# UNIT CODE: ACT204
# UNIT NAME: FINANCIAL ACCOUNTING

# Assignment Information
## Semester 2 2016
## Assessment 20%

**Submission Requirements.**

**This assignment is to be submitted before 8.00pm Friday 7th October in Week 11**

Assignments are to be submitted by one of the following means;
**DO NOT LODGE BY FAX nor EMAIL nor at LECTURER'S OFFICE**
**KEEP A COPY**

- The assignment must be lodged on or before the due date indicated in the assignment details.
  Only word docs and/or Excel converted to pdf will be acceptable. Handwritten answers will be rejected.-
- The assignment must conform to the requirements set out in this assignment
- **The assignment must be lodged online via the ACT204 Learnline Assignment Lodgement link on the ACT204 Learnline site**. Ensure your file is named using a file naming convention that allows the lecturer to identify to whom it belongs. Failure to use an acceptable file naming convention may result in your assignment lodgement being rejected.
- **DO NOT LODGE VIA EMAILor FAX** - assignments lodged by email or fax will not be accepted.
- **KEEP A COPY** - Ensure you have a copy of the assignment lodged. If you have submitted assessment work electronically please make sure you have a backup copy.
- Assignment lodgements will be acknowledged automatically on the Learnline site, on submission.
- **DO NOT** submit an assignment front sheet.

**Resubmission**

As a general rule resubmission of assessment items is NOT possible, however the Lecturer may ask for resubmission if it is deemed appropriate. Details for such resubmission will be made available by the Lecturer if and when the situation occurs.

**University Plagiarism policy**

Plagiarism is the unacknowledged use of material written or produced by others or a rework of your own material. All sources of information and ideas used in assignments must be referenced. This applies whether the information is from a book, journal article, the internet, or a previous essay you wrote or the assignment of a friend.
Plagiarism policy is available at:
http://learnline.cdu.edu.au/studyskills/studyskills/avoidingplagiarism.html
and
Student Breach of Academic Integrity Procedures http://www.cdu.edu.au/governance/doclibrary/pro-092.pdf

**EXTENSIONS AND LATE LODGEMENTS**

**LATE ASSIGNMENTS WILL GENERALLY NOT BE ACCEPTED UNLESS AN EXTENSION TO THE DUE DATE HAS BEEN GRANTED BY THE HEAD OF SCHOOL.**

Exceptions will only be made where assignments are late due to special circumstances that are supported by documentary evidence, and may be subject to a penalty of 5% of assignment marks per day. Partially completed assignments will be accepted with appropriate loss of marks for the incomplete portion.

Should students foresee potential difficulties with submission of assessment items, they should contact the lecturer immediately the difficulties come to notice, to discuss suitable arrangements etc. for the submission of those assessment times. An Application for Assignment Extension or Special Consideration should be completed and provided to the Head of School, School of Law and Business.
This application form, explanation and instructions is available on the ACT204 CDU Learnline course site or direct from
http://learnline.cdu.edu.au/units/lb_school_templates/deployed/assignment_extension.docx

Please note that it is now Faculty policy that all extension requests must be approved by the Head of School. The lecturer is no longer able to personally approve extension requests.

Leaving a request for an extension, special assessment or special consideration until the last moment, based on grounds that students could have reasonably been able to foresee, may result in the application being rejected.

**ASSIGNMENT INFORMATION**

This Assignment is worth 20% of the total assessment for this unit. This assignment will be marked out of 100 and scaled down to being out of 20. The assignment has **8** questions.

**Q1**. Driver Ltd signs a five year lease agreement with Bakewell Ltd on 1st July 2019. The lease is for new equipment which has at the star of the lease a fair value of $341,755. The equipment is estimated to have a useful life of seven years with no residual value at the end of that time. Driver Ltd has a bargain purchase option which can be taken up at the end of the lease term for $68,000. The equipment originally cost Bakewell Ltd $272,000. There are five annual lease payments of $85,000 starting on 30th June 2020. Within the $85,000 is an executory payment for insurance, repairs and maintenance of $8,500. A straight-line basis of depreciation has been adopted for the equipment. The rate of interest implicit in the lease is 9 per cent.

Required;

Prepare the Journal entries for the years ending 30 June 2020 and 30 June 2021 in the books of:

(a) Bakewell Ltd and
(b) Driver Ltd.

