

Question 1 (25 marks)

To increase its market share, Noah Ltd acquired all the ordinary share capital of Ark Ltd on 1 July 2008 for \$4000 000. At the acquisition date, the shareholders' equity of Noah's Ltd consisted of:

Share capital	\$1 200 000
General reserve	500 000
Retained earnings at 1.7.2008	<u>1 600 000</u>
Total equity -	\$3 300 000

On 1 July 2008, land with a fair value of \$1 400 000 was carried at a cost of \$800 000 in Ark Ltd's accounting records. The land was subsequently sold by Ark Ltd on 30 June 2011 for \$1 800 000 cash. The company income tax is 30%.

An impairment loss of \$30 000 relating to the goodwill arising on the acquisition of Ark Ltd was recognised during the year ended 30 June 2010. The directors of Noah Ltd believe that the goodwill relating to the acquisition of Ark Ltd has been impaired by a further of \$40 000 during the year ended 30 June 2011.

Required:

Prepare the consolidation journal entries for the Noah Ltd group at 1 July 2008, and at 30 June 2011 as required by AASB 127.

Question 2 (20 marks)

On 1 July 2005, I Ltd acquired a 30% interest in one of its suppliers, G Ltd, at a cost of \$13 650. The directors of I Ltd believe they exert 'significant influence' over G Ltd. The equity of G Ltd at acquisition was:

Share capital (20000 shares)	\$20 000
Retained earnings	\$10 000

All the identifiable assets and liabilities of G Ltd at 1 July 2005 were recorded at fair value except for some depreciable non-current assets with a fair value of \$15 000 greater than carrying amount. These depreciable non-current assets are expected to have a 10-year life.

Additional information:

- At 30 June 2007, I Ltd had inventory costing \$100 000 (in 2006, \$60 000) on hand which had been purchased from G Ltd. A profit before tax of \$30 000 (in 2006, \$10 000) had been made on the sale.
- All dividends may be assumed to be out of the profit for the current year. Dividend revenue is recognised when declared by directors.

Question 2 continues overpage

c) Information about income and changes in equity of G Ltd as at 30 June 2007 was:

Profit before tax		\$360 000
Income tax expense		<u>\$180 000</u>
Profit		\$180 000
Retained earnings at 1/7/06		<u>\$55 000</u>
		\$235 000
Dividend paid	\$60 000	
Dividend declared	<u>\$50 000</u>	<u>\$110 000</u>
Retained earnings at 30/6/07		<u>\$125 000</u>

d) The equity of G Ltd at 30 June 2007 was:

Share capital	\$20 000
Asset revaluation reserve	\$30 000
Retained earnings	\$125 000

The asset revaluation reserve arose from a revaluation of freehold land made at 30 June 2007. The tax rate is 30%.

Required:

Prepare the equity method of accounting consolidation adjustment journal entries for the year ended 30 June 2007 as required by AASB 128.

Question 3 (22 marks)

Part A (6 marks)

On 1 March 2007 Lima Ltd enters into a binding agreement with a New Zealand company, which requires the New Zealand company to construct an item of machinery for Lima Ltd. The cost of the machinery is NZ\$1 500 000. The machinery is completed on 1 June 2007 and shipped FOB Auckland on that date. The debt is unpaid at 30 June 2007, which is also Lima Ltd's balance date.

The exchange rates at the relevant dates are:

1 March 2007	A\$1.00 = NZ\$1.20
1 June 2007	A\$1.00 = NZ\$1.30
30 June 2007	A\$1.00 = NZ\$1.25

Required:

Provide the required journal entries of Lima Ltd for the year ended 30 June 2007.

Question 3 continues overpage

Part B (16 marks)

The following information relates to M Ltd.

Operating Segment	Revenue \$	Results (Profits/(Losses)) \$	Total assets \$
Mining	7 800	3 230	8 000
Manufacturing	9 200	(1 510)	9 040
Chemicals	1 500	(260)	2 500
Agriculture	1 200	120	900
General corporate	-	-	3 000
Total segment	\$19 700	\$1 580	\$23 440

Required:

Identify the reportable segments for M Ltd with reference to AASB 8.

