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Family Name					
Given Name/s					
Student Number					
Teaching Period	Semester 2, 2018				

ACT503 – Corporate Accounting	DURATION	
	Reading Time:	10 minutes
	Writing Time:	180 minutes
INSTRUCTIONS TO CANDIDATES		
<ol style="list-style-type: none"> 1. Write all answers in the Examination Answer Booklet provided. 2. This examination comprises five questions. Appendices A and B are Present Value Tables. 3. Marks for each question are not of equal value. Students are to answer all questions. 4. This examination is worth 60% of your final mark. 5. Start each question on a new page. 		
EXAM CONDITIONS		
<u>You may begin writing from the commencement of the examination session.</u> 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 20 Page Book 2 x Scrap Paper	

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

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LEFT BLANK.**

Question 1.

Marks: 15

Suggested time allocation: 27 Minutes

Tyson Ltd enters into a non-cancellable five-year lease agreement with Benson Ltd on 1 July 2018. The lease is for an item of machinery that, at the inception of the lease, has a fair value of \$369 824.

The machinery is expected to have an economic life of six years, after which time it will have an expected salvage value of \$60 000. There is a bargain purchase option that Tyson Ltd will be able to exercise at the end of the fifth year for \$80 000. The implicit interest rate is 12% per annum.

There are to be five annual payments of \$100 000, the first being made on 30 June 2019. Included within the \$100 000 lease payments is an amount of \$10 000 representing payment to Benson Ltd for insurance and maintenance of the equipment. The equipment is to be depreciated on a straight-line basis.

Appendix A provides the present value of \$1 in periods.

Appendix B provides the present value of an annuity of \$1 per period for n periods.

Required:

- (a) Calculate the present value of the minimum lease payments. (2 marks)
- (b) Prepare the journal entries for the year ending 30 June 2019. (7 marks)
- (c) Prepare the journal entries for the year ending 30 June 2020. (6 marks)

Question 2.

Marks: 20

Suggested time allocation: 36 Minutes

At 30 June 2017, Fierce Rewards Ltd had the following temporary differences:

Asset or liability	Carrying amount \$	Tax base in \$
Plant at cost	5,000	5,000
Accumulated depreciation	(2,000)	(2,500)
Plant (net)	3,000	2,500
Accounts receivable	1,100	1,100
Allowance for doubtful debts	(200)	0
Accounts receivable (net)	900	1,100
Provision for warranty costs	3,000	0
Provision for employee benefits	2,000	0

The Statement of Comprehensive Income for Fierce Rewards Ltd for the year ending 30 June 2018 is as follows:

Item	\$
Revenue	8,000
Cost of goods sold	(2,800)
Depreciation expense	(1,000)
Warranty expense	(900)
Bad and doubtful debts expense	(50)
Other expenses	(1,250)
<i>Profit before tax</i>	<i>2,000</i>

Question 2 continued over next page

Question 2 continued

The following information was extracted from the Statement of Financial Position at 30 June 2018.

Item	\$
Accounts receivable	1,500
Allowance for doubtful debts	(150)
Provision for warranty costs	2,000
Provision for employee benefits	2,500

Additional information:

- Fierce Rewards Ltd depreciates plant over five years in its accounting records but over four years for tax purposes. The straight-line method is used.
- No amounts were paid for employee benefits during the year.
- There was no plant acquired during the year.
- The tax rate as at 30 June 2017 and 30 June 2018 was 30%.

Required:

- (a) Calculate the amount of each of Fierce Rewards Ltd's temporary differences at 30 June 2017, and state whether each is deductible or taxable. (4 marks)
- (b) Calculate the balance of deferred tax liability and deferred tax asset at 30 June 2017. (2 marks)
- (c) Calculate Fierce Rewards Ltd's taxable income for the year ended 30 June 2018. (8 marks)
- (d) Calculate the amount of each of Fierce Rewards Ltd's temporary differences at 30 June 2018, and state whether each is deductible or taxable. (4 marks)
- (e) Calculate the balance of deferred tax liability and deferred tax asset at 30 June 2018. (2 marks)

Question 3.

Marks: 40

Suggested time allocation: 72 Minutes

The following information has been extracted from the financial records of Platinum Ltd and its subsidiary Serum Ltd at 30 June 2017.

<i>Income statement</i>	Platinum Ltd (\$)	Serum Ltd (\$)
Sales revenue	198,000	112,000
Cost of goods sold	<u>(149,000)</u>	<u>(102,000)</u>
Gross profit	49,000	10,000
Dividend revenue	8,000	25,000
Depreciation expense	(12,000)	(11,000)
Other expenses	<u>(8,000)</u>	<u>(4,000)</u>
Profit before tax	37,000	20,000
Tax expense	<u>(11,100)</u>	<u>(6,000)</u>
Profit for the year	25,900	14,000
Retained earnings – 30 June 2016	110,000	46,000
Interim dividend paid	<u>0</u>	<u>(10,000)</u>
Retained earnings – 30 June 2017	<u>135,900</u>	<u>50,000</u>

Statement of financial position

	Platinum Ltd (\$)	Serum Ltd (\$)
<i>Shareholders' equity</i>		
Retained earnings	135,900	50,000
Share capital	40,000	40,000
Other reserves	60,000	
<i>Current liabilities</i>		
Accounts payable	50,000	79,000
Deferred tax liability	<u>30,000</u>	<u>50,000</u>
<i>Total liabilities and equity</i>	<u>315,900</u>	<u>219,000</u>
<i>Current assets</i>		
Cash	120,900	84,000
Inventory	100,000	100,000
<i>Non-current assets</i>		
Investment in Serum Ltd	90,000	
Deferred tax asset	<u>5,000</u>	<u>35,000</u>
<i>Total assets</i>	<u>315,900</u>	<u>219,000</u>