**(13 marks)**

**Q2.** Ewe Beudie Ltd is an Australian company. The functional currency of Ewe Beudie Ltd is the Australian dollar. It prepares financial reports half yearly and in the year ended 30 June 2017, Ewe Beudie Ltd had the following foreign currency transactions in Euros (€):

(a) On 13th September 2016 Ewe Beudie Ltd ordered machinery €900,000 from a French company under a FOB destination contract. On 10th October 2016, the machinery was delivered. On 17th February 2017, the invoice for the purchase was paid.
(b) On 2nd December 2016 Ewe Beudie Ltd sold inventory to an Italian customer for the agreed price of €650,000. The inventory had a cost of $420,000. On 24th February 2017, the invoice was paid by the customer.
(c) On 1 July 2016, Ewe Beudie Ltd made an interest free loan to an Irish company, Ninety Craic Ltd, for €1,200,000. The term of the loan is 5 years.

Applicable exchange rates are as follows:

| | |
|---|---|
| 1st July 2016 | €1 = A$1.24 |
| 13th September 2016 | €1 = A$1.12 |
| 10th October 2016 | €1 = A$1.18 |
| 2nd December 2016 | €1 = A$1.27 |
| 31st December 2016 | €1 = A$1.22 |
| 17th February 2017 | €1 = A$1.20 |
| 24th February 2017 | €1 = A$1.15 |
| 30 June 2017 | €1 = A$1.26 |

Required
In accordance with AASB 121, prepare the entries of Ewe Beudie Ltd for the half year to 31 December 2016 and the full year to 30 June 2017.

. **(11 marks)**

**Q3**. The Northern Plastic Extrusion Company Limited bought a 3D printer on 1 July 2016 for $49,750 for cash. The cost of transporting the machine from Melbourne to Darwin was $4,000. Once the machine was delivered it was installed and calibrated. This cost $1,250. The transport and calibration costs were paid on 2$^{nd}$ and the 6$^{th}$ July respectively.

The production manager estimated that the machine would have a useful life of 10 years and that at the end of that time it would be worth $2,250.

The company depreciates all of its equipment using the straight-line method. All depreciation calculations are measured to the nearest month. The financial year ends on the 30$^{th}$ June.

At the start of July 2017, in a review of the non-current assets, the chief financial officer was informed by the production manager that, because of recent technological advances, the company should revise the total useful life of the 3D printer from an original of 10 years to a remaining life of 5 years, and that the expected scrap value should be revised downwards to $1,505. These adjustments were implemented in the depreciation charge for the year to 30$^{th}$ June 2018.

The company decided to move from the cost model to the revaluation model for equipment on 30 June 2018. An external valuer was employed to conduct the valuation and the 3D printer was given a fair value of $43,000 at that date.

On 30 June 2019, depreciation for the year was charged and the 3D printer's carrying amount was revalued to a fair value of $27,121.

The 3D printer was sold for $10,500 cash on 30$^{th}$ September 2019.

Required
(Show all workings and round amounts to the nearest dollar.)
Prepare general journal entries to record the transactions and events for the period 1 July 2016 to 30 September 2019. (ignore taxation)

**(13 marks)**

**Q4**. During a review of the financial statements of Firebrand Ltd the following information has come to your notice for the year ended 30 June 2016:

1. The Northern Territory Environmental Protection Agency (NTEPA) has been investigating an alleged release of toxic chemicals into the Francis Bay Mooring Basin at the beginning of June 2016. An investigator visited the Duck Pond to establish whether the company was responsible for the leak. The NTEPA report was handed down on 12$^{th}$ August 2016 which determined that Firebrand Ltd was responsible for the chemical release and required that the company pay damages totalling $1,750,000.
2. On 14 July 2016 it was discovered that a customer had been delivered goods on 26$^{th}$ June 2016 which proved to be faulty. Consequently Firebrand Ltd authorised the issue of credit notes worth $43,000.
3. The company secretary received notice during September 2016 that a major customer had gone into liquidation. This customer, Torches Ltd, owed Firebrand Ltd $152,000 at 30$^{th}$ June 2016. At a subsequent meeting the liquidator informed unsecured creditors that at best they could receive a distribution of 15 cents in the dollar. Torches Ltd's factory and warehouse were destroyed by a fire in July 2016 and as the insurance policy had lapsed the damage was not covered by insurance.

Assume all events or transactions are material.

Required
In relation to the above events or transactions, prepare the necessary disclosure notes or general journal entries to comply with applicable accounting standards and give reasons for your decisions.

