20 000	12 000
Provisions	12 500	9 300
Current tax liability	43 000	34 000
Deferred tax liability	11 800	5 000
Accumulated depreciation – vehicles	16 400	60 000
Accumulated depreciation – equipment	—	34 500
8% Debentures (matures 30/6/19)	25 000	—
Sales revenue	450 000	320 000
Dividend revenue	17 000	—
Other income	11 400	17 000
Proceeds on sale of equipment	18 000	—
Proceeds on sale of machinery	—	38 000
	\$1 005 900	\$798 300

*Additional information*

- (a) Dividends may be declared by either company without shareholder approval.
- (b) The tax rate is 30%.
- (c) On 1 January 2016, ICanDoThis Ltd sold an item of equipment to IPass Ltd for \$18 000. The equipment had a carrying amount at the date of sale of \$21 000. Both companies depreciate equipment at 20% p.a. on a straight-line basis.
- (d) On 1 May 2015, IPass Ltd sold a machine to ICanDoThis Ltd for \$7800. The machine had a carrying amount of \$7000 at the date of sale. ICanDoThis Ltd recorded the machine as inventory. The inventory item was sold to an external party in November 2015 for \$8200.
- (e) All interest on the 8% debentures has been paid and brought to account in the records of both companies.
- (f) During the 2015–16 financial year, ICanDoThis Ltd sold inventory to IPass Ltd for \$75 000. The cost of this inventory to IPass Ltd was \$70 000. Of this inventory, 25% is still on hand at 30 June 2016.
- (g) The transfer to general reserve recorded by IPass Ltd in the current year was from retained earnings recorded at 1 July 2013.

**Required**

Prepare the consolidation worksheet journal entries for the preparation of the consolidated financial statements of ICanDoThis Ltd at 30 June 2016. **(Marks 30)**

**Table 1 Present value of \$1:  $PVIF = 1/(1+k)^t$**

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	12%	14%	15%
1	0.9901	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091	0.8929	0.8772	0.8696
2	0.9803	0.9612	0.9426	0.9246	0.9070	0.8900	0.8734	0.8673	0.8417	0.8264	0.7972	0.7695	0.7561
3	0.9706	0.9423	0.9151	0.8890	0.8638	0.8396	0.8163	0.7938	0.7722	0.7513	0.7118	0.6750	0.6575
4	0.9610	0.9238	0.8885	0.8548	0.8227	0.7921	0.7629	0.7350	0.7084	0.6830	0.6355	0.5921	0.5718
5	0.9515	0.9057	0.8626	0.8219	0.7835	0.7473	0.7130	0.6806	0.6499	0.6209	0.5674	0.5194	0.4972
6	0.9420	0.8880	0.8375	0.7903	0.7462	0.7050	0.6663	0.6302	0.5963	0.5645	0.5066	0.4556	0.4323
7	0.9327	0.8706	0.8131	0.7599	0.7107	0.6651	0.6227	0.5835	0.5470	0.5132	0.4523	0.3996	0.3759
8	0.9235	0.8535	0.7894	0.7307	0.6768	0.6274	0.5820	0.5403	0.5019	0.4665	0.4039	0.3506	0.3269
9	0.9143	0.8368	0.7664	0.7026	0.6446	0.5919	0.5439	0.5002	0.4604	0.4241	0.3606	0.3075	0.2843
10	0.9053	0.8203	0.7441	0.6756	0.6139	0.5584	0.5083	0.4632	0.4224	0.3855	0.3220	0.2697	0.2472
11	0.8963	0.8043	0.7224	0.6496	0.5847	0.5268	0.4751	0.4289	0.3875	0.3505	0.2875	0.2366	0.2149
12	0.8874	0.7885	0.7014	0.6246	0.5568	0.4970	0.4440	0.3971	0.3555	0.3186	0.2567	0.2076	0.1869
13	0.8787	0.7730	0.6810	0.6006	0.5303	0.4688	0.4150	0.3677	0.3262	0.2897	0.2292	0.1821	0.1625
14	0.8700	0.7579	0.6611	0.5775	0.5051	0.4423	0.3878	0.3405	0.2992	0.2633	0.2046	0.1597	0.1413
15	0.8613	0.7430	0.6419	0.5553	0.4810	0.4173	0.3624	0.3152	0.2745	0.2394	0.1827	0.1401	0.1229

**Table 2 Present value of an annuity of \$ 1 per period for  $n$  periods:  $PVIFA = \sum_{t=1}^n \frac{1}{(1+k)^t}$   
 $= \frac{1 - \frac{1}{(1+k)^n}}{k}$**

Number of payments	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	12%	14%	15%
1	0.9901	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091	0.8929	0.8772	0.8696
2	1.9704	1.9416	1.9135	1.8861	1.8594	1.8334	1.8080	1.7833	1.7591	1.7355	1.6901	1.6467	1.6257
3	2.9410	2.8839	2.8286	2.7751	2.7232	2.6730	2.6243	2.5771	2.5313	2.4869	2.4018	2.3216	2.2832
4	3.9020	3.8077	3.7171	3.6299	3.5460	3.4651	3.3872	3.3121	3.2397	3.1699	3.0373	2.9137	2.8550
5	4.8534	4.7135	4.5797	4.4518	4.3295	4.2124	4.1002	3.9927	3.8897	3.7908	3.6048	3.4331	3.3522
6	5.7955	5.6014	5.4172	5.2421	5.0757	4.9173	4.7665	4.6229	4.4859	4.3553	4.1114	3.8887	3.7845
7	6.7282	6.4720	6.2303	6.0021	5.7864	5.5824	5.3893	5.2064	5.0330	4.8684	4.5638	4.2883	4.1604
8	7.6517	7.3255	7.0197	6.7327	6.4632	6.2098	5.9713	5.7466	5.5348	5.3349	4.9676	4.6389	4.4873
9	8.5660	8.1622	7.7861	7.4353	7.1078	6.8017	6.5152	6.2469	5.9952	5.7590	5.3282	4.9464	4.7716
10	9.4713	8.9826	8.5302	8.1109	7.7217	7.3601	7.0236	6.7101	6.4177	6.1446	5.6502	5.2161	5.0188
11	10.3876	9.7868	9.2526	8.7605	8.3064	7.8869	7.4987	7.1390	6.8052	6.4951	5.9377	5.4527	5.2337
12	11.2551	10.5753	9.9540	9.3851	8.8633	8.3838	7.9427	7.5361	7.1607	6.8137	6.1944	5.6603	5.4206
13	12.1337	11.3484	10.6350	9.9856	9.3936	8.8527	8.3577	7.9038	7.4869	7.1034	6.4235	5.8424	5.5831
14	13.0037	12.1062	11.2961	10.5631	9.8986	9.2950	8.7455	8.2442	7.7862	7.3667	6.6282	6.0021	5.7245
15	13.8651	12.8493	11.9379	11.1184	10.3797	9.7122	9.1079	8.5595	8.0607	7.6061	6.8109	6.1422	5.8474