Question 3 continued over next page

Question 3 continued

Additional information

- Platinum Ltd acquired its 80% interest in Serum Ltd on 1 July 2015 for \$90,000. At that date the capital and reserves of Serum Ltd were: Share Capital of \$40,000 and Retained Earnings of \$20,000.
- At the date of acquisition, all assets of Serum Ltd were at fair value except for machinery. The fair value of machinery was greater than the carrying value by \$4,000. The cost of machinery was \$10,000 and accumulated depreciation was \$5,000, with a remaining useful life of 4 years.
- The opening inventory of Platinum Ltd as at 1 July 2016 included one-half of inventory acquired from Serum Ltd for \$60,000, and that had cost \$40,000 to produce. This inventory was sold outside the group during the current period.
- The management of Platinum Ltd believes that goodwill acquired has been impaired. At end of 30 June 2016, the goodwill was impaired by \$2,000, and at end of 30 June 2017, it has been impaired by a further \$3,000.
- Tax rate is 30%. Each entity pays its own tax.
- The management of Platinum Ltd values any non-controlling interest in Serum Ltd at fair value.

Required:

Show detailed workings for each answer in a format that includes a description of each item.

- (a) Consolidation journal entries for the elimination of Platinum Ltd's investment in Serum Ltd for the year ending 30 June 2017. (5 marks)
- (b) Consolidation journal entries for the fair value adjustment of the machinery in Serum Ltd and the resulted tax effect to be done at the date of acquisition to prepare group accounts for the ending 30 June 2017. (5 marks)
- (c) Consolidation journal entries relating to pre-tax depreciation entry resulting because of fair value adjustment of the machinery to prepare group accounts for the ending 30 June 2017. (3 marks)
- (d) Consolidation journal entries relating to tax effect result from the depreciation entry resulting because of fair value adjustment of the machinery to prepare group accounts for the ending 30 June 2017. (3 marks)
- (e) Consolidation journal entries relating intra-group inventory transaction and its tax effect to prepare group accounts for the ending 30 June 2017. (3 marks)
- (f) Consolidation journal entries relating to amortisation of goodwill. (3 marks)
- (g) Consolidation journal entries relating to intra-group dividends. (2 marks)

- (h) Itemise and show the non-controlling interests in Platinum Ltd on acquisition date (i.e. 1 July 2015) assuming that the management of Platinum Ltd values any non-controlling interest in Serum Ltd at fair value. (4 marks)
- (i) Itemise and show the non-controlling interest in movements in share capital and reserves between the date of Platinum Ltd.'s acquisition of Serum Ltd (1 July 2009) and the beginning of the current reporting period (1 July 2016). (5 marks)
- (j) Itemise and show the non-controlling interests of the Platinum Ltd Group for the year ending 30 June 2017. (6 marks)
- (k) State the total non-controlling interest of the Platinum Ltd Group for the year ending 30 June 2017. (1 mark)

Question 4.

Marks: 15

Suggested time allocation: 27 Minutes

ABC Ltd acquired \$5 million of ten-year, 6 percent, annual coupon corporate bond (which pay interest annually). At the time of ABC Ltd acquiring the bond, the market required a rate of return 7 percent per annum on such bonds. ABC Ltd has an intention to hold the bond for cash flows and not to trade them. Assume that the moneys paid out to acquire debentures were allotted on the same day: 30 June 2018.

Appendix A provides the present value of \$1 in n periods.

Appendix B provides the present value of an annuity of \$1 per period for n periods.

Required:

- (a) Calculate the acquired price of the bonds at 30 June 2018. Show workings. (3 marks)
- (b) Prepare a schedule as follows Please copy the schedule format to the exam paper. (4 marks)

Year ending	period	opening Present value balance	Interest income based on effective interest rate	Interest payment as cash based on the coupon rate	Principal repayment	Closing present value balance
30/06/2018	0					
30/06/2019	1					
30/06/2020	2					
30/06/2021	3					
30/06/2022	4					
30/06/2023	5					
30/06/2024	6					
30/06/2025	7					
30/06/2026	8					
30/06/2027	9					
30/06/2028	10					

- (c) Provide the relevant journal entries at 30 June 2018. (2 marks)
- (d) Provide the journal entries for the receipt of interest and principal component at 30 June 2019. Show workings. (3 marks)
- (e) Provide the journal entries for the receipt of interest and principal component at 30 December 2028. Show workings. (3 marks)

Question 5.

Marks: 10

Suggested time allocation: 18 Minutes

Based on the accounting standards applicable to financial instruments AASB 9 Financial Instruments, answer the following questions.

Required:

- (a) Explain what is meant by hedge accounting. (1 mark)
- (b) State the three main types of hedges. (3 marks)
- (c) Explain what is meant by a hedged item. (1 mark)
- (d) Explain what is meant by a hedging instrument. (1 mark)
- (e) Explain how gains and losses on a hedging instrument is treated for a fair value hedge. (2 marks)
- (f) Explain how gains and losses on a hedging instrument is treated for a cash flow hedge. (2 marks)