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Family Name					
Given Name/s					
Student Number					
Teaching Period	Semester 1, 2018				

ACT204 – Financial Accounting	DURATION	
	Reading Time:	10 minutes
	Writing Time:	180 minutes
INSTRUCTIONS TO CANDIDATES		
<p>Answer all of the following 6 Questions Total No of Marks for the examination 100 The questions should be answered in the Answer Booklet provided. Marks for each question are indicated. Suggested Time allocation for the exam:180 mins</p>		
EXAM CONDITIONS		
<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		
ADDITIONAL AUTHORISED MATERIALS	EXAMINATION MATERIALS TO BE SUPPLIED	
Relevant Legislation (Unannotated)	1 x 20 Page Book 1 x Scrap Paper	

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

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Question 1

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

- (a) On 8th July 2019 the directors proposed a dividend of \$35,000.
- (b) On 12th July 2019 the executive directors agreed to sell their Bali agency to another company for a profit of \$100,000.
- (c) On 15th July 2019 the company received an invoice from Gertrude Ltd, a supplier, for \$115,000 for goods that had been supplied in June. The goods were included in closing inventory at an estimated cost of \$130,000.
- (d) On 17th July 2019, as part of Lubbock Ltd's expansion plans, an agreement was signed to take over a manufacturing facility in Tennant Creek at a cost of \$10 million, which will be paid for using a long-term finance lease.
- (e) On 24th July 2019 the Australian Taxation Office cancelled fines for incorrect expense claims included in the company's 2017 tax return. The adjusted tax return was reflected in the company's financial statements and the fine of \$30,000 was recognized as an expense and a liability at the end of the reporting period.
- (f) On 27th July 2019 the Remuneration Committee calculated that the CEO's bonus for the year ended 30th June 2019 was \$300,000. The CEO's terms of appointment provides for an annual bonus that is calculated by the Remuneration Committee. No accrual had been made.

Assume all amounts are material for financial statements purposes.

Required:

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

(Recommended time: 25 minutes)(Marks:14)

Question 2

On 12th July 2018 Pine Creek Ltd completed a consultancy for Verona SPA (Italy) for a fee of €uro 1million. The amount is paid into the Italian bank account of Pine Creek Ltd on 12th July 2018. Pine Creek Ltd decides to leave the amount in the Italian bank account, which pays interest each year on 30th June at a rate of 5% p.a. The relevant exchange rates are:

12 th July 2018	Aus\$1.00 = €uro0.63
30 th June 2019	Aus\$1.00 = €uro0.60

Required:

Provide the journal entries to account for the above transaction in the books of Pine Creek Ltd for the year ending 30th June 2019. (Show all workings and calculate to the nearest \$).

(Recommended time: 27 minutes)(Marks:15)

Question 3

Cumnor Hill Ltd issues 1 million redeemable preference shares of \$2.00 each on 1st July 2019. The shares offer a rate of return of 7 per cent per annum. The shares are redeemed at the option of the shareholders on 30th June 2021.

Required:

- a) Would you classify these preference shares as debt or as equity? Why? (1 mark)
 - b) Provide the journal entries to account for the issue and subsequent redemption of the shares, assuming that the issue was by a private placement and that the shares are redeemed out of profits. (15 marks)
 - c) What effect does the redemption of the preference shares have on the total share capital once the journal entries are completed. (1 mark)
- (Recommended time: 31 minutes)(Marks:17)

Question 4

Well Connected Ltd has six employees who are entitled to long-service leave, which can be taken after 10 years of service. This will entitle them to 13 weeks' leave. The following information is available:

<i>Number of employees</i>	<i>Current salary per employee(\$)</i>	<i>Years of service</i>	<i>Probability(%) that LSL will be paid</i>
2	50,000	6	45
2	65,000	7	70
2	70,000	8	100

<i>Corporate bond</i>	<i>Bond</i>
<i>Period to maturity</i>	<i>Rate (%)</i>
4	9.0
3	7.0
2	6.0

The projected inflation rate for the foreseeable future is 2.5 per cent. The opening provision for long-service leave at 1st July, 2018 is \$32,500. PV of \$1 in *n* period's table on page 6.

Required:

- (a) Calculate the total accumulated long-service leave benefit as at 30th June 2019. (22 marks)
 - (b) What amount should be reported for the long-service leave provision as at 30th June 2019 in accordance with AASB 119? (2 marks)
 - (c) Prepare the journal entry for the provision for long-service leave for 30th June 2019 in accordance with AASB 119. (2marks)
- (Recommended time: 47 minutes)(Marks:26)

Question 5

Territory Adventures Pty Ltd
Income Statement with industry average comparison
For the year ended 30th June 2019

	Territory Adventures	Industry average
Net sales	\$972,500	100.0%
Cost of sales	653,520	65.8
Gross profit	<u>318,980</u>	<u>34.2</u>
Selling and general expenses	201,308	19.7
Other expenses	<u>5,835</u>	<u>0.4</u>
Net Profit	<u>\$111,837</u>	<u>14.1%</u>

Territory Adventures Pty Ltd
Financial Position Statement with industry average comparison
As at 30th June 2019

	Territory Adventures	Industry average
Current assets	\$406,800	70.9%
Property, plant and equipment, net	151,200	23.6
Intangible assets, net	10,800	0.8
Other assets	<u>31,200</u>	<u>4.7</u>
Total assets	<u>\$600,000</u>	<u>100.0%</u>
Current liabilities	\$278,400	48.1
Non-current liabilities	134,400	16.6
Shareholders' equity	<u>187,200</u>	<u>35.3</u>
Total liabilities and shareholders' equity	<u>\$ 600,000</u>	<u>100.0%</u>

Required:

- (a) Prepare a common-size income statement and a common-size statement of financial position for Territory Adventures. The first column should show Territory Adventures common-size statement and the second column the industry averages. (16 marks)
- (b) Calculate Territory Adventures' gross profit percentage and rate of return on net sales. How do you rate the profit performance of Territory Adventures when compared to the industry figures? Give reasons for your answers. (3 marks)
- (c) Calculate Territory Adventures' current ratio and debt to equity ratio. How do you rate the liquidity and financial stability of Territory Adventures when compared to the industry figures? Give reasons for your answers. (3 marks)

(Recommended time: 40 minutes)(Marks:22)

Question 6

Alligator River Ltd provides you with the following information:

Cost of goods sold for the year	\$108,000
Purchases for the year (on credit)	\$144,000
Discounts received for early payments to suppliers	\$3,600
Stock write-offs due to damage caused by cyclone	\$9,000
Opening balance of accounts payable	\$72,000
Closing balance of accounts payable	\$63,000
Opening balance of inventory	\$18,000
Closing balance of inventory	\$45,000

Required:

Assuming that accounts payable relate only to the purchase of inventory, you are to determine how much cash has been paid to suppliers during the year.

(Recommended time: 10 minutes)(Marks:6)

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