

## ACC/ACF 2100 Financial Accounting Practice Exam Paper

**EXAM DURATION:** 2 hours writing time

**READING TIME:** 10 minutes

### **AUTHORISED MATERIALS**

**OPEN BOOK** ☐ YES ☒ NO

**CALCULATORS** ☒ YES ☐ NO  
(If YES, only a HP 10bII+ calculator is permitted)

**SPECIFICALLY PERMITTED ITEMS** ☐ YES ☒ NO

### **Students please note:**

Use this practice exam paper for timing purposes after you have revised all lecture and tutorial work.

This is a practice exam paper only and is not to be taken as the exact format of the exam.

### **Question 1**

Blue Moon Ltd has recorded the following assets as part of its building supplies manufacturing division. This division constitutes a single cash generating unit. The carrying amounts of the assets in this division at 30 June 2018 were:

|                          |           |
|--------------------------|-----------|
| Factory                  | 500,000   |
| Accumulated depreciation | (340,000) |
| Equipment                | 220,000   |
| Accumulated depreciation | (120,000) |
| Brand name               | 350,000   |
| Goodwill                 | 27,000    |
| Cash                     | 18,000    |
| Inventory                | 15,000    |

The value in use of the division is determined to be \$626,000, and the fair value less disposal costs of the division is measured at \$620,000. The recoverable amount of the equipment is determined to be \$98,000.

#### **Required**

Prepare the necessary journal entries to account for any impairment loss at 30 June 2018.

## **Question 2**

### ***Part A***

On 1 July 2014, Albert Ltd. acquired a new machine at \$40,000 on cash. The machine was measured using the cost model and depreciated on a straight-line basis over 10 years of expected useful life. On 1 July 2015, Albert Ltd. revised the estimated useful life to a remaining of 5 years. On 30 June 2016, the company adopted the revaluation model to account for the machine. An independent valuer assessed the fair value of the machine to be \$25,000 at that date. On 30 June 2017, depreciation for the year was charged and the fair value of the machine was assessed to be \$18,000. At the end of December 2017, the machine was sold for \$18,000 cash. Albert Ltd. has a financial year end of 30 June. The income tax rate is 30%.

### **Required**

Prepare general journal entries to record the transactions and events for the period 1 July 2014 to 31 December 2017.

### ***Part B***

At 30 June 2017, Springs Ltd held a Vehicle with the carrying amount of \$60,000 (original cost was \$100,000). The vehicle was measured using the cost model and depreciated on a straight-line basis over its expected useful lives. At the time of purchase, Vehicle had an expected useful life of 5 years. On 31 December 2017, Springs Ltd decided to change the basis of measuring the vehicle from the cost model to the revaluation model. Vehicle was revalued to \$57,000 with a new expected useful life of 4 years. The tax rate is 30%.

### **Required**

Prepare the journal entries at 31 December 2017 in relation to the Vehicle.

### **Question 3**

Springs Ltd acquired 30% of the share capital of Sandy Ltd at a cost of \$20,000 on 1 July 2009. At that date, all the identifiable assets and liabilities of Sandy Ltd were recorded at fair value. The equity of Sandy Ltd at 30 June 2009 consisted of:

|                   |          |
|-------------------|----------|
| Share Capital     | \$20,000 |
| Retained earnings | 10,000   |

The following financial statement data have been taken from the financial reports of Sandy Ltd:

|                                           | 2011          | 2012          |
|-------------------------------------------|---------------|---------------|
| <b>Shareholders' equity as at June 30</b> |               |               |
| Share capital                             | \$20,000      | \$20,000      |
| Asset revaluation reserve                 | -             | 10,000        |
| Retained earnings                         | <u>30,000</u> | <u>82,000</u> |
| Total shareholder's equity                | 50,000        | 112,000       |

#### **Income statement for the year ended 30 June**

|                               |              |               |
|-------------------------------|--------------|---------------|
| Profit before tax             | \$10,400     | \$80,800      |
| Less income tax expense       | <u>4,000</u> | <u>20,800</u> |
| Profit after tax for the year | 6,400        | 60,000        |
| Dividend paid                 | \$ 5,000     | \$8,000       |

