



Unit: ACC204 – Advanced Financial Accounting

Submission Date: 7-Aug-2015 before 4.00 pm

Weighting: The assignment is worth 40% of the total unit weight.

Instructions:

1. Students are required to cover all stated requirements.
2. Your answer must be both uploaded to Moodle in word file and handed over a printed copy.
3. You need to support your answers with appropriate Harvard style references where necessary.
4. Only include information in your appendixes that has been directly referred to in the body of your document.
5. Include a title/cover page containing the subject title and code and the name, student id numbers.
6. Please save the document as ACC204AT2_first name_Surname_Student Number
Eg:ACC204AT2_John_Smith_NA20150000

Question 1: Accounting for Lease

Owing to low liquidity, Lisa Ltd decides on 1 July 2015 to sell its land and buildings to Anderson Ltd. The carrying values of the land and buildings in the books of Lisa Ltd, at 1 July 2015, are:

Land, at cost	\$1800000
Buildings, at cost	\$1750000
Accumulated depreciation	\$350 000

The land and buildings are sold for \$4334 700 (their fair value), with the amount being allocated equally as follows:

Land	\$2167350
Buildings	\$2167350

Immediately following the sale, Lisa Ltd decides to lease back the land and buildings from Anderson Ltd. The term of the lease is 20 years. The implicit interest rate in the lease is 12 per cent. It is expected that the buildings will be demolished at the end of the lease term. The lease is non-cancellable, returns the land and buildings to Anderson Ltd at the end of the lease, and requires the following lease payments:

Payment on inception of the lease on 1 July 2015	\$600000
Payment on 30 June each year starting 30 June 2016	\$500000

There is no residual payment required

REQUIRED

- Provide the entries for the sale and leaseback in the books of Lisa Ltd as at 1 July 2015.
- Provide the entries for the purchase and lease in the books of Anderson Ltd as at 1 July 2015
- Provide the entries in the books of Lisa Ltd as at 30 June 2025.
- Provide the entries in the books of Anderson Ltd as at 30 June 2025.

Question 2: Accounting for Income Tax

MR Limited commences operations on 1 July 2014 and presents its first statement of comprehensive income and first statement of financial position on 30 June 2015. The statements are prepared before considering taxation. The following information is available:

Statement of comprehensive income for the year ended 30 June 2015

Gross profit	730000	
<i>Expenses</i>		
Administration expenses	80000	
Salaries	200000	
Long-service leave	20000	
Warranty expenses	30000	
Depreciation expense-plant	80000	
Insurance	20000	430000
Accounting profit before tax	300000	

Assets and liabilities as disclosed in the statement of financial position as at 30 June 2015

Assets		
Cash		20000
Inventory		100000
Accounts receivable		100000
Prepaid insurance		10000
Plant-cost	400000	
less Accumulated depreciation	80000	320000
Total assets		550000
Liabilities		
Accounts payable		80000
Provision for warranty expenses		20000
Loan payable		200000
Provision for long-service leave expenses		-20000
Total liabilities		320000
Net assets		230000

Other information

- All administration and salaries expenses incurred have been paid as at year end.
- None of the long-service leave expense has actually been paid. It is not deductible until it is actually paid.
- Warranty expenses were accrued and, at year end, actual payments of \$10000 had been made (leaving an accrued balance of \$20000). Deductions are available only when the amounts are paid and not as they are accrued.
- Insurance was initially prepaid to the amount of \$30 000. At year end, the unused component of the prepaid insurance amounted to \$10000. Actual amounts paid are allowed as a tax deduction.
- Amounts received from sales, including those on credit terms, are taxed at the time the sale is made.
- The plant is depreciated over five years for accounting purposes, but over four years for taxation purposes.
- The tax rate is 30 per cent.

REQUIRED

Provide the journal entries to account for tax in accordance with AASB 112.

Question 3: Consolidation

Sandy Ltd acquired 100 per cent of the issued capital of Beach Ltd on 30 June 2014 for \$900 000, when the statement of financial position of Beach Ltd was as follows:

	\$000		\$000
Assets			
Accounts receivable	70	Loan	300
Inventory	100		
Land	400	Shareholders' equity	
Property, plant and equip.	700	Share capital	500
Accumulated depreciation	-270	Retained earnings	200
	<u>1000</u>		<u>1000</u>

Additional information

- The tax rate is 30 per cent.
- As at the date of acquisition, all assets of Beach Ltd were at fair value, other than the property, plant and equipment, which had a fair value of \$530000. Beach Ltd adopts the cost model for measuring its property, plant and equipment. The property, plant and equipment is expected to have a remaining useful life of 10 years, and no residual value.
- One year following acquisition it was considered that Beach Ltd's goodwill had a recoverable amount of \$60000.
- Beach Ltd declared a dividend of \$40000 on 10 July 2014, with the dividends being paid from pre-acquisition retained earnings.
- The statements of financial position and statements of comprehensive income of Sandy Ltd and Beach Ltd one year after acquisition are as follows:

Statements of financial position of Sandy Ltd and Beach Ltd as at 30 June 2015

	<i>Sandy Ltd</i>	<i>Beach Ltd</i>
	\$000	\$000
Assets		
Cash	80	40
Accounts receivable	50	50
Inventory	140	123
Land	600	400
Property, plant and equipment	900	700
Accumulated depreciation	-300	-313
Investment in Beach Ltd	900	
Total assets	2370	1000
Liabilities		
Accounts payable	100	10
Dividends payable	100	50
Loan	670	140
Shareholders' equity		
Share capital	1000	500
Retained earnings	500	300
	2370	1000

Reconciliation of opening and closing retained earnings

Profit after tax	400	190
Retained earnings -30 June 2014	300	200
Interim dividend	-90	-40
Final dividend	-110	-50
Retained earnings -30 June 2015	500	300

REQUIRED

Prepare the consolidated statement of financial position for the above entities as at 30 June 2015.