Charles Darwin University

Final Examination

Family Name	
Given Name/s	
Student Number	
Teaching Period	Semester 1, 2019

	DURATION	
ACT503 – Corporate Accounting	Reading Time:	**10** minutes
	Writing Time:	**180** minutes

INSTRUCTIONS TO CANDIDATES

1. Write all answers in the Examination Answer Booklet provided.
2. This examination comprises four questions.
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 1 x Scrap Paper

THIS EXAMINATION IS PRINTED DOUBLE-SIDED.

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK.

Question 1. Marks: 20

Suggested time allocation: 36 Minutes

Accolade Ltd is a manufacturing company making heavy machinery. It has factories in Western Australia (WA) state and Northern Territory (NT). Following is a list of property, plant, and equipment held by the firm as at 30 June 2020 in the two factories at Western Australia (WA) and the Northern Territory (NT). All money values are in $.

	Carrying value at 30 June 2020	fair value at 30 June 2020
Factory (WA)		
Land	80 000	140 000
Building		
-Cost	70 000	90 000
Accumulated depreciation	20 000	
Factory (NT)		
Land	160 000	100 000
Building		
-Cost	120 000	50 000
Accumulated depreciation	50 000	

Additional information:

- The company has revalued land in NT factory on 30 June 2019 and has a revaluation surplus of $4 000. All other assets have not been previously revalued.
- The accounting policies of the Company state that land and building classes of assets follow the revaluation model.
- ABC Ltd is exempt from income tax.
- There were no revaluations conducted for assets for the year ended 30 June 2020.

a) Explain three principles you would consider in accounting for the revaluation of the above assets.
(3 Marks)

b) Directors of Accolade Ltd has now ascertained the fair values of the property, plant and equipment, and land at 30 June 2020, as shown above. Provide the relevant journal entries as at 30 June 2020.
(13 Marks)

i. Land in WA

ii. Building in WA

iii. Land in NT

iv. Building in NT

c) Provide depreciation journal entries for the buildings located in WA and in NT for the year ended 30 June 2021. On 1 July 2019, the remaining useful life of Building in WA was 10 years and building in NT was 12 years. (4 Marks)

i. Building in WA

ii. Building in NT

Question 2. **Marks: 55**

Suggested time allocation: 99 Minutes

The following financial information of the parent company Peter Ltd and its subsidiary company Silvia Ltd has been extracted from their financial records at 30 June 2020.

Income statement	Peter Ltd ($)	Silvia Ltd ($)
Sales revenue	344,000	125,000
Cost of goods sold	149,000	102,000
Gross profit	195,000	23,000
Dividend revenue	-18,000	25,000
Gain on sale of non-current asset	3,000	500
Depreciation expense	12,000	11,000
Other expenses	11,000	4,500
Profit before tax	157,000	33,000
Tax expense	11,100	6,000
Profit for the year	145,900	27,000
Retained earnings – 30 June 2019	210,000	60,000
Interim dividend paid	10,000	20,000
Retained earnings – 30 June 2020	345,900	67,000

Statement of financial position	Peter Ltd ($)	Silvia Ltd ($)
Shareholders' equity		
Retained earnings	345,900	67,000
Share capital	100,000	53,000
Other reserves	60,000	
Current liabilities		
Accounts payable	90,000	85,000
Deferred tax liability	40,000	65,000
Total liabilities and equity	635,900	270,000
Current assets		
Cash	199,900	95,000
Inventory	102,000	50,000
Non-current assets		
Plant and Machinery	200,000	100,000
Investment in Serum Ltd	104,000	
Deferred tax asset	30,000	25,000
Total assets	635,900	270,000

Additional information:

- Peter Ltd and Silvia Ltd are tax paying companies and pay their own income taxes. The income tax rate is 30%
- Peter Ltd acquired its 90% interest in Silvia Ltd on 1 July 2017 for $60,000. At that date the capital and reserves of Sublit Ltd were:

Share capital	$53,000
Retained earnings	$45,111
Total	$98,111

- The management of Peter Ltd measures the non-controlling interest in Silvia Ltd at fair value.
- At the date of acquisition, all assets of Silvia Ltd were stated at fair value except for machinery (Boomerang). The fair value of machinery was greater than the carrying value by $3,000. The cost of machinery was $20,000 and accumulated depreciation was $5,000, with a remaining useful life of 4 years.
- The opening inventory (Rockblast) of Peter Ltd as at 1 July 2019 included inventory acquired from Silvia Ltd for $30,000, which had cost $20,000 to produce. This inventory was sold outside the group during the current period.
- During the year ending 30 June 2019, the goodwill resulting from consolidation impaired by $2,000. During the year ending 30 June 2020, the goodwill resulting from consolidation further impaired by $3,000.
- On 1 July 2019, Peter Ltd sold Plant (Robust) for $23,000 to Silvia Ltd. The cost of the Plant was $30,000, and the accumulated depreciation was $10,000. The Plant had two years of remaining useful life at the date of sale with no residual value.
- The current year is considered to prepare consolidated financial statements is the year ending 30 June 2020.