#### ***Additional information:***

- (i) On 31 December 2010, Sandy Ltd sold Springs Ltd a motor vehicle for \$24,000. The vehicle had originally cost Sandy Ltd \$36,000 and was written down to \$18,000 for both tax and accounting purposes at time of sale to Springs Ltd. Both companies depreciated motor vehicles at the rate of 20% per annum on cost.
- (ii) The beginning inventory of Sandy Ltd at 1 July 2011 included goods at \$40,000 bought from Springs Ltd; their cost to Springs Ltd was \$30,200.
- (iii) The ending inventory of Springs Ltd at 30 June 2012 included goods purchased from Sandy Ltd at a profit before tax of \$10,600.
- (iv) The tax rate is 30%.

#### **Required:**

- a) Assume Springs Ltd does not prepare consolidated financial statements. Prepare the journal entries in the records of Spring Ltd for the year ended 30 June 2012 in relation to the investment in Sandy Ltd according to the requirements of AASB 128 *Investment in Associates*.
- b) Prepare journal entries for consolidation purposes for the year ended 30 June 2012 according to the requirements of AASB 128 *Investment in Associates*, assuming Springs Ltd is a parent entity.

#### **Question 4**

- (a) Identify and discuss the three elements of control in determining whether to prepare consolidated financial statements.
- (b) Explain the treatment of dividends paid from the associate under the equity method of accounting if (i) the investor is not a parent and does not prepare consolidated financial statements and (ii) the investor is a parent and prepares consolidated financial statements.
- (c) Swallow Ltd owns 100% of the shares of Wagtail Ltd. Swallow Ltd provided Wagtail Ltd with management services for which they have charged Wagtail Ltd \$25,000 during the current financial year. Of this amount, \$4,500 was outstanding at year end. The adjusting consolidation entries at the end of the period were:

|                     |    |          |          |
|---------------------|----|----------|----------|
| Management Fees     | Dr | \$25,000 |          |
| Management Expense  | Cr |          | \$25,000 |
| Accounts Payable    | Dr | \$4,500  |          |
| Accounts Receivable | Cr |          | \$4,500  |

#### **Required**

- a) Explain why the above entries are made, noting the adjustment to each account separately.
- b) Explain why there is no tax adjustment in regard to the entry above.

### **Question 5**

Principal Ltd acquired 70% of the capital of Subordinate Ltd on 1 July 2015 for \$950,000. On the acquisition date, the equity of Subordinate Ltd comprised:

|                   |           |
|-------------------|-----------|
| Share capital     | \$900,000 |
| General Reserve   | 150,000   |
| Retained earnings | 280,000   |

All assets were recorded at their fair values on the date of acquisition except for a block of land. The land had a fair value of \$120,000 and a carrying amount of \$115,000 at 1 July 2015. During the years ended 30 June 2016 and 2017, the land was not formally re-valued in the accounts of Subordinate Ltd. During the financial year ended 30 June 2016, goodwill was impaired by \$8,000.

On 1 January 2016, Subordinate Ltd sold Principal Ltd a computer for \$20,000. At the time of sale, Subordinate Ltd had the carrying amount of the computer in the books at \$16,000. The computer has an expected life of four years remaining. Both Principal Ltd and Subordinate Ltd depreciate on a straight line basis.

During the financial year ended 30 June 2017, Subordinate Ltd sold inventory to Principal Ltd for \$30,000. The inventory originally cost Subordinate Ltd \$22,000. Sixty percent of the inventory was still on hand at 30 June 2017.

During the financial year ended 30 June 2017, Subordinate provided Principal with management services, the total charge for these services was \$36,000 of which \$9,000 was outstanding at 30 June 2017.

At 30 June 2017, Subordinate Ltd declared a \$75,000 dividend from retained earnings which is to be paid on 15 August 2017.

Subordinate Ltd recorded a profit after tax of \$660,000 for the financial year ended 30 June 2017. Retained earnings at 1 July 2016 were \$200,000.

The tax rate is 30%.

### **Required:**

Prepare consolidation adjustments, including any non-controlling interest, in consolidation journal form according to AASB 10 *Consolidated Financial Statements* as at 30 June 2017.