Student Name: ____________________________ **Student No:** ______________________________

Calculator Make and Model: ____

(Failure to complete this section may delay the release of your grade.)

UNIVERSITY OF SOUTHERN QUEENSLAND

FACULTY OF BUSINESS

COURSE NO: ACC2115 / ACC5215

COURSE NAME: Company Accounting / Corporate Accounting

This examination carries 70% of the total Assessment for this course

Examination:	**Current**	**Deferred/ Supplementary**	**Examiner:** Karyn Byrnes **Moderator:** Marie Kavanagh
Internal	☒	☒	**Time Allowed:**
External	☒	☒	**Perusal:** Ten (10) minutes **Working:** Two (2) hours

Examination Date: June 2009

Special Instructions:
Communication of any kind about any matter between students by any means whatsoever is strictly prohibited from the time that students enter the examination room until they exit at the completion of the examination. This includes any temporary absence from the examination room during the examination. Any such communication will be deemed to be cheating and treated as serious academic misconduct under University Regulation 5.10.

This is a **RESTRICTED** examination.

Students are **permitted:**

- to use non-programmable calculators. Students must note the make and model of the calculator used in the space provided above. This may be checked by the examination supervisor.
- to write on the blue examination paper during perusal.

Students are **not permitted:**

- to write in the answer booklet during perusal.

Please write your name and student number on all examination papers.

This examination consists of **2 parts:**
Part A – consists of ten (10) multiple choice questions to be answered on the examination answer sheet provided.
Part B – consists of four (4) practical questions to be answered in the answer booklet provided. **Question 4 should be answered on the blue examination paper in the space provided.**

Clearly number each question.

All examination question papers must be submitted to supervisors at the end of every examination and returned to USQ.

PART A – Multiple Choice (20 marks)

Ten (10) questions worth two (2) marks each.

Please record your answers on the examination answer sheet provided.

Question 1

When assessing the materiality of a bad debtor, the accountant of Gold Limited concluded that in conformity with guidelines provided in AASB 1031 *Materiality*, it was not likely to be material as it:

a) was more than 12% but less than 20% of total equity
b) was more than 10% but did not exceed 50% of total bad debtors for the period;
c) was less than 5% of total bad debtors for the reporting period;
d) did not affect the cash flows for the period

Question 2

Under AASB 3 *Business Combinations,* an 'excess' arises when the acquirer's interest in the net fair value of the acquiree's identifiable net assets and contingent liabilities is:

a) less than the carrying amount of the net assets acquired
b) less than the cost of the business combination
c) greater than the cost of the business combination
d) more than the book values of the identifiable assets acquired.

Question 3

As required by AASB 127 *Consolidated and Separate Financial Statements*, where there are transactions between members of the group, the effects of these transactions are:

a) adjusted partially in direct proportion to the level of control held by the parent
b) adjusted in full on consolidation
c) adjusted in proportion to the equity held by the minority interests in the subsidiary
d) not adjusted in the consolidation process

Question 4

According to AASB 127 Consolidated and Separate Financial Statements, the term 'minority interest' means:

a) the total equity of the combined group
b) the equity in the parent entity other than the portion owned by the subsidiary entity
c) the equity in the economic entity other than that which can be attributed to the subsidiary entity
d) that portion of the net assets of a subsidiary attributable to equity interests that are not owned by the parent.

Question 5
Where an investor sells inventory to an associate and the inventory is still on hand at the end of the year the investors' share of the associate's profits is:

a) not affected as unrealised profits are only considered to arise in a parent - subsidiary relationship
b) not affected as the unrealised profit is in the books of the investor, not the associate
c) increased by the investor's share of the unrealised profit
d) decreased by the investor's share of the unrealised profit

Question 6
For the purposes of equity accounting for an investment in an associate, it is presumed that the investor has significant influence over the other entity where the investor holds:

a) between 1% and 5% of the voting power of the investee;
b) between 5% and 10% of the voting power of the investee.
c) 20% or more of the voting power of the investee;
d) 50% or more of the voting power of the investee;

Question 7
Bruce Limited acquired a 30% investment in George Limited for $21 000. George Limited declared and paid a dividend of $15 000. Bruce Limited does not prepare consolidated financial statements. The appropriate entry for Bruce Limited to record this dividend is:

a)	DR	Investment in associate		$4 500	
		CR	Dividend revenue		$4 500
b)	DR	Cash		$4 500	
		CR	Investment in associate		$4 500
c)	DR	Dividends received		$10 500	
		CR	Cash		$10 500
d)	DR	Cash		$10 500	
		CR	Dividend revenue		$10 500