Required:
Prepare and show with workings:

(a) Consolidation journal entries for the fair value adjustment of machinery as at the date of acquisition of Silvia Ltd by Peter Ltd (5 Marks)

(b) Consolidation journal entries for the depreciation adjustment resulting from the fair value adjustment of machinery from the date of acquisition up to the year ending 30 June 2020, and the impact of taxation resulting from the revaluation adjustment (6 Marks)

(c) Consolidation journal entries for the elimination of Peter Ltd's investment in Silvia Ltd to prepare consolidation financial statements for the year ending 30 June 2020. Show detailed workings for each answer in a format that includes a description of each entry. (5 Marks)

(d) Consolidation journal entry on the pre-tax sale of inventory sold within the group in the previous period and its associated tax effect (4 Marks)

(e) Consolidation journal entry for the impairment of goodwill on consolidation (3 Marks)

(f) Consolidation journal entry for the Plant sold within the group and its associated tax effect (5 Marks)

(g) Consolidation journal entry for the depreciation adjustment resulting from the Plant sold within the group, and its associated tax effect (4 Marks)

(h) Consolidation journal entry for the intragroup dividends (2 Marks)

(i) Itemise and show the non-controlling interest ownership in the group, including goodwill assigned to them, on the acquisition date (i.e. 1 July 2017) (Step 1) (4 Marks)

(j) Itemise and show the non-controlling ownership in the group, with the movements in share capital and reserves between the date of Peter Ltd's acquisition of Silvia Ltd (1 July 2017) and the beginning of the current reporting period (1 July 2019) (Step 2) (5 Marks)

(k) Itemise and show the non-controlling ownership in the group with equity item for the year ending 30 June 2020 (Step 3) (10 Marks)

(l) Calculate and show the total non-controlling ownership interest in the group using Steps 1, 2, 3, and other information (2 Marks)

Question 3. Marks: 20

Suggested time allocation: 27 Minutes

On 1 June2020, Purchase Limited enters into a firm commitment Supply Limited to buy USD 100,000 of inventory. On 1 July 2020, the Purchase Limited enters into a hedging arrangement which meets the hedge accounting criteria stipulated by the accounting standards (Australian Accounting Standards Board (AASB) 9). Purchase Limited has designated the firm commitment hedging arrangement as a fair value hedge. On 1 August 2020, Supply Limited transfers the inventory to Purchase Limited, and on that date, the Purchase Limited makes the payment. The spot and forward rates are as follows.

Date	Spot rate in AUD	Forward rate in AUD
1 June 2020	0.19	0.2
30 June 2020	0.2	0.25
1 August 2020	0.3	0.3

Required:

a) Explain at least two determinants of determining an effectiveness of a hedge instrument against a hedge

5 Marks

b) Provide journal entries to account for the hedged item (firm commitment to buy inventory) 8 Marks

i. On 1 June 2020

ii. On 30 June 2020

iii. On 1 August 2020

c) Provide journal entries to account for the hedge instrument (forward contract) 7 Marks

i. On 1 June 2020

ii. On 30 June 2020

iii. On 1 August 2020

Question 4. Marks: 10

Suggested time allocation: 18 Minutes

On 1 July 2020, Lessor Limited signed a non-cancellable lease with Lessee Limited to lease a land and buildings package. The agreement comprises seven annual lease payments of $75,000 with payments made in arrears (for example, the first payment is made on 30 June 2021). The payment includes $5,000 reimbursement payment to Lessor Limited incurred on repairs and maintenance of the property where such activities are undertaken by Lessor Limited. The buildings are expected to have a remaining useful life of 9 years with no residual value.

Additional information is as follows.

	Fair value on 1 July 2020	Unguaranteed value at end of the lease term
Land	$125,000	$40,000
Building	$257,788	$100,000
Total	$382,788	$140,000

Required:

a) Prove that the rate of interest implicit in the lease is 12 per cent showing that the fair value of the land and building package on 1 July 2020 equates to the present value of periodic lease payments and unguaranteed residual value 6 Marks

b) Calculate and show the amount of lease payment allocated in the land and building package

2 Marks

i. Land

ii. Building

c) Calculate and show the present value of lease payments of the building 2 Marks