**(6 marks)**

**Q5.** The Beaufort Dairy Company Ltd has run for many years dairy farms in Victoria. In addition to the farms it has vertically integrated by purchasing factories that produce milk products. These products are then are further developed in other factories owned by the company by producing high grade yoghurts.

The chief financial officer for the company has asked your advice on how AASB 136 *Impairment of Assets*, should be applied to the company's various activities. In particular she wishes to correctly identify the cash-generating units (CGUs) for the company.

One issue is whether the milk production section is a separate CGU even though the company does not sell milk directly to other entities but uses the products within its own vertically integrated structure or should it should be included in the milk-based products CGU.

Required

Write a business report to the chief financial officer of The Beaufort Dairy Company Ltd, including the following:

1. Define a CGU.
2. Explain why impairment testing requires the use of CGUs, rather than being based on single assets.
3. Explain the factors that the chief financial officer should consider in determining the CGUs for The Beaufort Dairy Company Ltd.
4. Pay particular attention to referencing your advice to the relevant paragraphs of the accounting standard.

**(15 marks)**

**Q6.**

Over the Horizon Ltd
Statement of Financial Position
As at 30th June

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Assets | | | | |
| Petty cash | | 500 | | 250 |
| Cash at bank | | 38,250 | | 30,250 |
| Bank bills | | 15,000 | | 12,500 |
| Accounts receivable | 159,250 | | 128,700 | |
| Allowance for doubtful debts | | 145,000 | (8,700) | 120,000 |
| | (14,250) | | | |
| Inventory | | 88,500 | | 93,250 |
| Motor vehicles | 63,000 | | 52,500 | |
| Acc. depn – motor vehicles | (16,000) | 47,000 | (12,500) | 40,000 |
| Office furniture | 23,000 | | 20,000 | |
| Acc. depn – office furniture | | 12,500 | (9,500) | 10,500 |
| | (10,500) | | | |
| Total assets | | 346,750 | | 306,750 |
| Liabilities | | | | |
| Accounts payable | | 59,000 | | 56,250 |
| Current tax liability | | 5,250 | | 4,000 |
| Equity | | | | |
| Share capital | | 245,000 | | 206,250 |
| Retained earnings | | 37,500 | | 40,250 |
| Total liabilities and equity | | 346,750 | | 306,750 |

Over the Horizon Ltd
Income Statement
for the year ended 30th June

| | $ | $ |
|---|---|---|
| Income | | |
| Sales revenue | 937,500 | |
| Proceeds from sale of vehicle | 3,750 | 941,250 |
| Less: Expenses | | |
| Cost of sales | 753,750 | |
| Salaries and wages | 145,450 | |
| Doubtful debts | 18,050 | |
| Depreciation – motor vehicles | 7,500 | |
| Depreciation – office equipment | 1,000 | |
| Carrying amount of vehicle sold | 3,000 | 928,750 |
| Profit before tax | | 12,500 |
| Less: Income tax expense | | 5,250 |
| Profit after tax | | 7,250 |

*Additional information*

(a) A dividend was paid during the year.

(b) The terms of the bank bills do not exceed 90 days.

From the above information of Over the Horizon Ltd, prepare a statement of cash flows for the year ended 30 June 2016 using the direct method. Include a note reconciling the cash and cash equivalents and also a note reconciling the net cash from operating activities with the profit.

**(17 marks)**

**Q7**. In Note ii (p. 93) of the Qantas Annual Report 2016 it states:

ii. Foreign Operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Australian Dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into Australian Dollars at the exchange rates at the date of the transactions.

Foreign currency differences are recognised in the Consolidated Statement of Comprehensive Income and accumulated in the Foreign Currency Translation Reserve….

Required
Explain this note to a reader of the Qantas report. Your explanation take the form of a short business report dealing with all the elements of a set of financial statements, including the component parts of equity, together with description of why foreign exchange differences arise.

**(16 marks)**

**Q8.**

From the following link download the Pacific Brands Annual Report for 2015

https://www.pacificbrands.com.au/assets/Documents/CorporateGovernance/F15-Annual-Report.pdf

Look at the Note 12 to the Financial Statements for Intangible Assets and Impairment.
This is on pages 64 & 65 of the report. If you are printing it will be on pages 66 & 67 of the pdf.

Required

A Using AASB 138 and AASB3 explain how the brand names were recognised and measured as assets.

B What can you deduce from the fact that the carrying amounts for the brand names of Underwear – key brands and Sheridan are the same in 2015 and 2014?

**(9 marks)**