

THE UNIVERSITY OF NEW SOUTH WALES



School of Accounting

ACCT3563: Issues in Financial Reporting and Analysis

Session 1, 2017

Accounting for assets

Website: <http://telt.unsw.edu.au>

SEMINAR QUESTIONS

1. Impairment Loss and Cash Generating Unit

RA Ltd calculates an impairment loss of \$4,800,000 that must be applied to one of its cash-generating units. The carrying amounts of the assets that comprise the cash-generating unit are as follows:

	\$'000
Goodwill	4,000
Building	2,000
Plant	1,000
Office Equipment	<u>3,000</u>
	<u>\$10,000</u>

RA Ltd determines that the net selling price of the building is \$1 800 000 and its value in use is \$1 900 000.

Determine the carrying amount of each of these assets in accordance with AASB 136 *Impairment of Assets*. Show all workings.

2. Accounting for Intangible Assets

Part A: Morris Limited is a company involved in the research and development of a new mechanical toy soldier. The company incurs the following costs:

- a. \$150,000 on understanding the current toy market;
- b. \$250,000 on determining whether there still exists demand for mechanical toys in the current computer-based toy environment;
- c. \$500,000 in designing and testing a prototype;
- d. \$500,000 in developing and testing the product.

Part B: Morris Limited has an intangible asset on its books which was initially recorded on 1 July 2014 at \$300,000. The asset has a finite life (10 years). At 30 June 2016, the asset was assessed as having a recoverable amount of \$200,000

Required:

- i. Determine how each of the four incurred costs outlined in Part A (above) would be treated for accounting purposes
- ii. Identify if the accounting treatment of any four incurred costs outlined in Part A (above) is conditional, and explain those conditions
- iii. Show the journal entries to account for the intangible asset in Part B (above): (a) at 30 June 2015 and (b) at 30 June 2016