

# Pre-Chartered Accountants Program Self-Assessment



**Core Curriculum Area 1:**

# Financial Accounting

**Suggested Solutions**

**COMMONWEALTH OF AUSTRALIA**

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## Suggested Solution: Question 1

- (a) At a minimum, answers should make reference to the following legislative, regulatory and accounting requirements:

### Legislative

- > **Corporations Act 2001.** All listed companies are required to follow the requirements set down in the *Corporations Act 2001* which govern the operations of all companies in Australia. Oversight provided by the Australian Securities and Investments Commission (ASIC).
- > **Income Tax Assessment Acts 1997 and 1936.** All companies operate under this jurisdiction (and other tax legislation such as *Fringe Benefits Tax Assessment Act 1986* and *A New Tax System (Goods and Services Tax Act 1999)*). Oversight provided by Australian Tax Office (ATO).

### Regulatory

- > **Trade Practices Act** governed by the Australian Competition and Consumer Commission.
- > **ASX Listing Rules** to be adopted for all listed entities. Oversight provided by the Australian Stock Exchange (ASX).

### Accounting Standards

- > **Statements of Accounting Concepts** assist in establishing accounting policies.
- > **AASB 101** discusses selection of appropriate accounting policies.
- > **AASB 1031** discusses materiality of events and transactions.
- > **AASB 114** discusses the use of segment reporting (e.g. the overseas operations).
- > **AASB 139** discusses the use of financial instruments (e.g. the hedging arrangements).
- > **AASB 134** lists the interim reporting requirements (as required for listed entities).
- > **AASB 137** discusses provisions and contingent assets/liabilities (e.g. the contractual dispute).

Oversight provided by Financial Reporting Council (FRC), which supervises the Australian Accounting Standards Board (AASB), for all Australian Accounting Standards

For further information, refer to the following websites:

AASB available online at: <[www.aasb.com.au](http://www.aasb.com.au)>

ICAA available online at: <[www.icaa.org.au](http://www.icaa.org.au)>.

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## Suggested Solution: Question 2

Note: All journals are dated 31 December 2005.

| Description                                 | Dr<br>\$ | Cr<br>\$ |
|---|----------|----------|
| Inventory                                   | 150,000  |          |
| Payables                                    |          | 150,000  |
| Being purchase of inventory (25,000 at \$6) |          |          |

| Description                              | Dr<br>\$ | Cr<br>\$ |
|--|----------|----------|
| Cash                                     | 140,000  |          |
| Receivables                              | 140,000  |          |
| Revenue/sales                            |          | 280,000  |
| Being sale of inventory (28,000 at \$10) |          |          |

| Description                                       | Dr<br>\$ | Cr<br>\$ |
|---|----------|----------|
| COGS  | 168,000  |          |
| Inventory   |          | 168,000  |
| Being cost of inventory sold (28,000 at \$6 cost) |          |          |

| Description                 | Dr<br>\$ | Cr<br>\$ |
|-----------------------------|----------|----------|
| Cash                        | 100,000  |          |
| Receivables                 |          | 100,000  |
| Being collection of debtors |          |          |

| Description                | Dr<br>\$ | Cr<br>\$ |
|----------------------------|----------|----------|
| Payables                   | 150,000  |          |
| Cash                       |          | 150,000  |
| Being payment of suppliers |          |          |

| Description                                    | Dr<br>\$ | Cr<br>\$ |
|--|----------|----------|
| Plant and equipment                            | 200,000  |          |
| Bank loan                                      |          | 200,000  |
| Being purchase of print equipment by bank loan |          |          |

| Description                                    | Dr<br>\$ | Cr<br>\$ |
|--|----------|----------|
| Depreciation expense                           | 20,000   |          |
| Accumulated depreciation                       |          | 20,000   |
| Being depreciation of P&E (\$200,000/10 years) |          |          |

| Description            | Dr<br>\$ | Cr<br>\$ |
|------------------------|----------|----------|
| Interest expense       | 10,000   |          |
| Cash                   |          | 10,000   |
| Being interest on loan |          |          |

| Description                  | Dr<br>\$ | Cr<br>\$ |
|------------------------------|----------|----------|
| Bad debt expense             | 5,000    |          |
| Receivables                  |          | 5,000    |
| Being write-off of bad debts |          |          |

| Description          | Dr<br>\$ | Cr<br>\$ |
|----------------------|----------|----------|
| Dividends paid       | 7,000    |          |
| Cash                 |          | 7,000    |
| Being dividends paid |          |          |

| Cash          |                |                |         | Inventory |         |      |         |
|---------------|----------------|----------------|---------|-----------|---------|------|---------|
| O/Bal         | 150,000        | Cash payments  | 150,000 | O/Bal     | 600,000 | COGS | 168,000 |
| Cash sales    | 140,000        | Interest paid  | 10,000  | Purchases | 150,000 |      |         |
| Cash receipts | 100,000        | Dividends paid | 7,000   | C/Bal     | 582,000 |      |         |
| C/Bal         | <u>223,000</u> |                |         |           |         |      |         |

| Receivables  |                |                 |         | Plant & equipment |         |  |  |
|--------------|----------------|-----------------|---------|-------------------|---------|--|--|
| O/Bal        | 100,000        | Cash receipts   | 100,000 | Purchases         | 200,000 |  |  |
| Credit sales | 140,000        | Bad debts w/off | 5,000   | C/Bal             | 200,000 |  |  |
| C/Bal        | <u>135,000</u> |                 |         |                   |         |  |  |

