

MAA716 Financial Accounting

T1 2017

Internal Assessment – Individual Assignment

(100 marks - 40%)

This assignment is an individual task that contains two parts. The first part is a 2,000-words written essay which involves self-learning and a bit of “real-world” research. Self-learning and research skills are essential for this task, so several academic journal articles have been uploaded on Cloud Deakin to help you better understand the research topic. You should start writing the essay no later than week 5 to allow yourself enough time to complete part 2 of the assignment.

The second part is a comprehensive question on consolidation accounting which aims to help you to understand better this topic that is critical for the final assessment – the examination. The materials that are relevant to this part will be taught in between week 8 and week 10. Please make sure you have at least completed most of the essay section before week 8 so that you can concentrate on the consolidation question when the materials are taught.

Referencing

Any material used in this assignment must be acknowledged and appropriately referenced. Plagiarism by any student is a serious matter and, if it occurs, it will be dealt with on a case-by-case basis with penalties imposed. The reference list (using APA Referencing System, refer to Deakin University website for more details) is not included in the total word count and this gives flexibility as to the extent of the research that is necessary to form opinions.

Please make sure that you adhere to the total word limit - 2,000 words (excluding references list).

Each page of the report should be numbered and must show the total number of pages (e.g. Page 1 of 8), and every page must have a header that identifies full name and I.D. of every contributing student, and the unit code MAA716.

Submission

The assignment must be submitted electronically by the due date, **22 May 2017 5:00 p.m.**, as a Microsoft Word document by uploading it to the Dropbox in CloudDeakin. When uploading your assignment, give the document a name using the following syntax: **<Name_ Part A (or Part B) _MAA716.doc (or '.docx')>**. Submitting a hard copy of this assignment is not required.

Please review the section on ‘Plagiarism’ in the *Unit Guide*. You need to check that your assignment does not contain plagiarism. This is done automatically when submitting your report to the ‘Dropbox’, using Turnitin, which checks your report for plagiarism and generates an originality report that you can use to be confident that your report does not contain plagiarism. Turnitin will tell us (but tell you first) the extent to which your work has copied material from others without appropriate recognition through referencing. If this is excessive you will lose marks or you may not receive any marks, or you may have some form of disciplinary action taken if the issue is severe. Take appropriate action to amend your report to avoid this from happening. Note that uploading your report to Turnitin via the prescribed link in CloudDeakin for this unit constitutes submission to this unit AND also constitutes a declaration regarding the contents of the assignment being all your own work, except where appropriate references

to the work of others have been acknowledged. You can upload your report to Dropbox as many times as you like up to the due date. In order to avoid a late submission penalty, you must upload your report to Dropbox by the due date. Reports that are submitted after the due date can still be uploaded to the Dropbox. However, **a penalty of 5% of the mark achieved for each calendar day** will be imposed in case **assignments are submitted past the due date. If the assignments are submitted 5 calendar days (or more) past the due date, they will not be assessed and a zero mark will be given.**

Student/s that require a time extension in relation to this assignment should discuss this with the Unit Chair, supported by documentation (e.g. medical certificate). Such requests should be e-mailed to the Unit Chair (karen.lai@deakin.edu.au) no later than 12 noon, Wednesday, 17 May 2017. Students are also reminded that extensions will only be given for exceptional and unusual circumstances outside the students' control.

Other relevant matters

The marking rubric shows you how your assignment will be marked will be available to you as soon as possible. Please monitor CloudDeakin for further updates.

Should you need further clarification on this piece of internal assessment, feel free to post your queries online.

Please allow 15 working days on marking. You can expect to see your assignment result and feedback via CloudDeakin by 2 June 2017 if not earlier. **A solution of part 2 of the assignment will be available on Cloud Deakin by 26 May 2017 5:00 p.m. to help you prepare for the examination. Once the solution has been released on Cloud Deakin, any submitted assignment after the release will not be assessed.**

Part A – Research Question: Asset Revaluation and Earnings Management
(40% of assignment)

AASB 116 requires each class (a category of non-current assets having a similar nature or function) of property, plant and equipment to be measured at either cost or revaluation model (fair value). Under the revaluation model, equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Entities may switch from fair value to cost for justifiable reasons and provided adequate disclosures are made (AASB 116).

Using no more than 2,000 words (including introduction and conclusion, but excluding references), you are required to write an essay to answer the following questions. Support your answer by citing credible references such as newspapers and articles from practitioner (professional) journals and scholarly journal articles.

Questions:

- i. What are the pros and cons of choosing fair value method? Provide at least three for each pros and cons and explain in detail. (Suggested no. of words: 600-800)
- ii. Name two types of companies that are more likely to choose to revalue non-current assets. Why? Provide examples. (Suggested no. of words: 300 - 400)
- iii. Discuss any managerial discretions available to the firms when revaluing/devaluing non-current assets? (Suggested no. of words: 300 - 400)
- iv. What are the economic consequences of asset revaluations? (Suggested words: 300 - 400)

Part B – Group Accounting – Consolidation
(100 Marks in total, 60% of assignment)

On 1 July 2011, East Limited purchased 70% of West Limited's shares for \$600,000 cash. On that day, the equity of West Ltd was:

Share capital	\$520,000
Retained earnings	<u>220,000</u>
	\$740,000

At the time of acquisition, West Ltd recorded all its assets at their fair values except for an item of plant and some land. East Ltd considered that an item of plant shown in the accounts of West Ltd was less than the fair value. The fair value should be 84,000 not 60,000 as shown in West Ltd's accounts. The plant was assessed to have a remaining useful life of 6 years and was to be depreciated on a straight-line basis. The land was recorded in the accounts of West Ltd of \$50,000 and East Ltd considered its fair value to be \$60,000. On 25 May 2016, the land was sold to an unrelated party of East Ltd and West Ltd. On 30 June 2016, the financial statements of East Ltd and West Ltd are as follows:

Statements of Financial Position of East Ltd and West Ltd as at 30 June 2016

	East Ltd	West Ltd	
<i>Assets</i>			
Cash		435,700	451,460
Accounts Receivable	216,000		95,800
Less: Allowance for doubtful accounts	<u>(19,500)</u>	196,500	<u>(8,590)</u>
Dividend Receivable		67,500	0
Inventory		<u>279,000</u>	<u>51,210</u>
Total Current Assets		978,700	589,880
<i>Non-current assets</i>			
Deferred Tax assets		72,000	37,000
Investment in West Ltd		600,000	0
Land		235,000	160,000
Property, Plant and Equipment (PPE)	1,600,000		1,200,000
Less: Accumulated depreciation of PPE	<u>(400,000)</u>	<u>1,200,000</u>	<u>(450,000)</u>
Total non-current assets		2,107,000	947,000
Total Assets		3,085,700	1,536,880
<i>Liabilities and Equity</i>			
<i>Current Liabilities</i>			
Accounts Payable		48,600	42,580
Dividend Payable		150,000	100,000
Income tax payable		378,000	73,000
Other payable		<u>10,900</u>	<u>13,500</u>
Total current liabilities		587,500	229,080
<i>Non-Current Liabilities</i>			
Bank Loan		<u>250,000</u>	<u>0</u>
Total Liabilities		837,500	229,080
<i>Shareholders' Equity</i>			
Share capital		1,080,000	585,000
Retained earnings		945,000	692,000
Revaluation Reserve		<u>223,200</u>	<u>30,800</u>
Total shareholders' equity		2,248,200	1,370,800
Total Equity and Liabilities		3,085,700	1,536,880

Statements of Comprehensive Income of East Ltd and West Ltd for the year ended 30 June 2016

	East Ltd	West Ltd
Sales revenue	\$4,410,600	\$2,769,930
Cost of goods sold	<u>(1,708,600)</u>	<u>-1,659,400</u>
Gross profit	2,702,000	1,110,530
Other income (expense)	<u>-245,650</u>	<u>22,500</u>
Operating income	2,456,350	1,133,030
Expenses	<u>(1,757,640)</u>	<u>(860,200)</u>
Net profit before tax	698,710	272,830
Income tax expenses	<u>(209,613)</u>	<u>(81,849)</u>
Net profit after tax (NPAT)	\$489,097	\$190,981
Retained earnings at 1 July 2015	605,903	601,019
Dividend declared and approved, but not yet paid	<u>(150,000)</u>	<u>(100,000)</u>
Retained earnings at 30 June 2016	\$945,000	\$692,000

The following information is available at 30 June 2016:

- During the financial year ending 30 June 2016, West Ltd sold inventory to East Ltd for \$250,000. The inventory cost West Ltd \$200,000 to produce. 60% of this inventory was sold to other entities outside the group at the end of the financial year. Both East Ltd and West Ltd use the *perpetual inventory system*.
- During the financial year ending 30 June 2015, West Ltd had sold inventory to East Ltd at a price of \$140,000. The cost of the inventory was \$60,000. For the financial year ended 30 June 2015, only 25% of this inventory had been sold by East Ltd to its customers. During the financial year ending 30 June 2016, a further 70% of the opening balance of this inventory was sold by East Ltd to its customers.
- West Ltd sold an item of plant to East Ltd for \$160,000 on 1 July 2014. The original cost of this plant was \$200,000 and the carrying amount was \$140,000 as at 1 July 2014. East Ltd estimated this item of plant had a remaining useful life of four years with no residual value.
- East Ltd sold an item of equipment to West Ltd for \$35,000 on 31 January 2016. The carrying amount recorded in East Ltd's account was \$40,000 as at 31 January 2016. The equipment has an estimated remaining useful life of five years with no residual value.
- The recoverable amount of goodwill as at 30 June 2016 was determined to be \$75,000. As at 30 June 2015, goodwill has been impaired for \$10,000. Prior to 30 June 2015, no impairment loss was recorded because the carrying amount of goodwill was lower than its recoverable amount.
- Dividend was declared and approved by West Ltd on 1 June 2016. No other dividend had been paid by West Ltd during the financial year.
- Income tax rate is 30%

Required:

1. Prepare acquisition analysis on 1 July 2011, and journal entries to record the acquisition of 70% interest in West Ltd **in East Ltd's records**. (10 marks)
2. Prepare the consolidated adjustments for East Ltd and its controlled entity on 30 June 2016, and offset deferred tax liabilities as at 30 June 2016 (if any) with deferred tax assets arose from the consolidation adjustments. (45 marks)
3. Calculate non-controlling interest (NCI) in the profit for the financial year ended 30 June 2016, the opening retained earnings as at 1 July 2015, and the reserves and share capital as at 30 June 2016. Prepare the consolidated entries for NCI for the financial year ended 30 June 2016. (15 marks)
4. Using the format of the template provided, complete a consolidation worksheet and post all consolidation journal entries into the worksheet. (30 marks)