

# Pre-Chartered Accountants Program self-assessment



**Core curriculum area 1:**

# Financial Accounting

**questions**

**COMMONWEALTH OF AUSTRALIA**

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## Background information

All pre-Chartered Accountant Program self-assessment questions are based on the fictitious company Pre-CA Program Supplies Pty Ltd. Please note that this background information is common to all questions across all core curriculum areas. Additional information may be provided within the core curriculum areas or within an activity.

- > Pre-CA Program Supplies Pty Ltd provides education and training support to pre-Chartered Accountant Program candidates, including course note preparation and printing, sample examinations, etc.
- > It operates in all Australian capital cities, and also has overseas operations in Singapore, Malaysia and New Zealand.
- > Pre-CA Program Supplies Pty Ltd is 100% owned by ICAA Limited, a company which is listed on the Australian Stock Exchange.
- > Both companies consider themselves to be socially aware, with 10% of profits donated to charities annually; employee charity matching; employee diversity policy; disabled staff policy; and a continuous process improvement plan, a candidate complaints handling procedure and 'save paper' campaign.
- > Pre-CA Program Supplies Pty Ltd has an 80% interest in Pre-GMAT Program Supplies Pty Ltd. This was acquired on 1 January 2002.
- > Pre-CA Program Supplies Pty Ltd has a 50% joint venture interest in JV Pty Ltd, with the other 50% interest held by Pre-DB Program Supplies Pty Ltd.
- > ICAA Limited, Pre-CA Program Supplies Pty Ltd and JV Pty Ltd each has its own board of directors.
- > Pre-CA Program Supplies Pty Ltd entered into a commercial relationship to provide third party services to Pre-BZ Program Supplies Pty Ltd in 2005.

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## Self-assessment question 1

Following a strategic review, the board of ICAA Limited is considering spinning off JV Pty Ltd as a separately listed company. Consequently, in the interim, JV Pty Ltd is expected to voluntarily adopt the legal and reporting standards required of a listed entity.

JV Pty Ltd has approximately 20 staff, a turnover of A\$2.5 million and operations in two overseas locations (using hedging to control its foreign exchange exposures). The company has a current court case outstanding over a disputed contract which may result in the write-off of an outstanding debt of A\$100,000.

### Required

Using **only** the information above, the background information, and referring to legislative, regulatory and accounting guidance:

Describe the legal, regulatory and accounting standards that JV Pty Ltd expects to adopt. Also identify who has oversight of the legal, regulatory and accounting standards you have described.

## Self-assessment question 2

The internal balance sheet of JV Pty Ltd at 31 December 2005 is as follows:

	A\$		A\$
Cash	150,000	Payables	450,000
Inventory	600,000	Contributed equity	250,000
Receivables	100,000	Retained profits	150,000
	<hr/>		<hr/>
Total assets	850,000	Total liabilities & equity	850,000
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The following transactions took place during the year ended 31 December 2006:

- > JV Pty Ltd purchased inventory on account for A\$150,000 (25,000 units at A\$6 each).  
**Note:** the company had 100,000 units in its opening inventory at A\$6 each.
- > JV Pty Ltd sold 28,000 units at the selling price of A\$10 per unit. Half of the sales were for cash and the remaining units were sold on credit. JV Pty Ltd uses the perpetual inventory system with FIFO inventory costing.
- > JV Pty Ltd collected \$100,000 from customers relating to receivables. The company paid its suppliers A\$150,000 for the purchases made on account.
- > On 1 January 2006, JV Pty Ltd bought printing equipment for A\$200,000 which was financed by a bank loan. Interest of A\$10,000 was paid to the bank on 31 December 2006.
- > The useful life of the equipment is estimated to be 10 years, with a nil residual value. JV Pty Ltd uses the straight-line method of depreciation.
- > At 31 December 2006, JV Pty Ltd determined that A\$5,000 of accounts receivable will not be collected and thus the receivables balance has to be adjusted to reflect this. Bad debts are written off using the direct write-off method.
- > Dividends of A\$7,000 were declared and paid at the end of the year.

## Required

Using **only** the information above and the background information, prepare journal entries, record them in appropriate T accounts and prepare a profit and loss statement and balance sheet for the year ended 31 December 2006.

**Note:** ignore income tax issues for this question.

## Self-assessment question 3

As part of their long-term growth plans, the board of Pre-CA Program Supplies Pty Ltd (Pre-CA) approved the acquisition of 80% of Pre-GMAT Program Supplies Pty Ltd (Pre-GMAT) for a cash payment of A\$300,000 on 1 January 2003. As control will be exercised, you have been asked as the financial controller to prepare the Pre-CA group consolidated worksheet. You have been provided with the following additional information:

- On acquisition, Pre-GMAT had contributed equity of A\$200,000 and retained profits of A\$150,000.
- On acquisition, all assets were stated at fair value with goodwill being amortised over 10 years.
- During 2006, Pre-CA purchased inventory at a transfer price of A\$150,000 from Pre-GMAT.
- At 31 December 2006, Pre-CA held inventory of A\$27,000 purchased from Pre-GMAT (which had cost Pre-GMAT A\$22,000).

## Required

Using **only** the information provided above, complete the following consolidation worksheet as at 31 December 2006 (all figures in 000s):

	Pre-CA Program	Pre-GMAT Program	Adjustments		Consolidation A\$'000
			DR A\$'000	CR A\$'000	
Sales	600	300			
Inventory 01.01.04	(200)	(150)			
Purchases	(450)	(200)			
Inventory 31.12.04	250	150			
Gross profit	200	100			
Expenses	(75)	(40)			
Operating profits	125	60			
Retained profits 01.01.04	80	220			
Retained profits 31.12.04	205	280			
Contributed equity	800	200			
Liabilities	60	50			
	<u>1,065</u>	<u>530</u>			
Non-current assets	515	380			
Inventory	250	150			
Pre-GMAT investment	300	–			
Goodwill	–	–			
	<u>1,065</u>	<u>530</u>			

Ignore the income tax effects of the inter-entity sale and any adjustments required in relation to outside equity interests.

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## Self-assessment question 4

### Required

Determine whether the following are related parties of Pre-CA Program Supplies Pty Ltd in accordance with AASB 124 *Related Party Disclosures*.

- (a) ICAA Limited
- (b) Pre-GMAT Program Supplies Pty Ltd
- (c) JV Pty Ltd
- (d) Pre-DB Program Supplies Pty Ltd
- (e) Pre-BZ Program Supplies Pty Ltd.

## Self-assessment question 5

As outlined in the background information, Pre-CA Program Supplies Pty Ltd has overseas operations in Singapore, Malaysia and New Zealand.

During the month of June 2005, the New Zealand operation entered into the following transactions:

- > It purchased inventory for NZ\$100,000 on 1 June. Payment for half of these supplies was made on 15 June. The balance is still owing at 30 June.
- > It made credit sales of NZ\$65,000 on 5 June.
- > It received payments for outstanding accounts receivable as follows (the balance of NZ\$30,000 is still owing at 30 June):
  - NZ\$15,000 on 10 June
  - NZ\$7,500 on 15 June
  - NZ\$12,500 on 30 June.

Relevant exchange rates are as follows:

	A\$	=	NZ\$
1 June	1.00	=	1.05
5 June	1.00	=	1.07
10 June	1.00	=	1.08
15 June	1.00	=	1.11
30 June	1.00	=	1.10

### Required

Prepare the journal entries required to translate the above transactions into Australian dollars, including any restatements required at the end of June 2005.

## End of Financial Accounting questions