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**Accumulated depreciation**

|  |               |                      |
|--|---------------|----------------------|
|  | Dep'n expense | <u>20,000</u>        |
|  | C/Bal         | <u><u>20,000</u></u> |

**Payables**

|               |         |           |                       |
|---------------|---------|-----------|-----------------------|
| Cash payments | 200,000 | O/Bal     | 450,000               |
|               |         | Purchases | <u>150,000</u>        |
|               |         | C/Bal     | <u><u>450,000</u></u> |

**Loan**

|  |               |                       |
|--|---------------|-----------------------|
|  | Plant & equip | <u>200,000</u>        |
|  | C/Bal         | <u><u>200,000</u></u> |

**Contributed equity**

|  |       |                       |
|--|-------|-----------------------|
|  | O/Bal | <u>250,000</u>        |
|  | C/Bal | <u><u>250,000</u></u> |

**Retained profits**

|              |         |       |                       |
|--------------|---------|-------|-----------------------|
| COGS         | 168,000 | O/Bal | 150,000               |
| Depreciation | 20,000  | Sales | 280,000               |
| Bad debts    | 5,000   |       |                       |
| Interest     | 10,000  |       |                       |
| Dividend     | 7,000   | C/Bal | <u><u>220,000</u></u> |

**Profit and Loss Statement for the year ended 31 December 2005**

|  |                      |
|--|----------------------|
|  | <b>\$</b>            |
| Revenue from ordinary activities   | <u>280,000</u>       |
| Expenses from ordinary activities excluding borrowing cost expense                         | <u>193,000</u>       |
| Borrowing cost expense   | <u>10,000</u>        |
| Profit from ordinary activities before income tax expense                                  | 77,000               |
| Income tax expense relating to ordinary activities   | —                    |
| Profit from ordinary activities after income tax expense                                   | <u>77,000</u>        |
| Total changes in equity other than those resulting from transactions with owners as owners | <u><u>77,000</u></u> |

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**Balance Sheet as at 31 December 2005**

**Assets**

\$

**Current assets**

|                             |                |
|-----------------------------|----------------|
| Cash                        | 223,000        |
| Receivables                 | 135,000        |
| Inventories                 | 582,000        |
| <b>Total current assets</b> | <u>940,000</u> |

**Non-current assets**

|                     |                |
|---------------------|----------------|
| Plant and equipment | <u>180,000</u> |
|---------------------|----------------|

|                     |                         |
|---------------------|-------------------------|
| <b>Total assets</b> | <u><u>1,120,000</u></u> |
|---------------------|-------------------------|

**Liabilities**

**Current liabilities**

|          |                |
|----------|----------------|
| Payables | <u>450,000</u> |
|----------|----------------|

**Non-current liabilities**

|  |                |
|--|----------------|
| Interest bearing non-current liabilities | <u>200,000</u> |
|--|----------------|

|                          |                       |
|--------------------------|-----------------------|
| <b>Total liabilities</b> | <u><u>650,000</u></u> |
|--------------------------|-----------------------|

**Equity**

|                     |                       |
|---------------------|-----------------------|
| Contributed equity  | 250,000               |
| Retained profits    | 220,000               |
| <b>Total equity</b> | <u><u>470,000</u></u> |

Notes to the financial statements would show further details of items such as plant and equipment and interest bearing non-current liabilities.

### Suggested Solution: Question 3

|                                   |         |                     |
|-----------------------------------|---------|---------------------|
|                                   |         | \$                  |
| Purchase consideration            |         | 300,000             |
| FVINA                             | 350,000 |                     |
| x ownership interest              | 80%     |                     |
| FV of net assets acquired         |         | <u>280,000</u>      |
| Goodwill                          |         | <u>20,000</u>       |
| Amortisation per annum (10 years) |         | <u><u>2,000</u></u> |

#### Consolidation journals required – all journals dated 31 December 2005

| Description   | Dr<br>\$ | Cr<br>\$ |
|---|----------|----------|
| Contributed equity  | 160,000  |          |
| Retained profits  | 120,000  |          |
| Goodwill  | 20,000   |          |
| Pre-GMAT investment   |          | 300,000  |
| 1. Being elimination of investment in Pre-GMAT and pre-acquisition equities in Pre-GMAT |          |          |

| Description  | Dr<br>\$ | Cr<br>\$ |
|--|----------|----------|
| Amortisation expense                                     | 2,000    |          |
| Retained profits   | 4,000    |          |
| Accumulated amortisation (goodwill)                      |          | 6,000    |
| 2. Being recognition of 3 years amortisation of goodwill |          |          |

| Description                                | Dr<br>\$ | Cr<br>\$ |
|--|----------|----------|
| Sales                                      | 150,000  |          |
| Purchases                                  |          | 150,000  |
| 3. Being elimination of inter-entity sales |          |          |