Question 4 (18 marks)

Company A issued 2000 convertible notes on 1 July 2006. The notes have a three-year term and are issued at par with a face value of \$1 000 per note, giving total proceeds at the date of issue of \$2 million. The notes pay interest at 6% annually in arrears. The holder of each note is entitled to convert the note into 250 ordinary shares of Company A at any time up to maturity.

When the notes are issued, the prevailing market interest rate for similar debt (similar term, credit status of issuer and cash flows) without a conversion option is 9%. This rate is higher than the convertible note's rate because the holder of the convertible note is prepared to accept a lower interest rate given the implicit value of its conversion option.

Note: Present value of \$1 at 6% and 3-year period is 0.8396; at 9% and 3-year period is 0.7721.
Present value of an annuity of \$1 at 6% and 3-year period is 2.6730; at 9% and 3-year period is 2.5312.

Required:

Prepare journal entries for each of the following -

- Record the issue of the securities on 1 July 2006. (3 marks)
- Recognise the interest payment for 3 years. (9 marks)
- The holders do not exercise their options and the notes are repaid at the end of the term. (3 marks)
- The holders exercise their conversion options at the end of year 2. (3 marks)

SECTION B (15 marks)

Answer THREE (3) of the following SIX (6) questions (3 x 5 marks = 15 marks)

Question 1

What effect will an asset revaluation have on subsequent periods' profits? Provide an explanation of your answer.

Question 2

Do you consider that the disclosure of related-party information is of value to financial statement users?

Question 3

Identify the categories of 'financial instruments' under AASB 139 and their respective measurement principles.

Question 4

What is social-responsibility reporting? Compare and contrast Stakeholder theory and Legitimacy theory.

Question 5

What is an 'indirect equity interest'? Where in the balance sheet would indirect equity interest be disclosed?

Question 6

Does the required accounting treatment for a venture's interest in a 'jointly controlled operation' differ from the requirements for an interest in a 'jointly controlled entity' and if so, how do these requirements differ?

Question 1: (36 marks)

The following financial statements of Lambert Ltd and its subsidiary Young Ltd have been extracted from their financial records at 31 December 2010.

	Lambert Ltd	Young Ltd
Statement of Comprehensive Income	\$	\$
Sales revenue	670 000	480 000
Inventory 1 January 2010	86 000	32 000
Purchases	470 000	235 000
Inventory 31 December 2010	<u>92 000</u>	<u>29 000</u>
Cost of sales:	464 000	238 000
Gross profit	206 000	242 000
Other income:	49 000	—
Dividends received	22 500	—
Management fee	26 500	—
Total income	255 000	242 000
Expenses:	152 000	179 000
Administration expenses	26 400	38 700
Depreciation	24 500	36 800
Management fee paid	—	26 500
Other expenses	101 100	77 000
Profit before tax	103 000	63 000
Taxation	41 200	25 200
Profit for the year	61 800	37 800
Dividends paid	55 200	30 000
Retained earnings for year	6 600	7 800

Statement of Financial Position		
Assets		
Investment in Young Ltd	290 500	—
Land and buildings	224 000	326 000
Plant & machinery – book value	214 100	217 000
Accounts receivable	59 400	62 300
Inventory	<u>92 000</u>	<u>29 000</u>
	<u>880 000</u>	<u>634 300</u>
Equity and liabilities		
Contributed capital	350 000	200 000
Revaluation surplus	—	45 000
Retained earnings	326 000	202 800
Long term loan	108 000	116 000
Accounts payable	54 700	45 300
Taxation payable	<u>41 300</u>	<u>25 200</u>
	<u>880 000</u>	<u>634 300</u>

Additional information:

(i) On 1 July 2007, Lambert Ltd acquired 75% of the issued capital of Young Ltd. At that date the equity of Young Ltd was as follows: <table><tr><td>Contributed equity</td><td>\$200,000</td></tr><tr><td>Retained earnings</td><td>\$138,000</td></tr><tr><td>Revaluation surplus</td><td>\$32,000</td></tr></table> At the date of acquisition, all assets are considered to be fairly valued.	Contributed equity	\$200,000	Retained earnings	\$138,000	Revaluation surplus	\$32,000
Contributed equity	\$200,000					
Retained earnings	\$138,000					
Revaluation surplus	\$32,000					
(ii) During the year ended on 31 December 2010, Lambert Ltd made sales to Young Ltd amounting to \$65,000. Lambert Ltd made a mark-up of 25% on cost.						
(iii) Of the inventory Young Ltd has on hand at 31 December 2010, \$12,000 was purchased from Lambert Ltd.						
(iv) During the year ended on 31 December 2010, Young Ltd sold goods to Lambert Ltd amounting to \$32,000. Young Ltd sold the goods to Lambert Ltd at a gross profit of 20% on cost.						
(v) Of the inventory Lambert Ltd has on hand at 31 December 2010, \$33,600 was purchased from Young Ltd. Of the inventory Lambert Ltd had on hand at 31 December 2009, \$41,760 was purchased from Young Ltd.						
(vi) At 31 December 2010, the directors were of the opinion that goodwill acquired on the acquisition of Young Ltd had been impaired by \$ 3,000.						
(vii) Income tax rate is 40%.						

Required: [use the space provided below]

- Following the fair value/full goodwill method, complete the acquisition analysis on 1 July 2007 for Lambert Ltd's investment in Young Ltd as required by AASB 3 and AASB10 and determine the amount of goodwill or gain on bargain purchase.
- Prepare the acquisition journal entries on 1 July 2007 under the fair value/full goodwill method.
- Prepare all consolidated journal entries including non-controlling interest for the year ended 30 June 2010 for consolidation purpose of Lambert Ltd and Young Ltd under the fair value/full goodwill method.

Question 2: (11 marks)

The following information relates to M Ltd.

Operating Segment	Revenue \$	Results (Profits/(Losses)) \$	Total assets \$
Mining	7,800	3,230	8,000
Manufacturing	9,200	(1,510)	9,040
Chemicals	1,500	(260)	2,500
Agriculture	1,200	120	900
General corporate	-	-	3,000
Total segment	\$19,700	\$1,580	\$23,440

Required: [use the space provided below]

Identify the reportable segments for M Ltd with reference to AASB 8.

Question 3: (13 marks)

Part A - (7 marks)

DEF Ltd buys a 'December put option' for ten \$100 000 10% treasury bonds at a premium of \$3.65 on 1 January 2008. DEF Ltd prepares its financial statements as at 30 June. On 30 June 2008 the price for a 'December put option' for ten \$100 000 10% treasury bonds is \$3.05. DEF Ltd sells the put option on 31 July 2008 when the price is \$4.02.

Required: [use the space provided below]

Provide the accounting journal entries to record the option contract transactions.

Part B – (6 marks)

On 1 March 2007 Lima Ltd enters into a binding agreement with a New Zealand company, which requires the New Zealand company to construct an item of machinery for Lima Ltd. The cost of the machinery is NZ\$1 500 000. The machinery is completed on 1 June 2007 and shipped FOB Auckland on that date. The debt is unpaid at 30 June 2007, which is also Lima Ltd's balance date.

The exchange rates at the relevant dates are:

1 March 2007	A\$1.00 = NZ\$1.20
1 June 2007	A\$1.00 = NZ\$1.30
30 June 2007	A\$1.00 = NZ\$1.25

Required: [use the space provided below]

Provide the required journal entries of Lima Ltd for the year ended 30 June 2007.

SECTION C

(Each question is worth 5 marks, for a total of 15 marks)

Answer any **THREE (3)** of the following **SIX (6)** questions in the space provided below the questions

- 1) Explain the 'entity concept' of consolidation under AASB 10.
- 2) How does an entity identify its 'operating segments' and 'reportable segments' following AASB8?
- 3) Briefly define corporate governance and its theoretical basis. Identify different models of governance that are prevailing around the world.
- 4) Justify the importance of corporate social responsibility reporting. Why have stakeholders been gaining in importance compared with shareholders in recent years? List the names of both primary and secondary stakeholders.
- 5) What is a joint arrangement and what are the main characteristics of it? Distinguish between a joint venture and a joint operator.
- 6) Distinguish between a primary financial instrument and a derivative financial instrument. Do you think it is costly to disclose convertible bonds in the company balance sheet as per AASB132? Explain.