Question 8
Dave Limited acquired a 25% interest in Joe Limited for $30 000 on 1 July 2009. Dave Limited is part of a consolidated group. For the financial year ending 30 June 2010, Joe Limited had generated a profit before tax of $45 000. Tax rate is 30%. At this date, Joe Limited took the following action:

- revalued assets up to fair value by $10 000
- declared a dividend of $5 000

The balance in the investor's account 'Shares in associate', after equity accounting has been applied, is:

a) $30 000
b) $40 875
c) $39 625
d) $41 250

Question 9
In relation to the order of priority of payment of debts upon liquidation, which statement is correct?

a) ordinary unsecured creditors rank before preferential unsecured creditors;
b) preferential unsecured creditors rank before deferred creditors;
c) deferred creditors rank before ordinary unsecured creditors;
d) deferred creditors rank before secured creditors.

Question 10
When translating financial statements into the presentation currency the reserve transfers are:

a) shown at the translated amount based upon the rates that were applicable when the transferred amounts were first recognized in equity
b) shown at the translated amount based upon the rates at the balance date
c) shown at the translated amount based upon the average rates for the current period
d) not required to be transferred

End of Part A

PART B – Practical Questions (80 marks)

Four (4) practical questions – answer all questions.

Please record your answers in the answer booklet provided.

Question 1 (15 marks)
Orbost Ltd, an Australian company, acquired all of the shares of Clarkesville Ltd a US company for US$320,000 on 1 January 2009. At that date, Clarkesville Ltd's balance sheet was as follows:-

Clarkesville Ltd Balance Sheet as at 1 January 2009	
Assets	**USD ($US)**
Cash	200,000
Equipment	200,000
Liabilities	
Creditors	80,000
Net assets	*320,000*
Shareholders' equity	
Share capital	200,000
Retained earnings	120,000
Total equity	*320,000*

All the assets and liabilities were recorded at fair value.

At 31 December 2009 the financial statements of Clarkesville Ltd were as follows:

Clarkesville Ltd Income statement for the year ending 31 December, 2009	
	USD ($US)
Sales	300,000
Expenses	160,000
Profit	140,000
Retained earnings (1/1/2009)	120,000
Retained earnings (31/12/09)	260,000

Clarkesville Ltd	
Balance Sheet	
as at 31 December, 2009	
	USD ($US)
Assets	
Cash	340,000
Equipment	200,000
Accumulated depreciation	(40,000)
Liabilities	
Creditors	40,000
Net assets	$460,000
Shareholders' equity	
Share capital	200,000
Retained earnings	260,000
Total Equity	$460,000

Additional information:

Tax is not considered in this exercise.
The exchange rates applicable are as follows:

1 AUD ($A) is equivalent to:

1 January 2009	0.75 US
31 December 2009	0.65 US
Average for 2009	0.70 US

Sales and expenses were incurred evenly throughout the 2009 year.

Required:

(i) Translate the accounts of Clarkesville Ltd into the presentation currency of Australian dollars (round to the nearest dollar).

(ii) Verify the translation adjustment.

Question 2 (15 marks)
North Ltd is expanding its share of the market for security doors and has negotiated to take over the operations of South Ltd on 1 March 2009. The balance sheets for the two companies as at 28 February 2009 were as follows:

	North Ltd	**South Ltd**
Cash	17,250	9,000
Accounts receivable	18,750	26,025
Inventory	26,625	20,700
Buildings (net)	45,000	22,500
Furniture and Fittings (net)	48,750	34,500
Land	62,500	75,000
Goodwill	18,750	1,500
	$237,625	$189,225
Accounts payable	42,000	32,625
Debentures	62,500	17,500
Share capital - 75 000 shares	75,000	-
- 45 000 shares	-	45,000
General reserve	21,375	20,100
Retained earnings	36,750	74,000
	$237,625	$189,225

The assets of South Ltd are recorded at fair value except for:

	Fair Value
Inventory	24 000
Buildings	30 000
Furniture & Fittings	36 000

North Ltd is to acquire all of the assets of South Ltd except cash. North Ltd is required to provide South Ltd with enough extra cash to allow South Ltd to repay all of its outstanding debts plus liquidation costs of $2,500. North Ltd must also provide two fully paid shares in North Ltd for every three shares held in South Ltd. The fair value of shares in North Ltd is $3.50 per share.

