

ACC/ACF2100 FINANCIAL ACCOUNTING

IN-SEMESTER PRACTICE TEST: SOLUTION

Question One

a) A rights issue is an issue of new shares to existing shareholders whereby they are given the right to purchase additional shares in proportion to their current shareholdings. Usually the issue price is set below the current market price of the company's shares.

A *renounceable* rights issue allows the shareholder to take up the rights issue, let it lapse or sell their rights on the securities market. A *non-renounceable* rights issue only allows the shareholder to either take up the rights by subscribing for more shares, or reject the rights, which mean that they lapse; the shareholders cannot sell the rights. The accounting treatment comprises Dr cash and Cr share capital.

b)

2016				
March 31	Cash Trust	Dr	2 600 000	
	Application	Cr		2 600 000
	(Cash received on application: 1.3m sh x \$2)			
April 1	Application (1 000 000 sh x \$2)	Dr	2 000 000	
	Allotment (1 000 000 sh x \$2)	Dr	2 000 000	
	Share Capital	Cr		4 000 000
	(Allotment of shares)			
	Application	Dr	600 000	
	Allotment	Cr		600 000
	(Offset surplus application money)			
	Cash	Dr	2 600 000	
	Cash Trust	Cr		2 600 000
	(Transfer of trust funds)			

April 30	Cash	Dr	1 400 000	
	Allotment	Cr		1 400 000
	(Receipt of allotment money)			
	Share Capital (share issue costs)	Dr	10 000	
	Cash	Cr		10 000
	(Payment of share issue costs)			
June 30	Dividend declared (RE)	Dr	100 000	
	Dividend payable	Cr		100 000
	(Declaration of final dividend: 10c x 1m sh)			
August 1	Dividend payable	Dr	100 000	
	Cash	Cr		100 000
	(Payment of final dividend)			
October 1	Cash	Dr	350 000	
	Share Capital	Cr		350 000
	(1 for 10 rights issue: 1 000 000 sh/10 x \$3.50)			
2017				
January 31	Dividend Paid (RE)	Dr	110 000	
	Cash	Cr		110 000
	(Dividend paid 10c x 1 100 000 sh)			

Question Two

RED ROBIN LTD **Statement of Cash Flows** **for the year ended 30 June 2017**

Cash flows from operating activities

Cash receipts from customers	\$435 000	
Cash paid to suppliers & employees	(369 750)	
Interest paid	<u>(5 500)</u>	
Net cash from operating activities		\$59 750

Cash flows from investing activities

Proceeds on sale of land	31 250	
Payment for buildings	<u>(127 500)</u>	
Net cash used in investing activities		(96 250)

Cash flows from financing activities

Proceeds from borrowings	21 250	
Dividends paid	<u>(3 750)</u>	
Net cash from financing activities		<u>17 500</u>
Net decrease in cash and cash equivalents		(19 000)
Cash and cash equivalents at beginning of period		<u>62 000</u>
Cash and cash equivalents at end of period		<u>\$43 000</u>

WORKINGS

Receipts from customers

Accounts Receivable			
Beg balance	76 000	Cash from customers	435 000
Sales	443 500	End balance	<u>84 500</u>
	<u>519 500</u>		<u>519 500</u>

Payments to suppliers

Inventory			
Beg balance	124 000	Cost of sales	283 000
Purchases	<u>1 272 500</u>	End balance	<u>113 500</u>
	<u>396 500</u>		<u>396 500</u>

Accounts Payable			
Cash	266 000	Beg balance	60 500
End balance	<u>67 000</u>	Purchases	<u>272 500</u>
	<u>333 000</u>		<u>333 000</u>

Payments to suppliers and employees = \$266 000 + \$103 750 = \$369 750

Interest paid

Interest Payable			
Cash	5 500	Beg balance	750
End balance	250	Interest expense	5 000
	<u>5 750</u>		<u>5 750</u>

Dividends paid

Retained Earnings			
Dividends paid	3 750	Beg balance	172 000
End balance	199 500	Profit	31 250
	<u>203 250</u>		<u>203 250</u>

Purchase of buildings

Buildings- at cost			
Beg balance	137 500		
Purchase of buildings	127 500	End balance	265 000
	<u>265 000</u>		<u>265 000</u>

Purchase of land

Land			
Beg balance	62 500	Cost of land sold	37 500
Purchase of land	0	End balance	25 000
	<u>62 500</u>		<u>62 500</u>

Proceeds from borrowings

Long term loan			
		Beg balance	45 000
End balance	66 250	Cash	21 250
	<u>66 250</u>		<u>66 250</u>

Question Three

a) Current tax liability represents the amount of tax owing to the ATO at year end, and is calculated by multiplying taxable income x tax rate. However, income tax expense includes a component for the current tax liability, and also includes a component for any deferred tax assets and deferred tax liabilities. Therefore, income tax expense shown in the Income Statement at year end incorporates both current and deferred tax account adjustments.

Deferred Tax Worksheet at 30 June 2017

	Carrying Amount	Tax base	Taxable Temporary Differences	Deductible Temporary Differences
Assets				
Cash	36,000	36,000		
Inventory	87,000	87,000		
A/R	123,000	153,000		30,000
Plant	199,000	159,000	40,000	
Machinery	595,000	515,000	80,000	
Goodwill	60,000	0	60,000	
Liabilities				
Payables	285,000	285,000		
Provision for LSL	30,000	0		30,000
Provision for warranty	70,000	0		70,000
Total temporary differences			180,000	130,000
Excluded differences			(60,000)	
Net temporary differences			120,000	130,000
DTL			36,000	
DTA				39,000
Balance (Beg)			32,000	23,000
Adjustments			-	-
Increase in DTL			4,000 Cr	
Increase in DTA				16,000 Dr

Journal entry

DTA	16,000	
DTL		4,000
ITE		12,000