South Ltd's liquidator discovered that an amount of $2,400 for Accounts Payable had not been recorded and is outstanding at 28 February 2009.

The debentures issued by South Ltd are to be redeemed at a 3% premium. The costs of issuing the shares were $2,400.

Required:

Prepare the acquisition analysis and journal entries to record the business combination in the records of North Ltd. (Do not include narrations).

Question 3 (30 marks)

Golden Ltd purchased 75% of the capital of Compass Ltd for $210,000 on the 1 July 2007. The Equity of Compass Ltd at 1 July 2007 included:

Share Capital	$ 120,000
Retained Earnings	$ 65,000
General Reserve	$ 25,000

The carrying amounts and fair values of identifiable assets and liabilities in Compass Ltd were:

Item	Carrying Amount	Fair Value
Inventory	$ 95,000	$ 103,000
Plant and Equipment (cost $130,000)	$ 105,000	$ 120,000
Land	$ 125,000	$ 155,000

Differences between carrying amounts and fair values are recognised on consolidation. Compass Ltd had not recorded any goodwill. The plant and equipment has a remaining useful life of 5 years.

One quarter of the inventory on hand at 1 July 2007 was sold by 30 June 2008.

The applicable tax rate is 30%.

Additional Information

- Compass Ltd paid a dividend of $15,000 out of 2007-2008 profits.
- Compass Ltd sold Golden Ltd an item of equipment for $20,000 on the 30th June 2008. The carrying amount of this equipment at that time was $18,000.
- Compass Ltd made a profit of $60,000 for the 2007-2008 period.

Required

Prepare the consolidation journal entries for Golden Ltd and its subsidiary Compass Ltd at 30 June 2008. Do not prepare a consolidated worksheet. No journal narrations required.

Question 4 (20 marks)
The trial balance below is of Springsure Ltd's accounts as at 30 June 2010:

SPRINGSURE LTD		
Trial Balance		
as at 30 June 2010		
	Debit	**Credit**
Cash at Bank	37,500	
Inventory	78,000	
Accounts Receivable	54,000	
Buildings	225,000	
Accumulated Depreciation - Buildings		45,000
Land	150,000	
Goodwill	37,500	
Mortgage Payable		165,000
Unsecured Creditors		63,000
Calls in Arrears (15,000 shares)	4,500	
Share Capital		375,000
Retained Earnings	67,500	
Asset Revaluation Reserve		6,000
	$ 654,000	$ 654,000

Share capital consisted of 375 000 ordinary shares fully issued and called to $1.

It was decided on 30 June 2010 to wind up the company. Additional information is as follows:

a) Estimated realised amounts are:

Land	$147 000
Buildings	129 000
Inventory	67 500
Accounts Receivable	37 500
Calls in Arrears	2 500
Goodwill	0

b) Unsecured creditors include:

Accounts Payable	$42 000
GST	5 250
Director's Salary	6 750
PAYG tax instalments	9 000
	$63 000

c) There is an impending lawsuit against the company. If the company is found guilty they will be required to pay $27 000 in damages.

d) The mortgage is secured over the buildings.

Required
Complete the following Summary of Affairs that is required to be presented to the creditors of Springsure Ltd.

Note: You are required to complete the following table on this blue examination paper.

SPRINGSURE LTD			
COMPANIES FORM 509			
SUMMARY OF AFFAIRS			
Assets and Liabilities as at 30 June 2010			
		Valuation	Estimated Realisable Value
1. Assets not specifically charged:			
2. Assets subject to specific charges:			
Total Assets			
Total Estimated Realisable Value			
3. Less preferential creditors entitled to priority over the holders of a floating charge			
4. Less amounts owing and secured by floating charge over company's assets			
5. Less preferential creditors			

Estimated amount available for unsecured creditors			
6. Unsecured Creditors			
7. Balances owing to partly secured creditors			
8. Contingent Assets			
9. Contingent Liabilities			
Estimated Surplus (Deficit)			
Share Capital			
Issued:			
Paid-up:			

End of Examination