| Description  | Dr<br>\$ | Cr<br>\$ |
|--|----------|----------|
| COGS – Closing inventory   | 5,000    |          |
| Inventory  |          | 5,000    |
| 4. Being elimination of unrealised profit in closing inventory (\$27,000 – \$22,000) |          |          |

|                                  | Pre-CA Program | Pre-GMAT Program | Adjustments      |                  | Consolidation |
|----------------------------------|----------------|------------------|------------------|------------------|---------------|
|                                  | 000s<br>\$     | 000s<br>\$       | DR<br>000s<br>\$ | CR<br>000s<br>\$ | 000s<br>\$    |
| Sales                            | 600            | 300              | 150              | 3                | 750           |
| Inventory 01.01.04               | (200)          | (150)            |                  |                  | (350)         |
| Purchases                        | (450)          | (200)            |                  | 3 150            | (500)         |
| Inventory 31.12.04               | 250            | 150              | 5                | 4                | 395           |
| <b>Gross profit</b>              | <b>200</b>     | <b>100</b>       |                  |                  | <b>295</b>    |
| Expenses                         | (75)           | (40)             | 2                | 2                | (117)         |
| <b>Operating profits</b>         | <b>125</b>     | <b>60</b>        |                  |                  | <b>178</b>    |
| Retained profits 01.01.04        | 80             | 220              | 120              | 1                | 176           |
|                                  |                |                  | 4                | 2                |               |
| <b>Retained profits 31.12.04</b> | <b>205</b>     | <b>280</b>       |                  |                  | <b>354</b>    |
| Contributed equity               | 800            | 200              | 160              | 1                | 840           |
| Liabilities                      | 60             | 50               |                  |                  | 110           |
|                                  | <b>1,065</b>   | <b>530</b>       |                  |                  | <b>1,304</b>  |
| <b>Non-current assets</b>        | <b>515</b>     | <b>380</b>       |                  |                  | <b>895</b>    |
| Inventory                        | 250            | 150              |                  | 4 5              | 395           |
| Pre-GMAT investment              | 300            | –                |                  | 1 300            | –             |
| Goodwill                         | –              | –                | 20               | 1/2 6            | 14            |
|                                  | <b>1,065</b>   | <b>530</b>       | <b>461</b>       | <b>461</b>       | <b>1,304</b>  |

## Suggested Solution: Question 4

The definition of related parties is found in para. 9.1 of AASB 124.

(a) *ICAA Limited*

- > Pre-CA Program Supplies Pty Ltd is a subsidiary of ICAA Limited in accordance with AASB 1024, as ICAA Limited holds a 100% interest in, and therefore has control over, Pre-CA Program Supplies Pty Ltd.
- > Under AASB 124 para. 9 an entity that has control over the entity is a related party.
- > Therefore ICAA Limited is a related party of Pre-CA Program Supplies Pty Ltd.

(b) Pre-GMAT Program Supplies Pty Ltd

- > This entity is a subsidiary of Pre-CA Program Supplies Pty Ltd in accordance with AASB 124, as ICAA Limited holds an 80% interest in, and therefore has control over, Pre-GMAT Program Supplies Pty Ltd.

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- > Under AASB 124 para. 9 an entity that is subject to control by the entity is a related party.
  - > Therefore Pre-GMAT Program Supplies Pty Ltd **is** a related party of Pre-CA Program Supplies Pty Ltd.

(c) JV Pty Ltd

- > JV Pty Ltd is owned 50:50 by Pre-CA Program Supplies Pty Ltd and Pre-DB Program Supplies Pty Ltd. This ownership structure is referred to as joint control and is dealt with by AASB 131.
- > Joint ventures are not related parties under the definition contained within AASB 124 para. 9.1.
- > Therefore JV Pty Ltd **is not** a related party of Pre-CA Program Supplies Pty Ltd.

(d) Pre-DB Program Supplies Pty Ltd

- > As discussed above, Pre-DB Program Supplies Pty Ltd is an entity that holds the other 50% interest in JV Pty Ltd, an entity which is a joint venture of Pre-CA Program Supplies Pty Ltd.
- > Such entities not related parties under the definition contained within AASB 124 para. 9.
- > Therefore Pre-DB Program Supplies Pty Ltd **is not** a related party of Pre-CA Program Supplies Pty Ltd.

(e) Pre-BZ Program Supplies Pty Ltd

- > Pre-BZ Program Supplies Pty Ltd is a customer of Pre-CA Program Supplies Pty Ltd.
- > Such entities not related parties under the definition contained within AASB 124 para. 9.
- > Therefore Pre-DB Program Supplies Pty Ltd **is not** a related party of Pre-CA Program Supplies Pty Ltd.

## Suggested Solution: Question 5

| Date   | Description                               | Dr<br>\$ | Cr<br>\$ |
|--------|---|----------|----------|
| 1.6.05 | Purchases                                 | 95,238   |          |
| 1.6.05 | Payables                                  |          | 95,238   |
|        | Purchase of NZ\$100,000 inventory at 1.05 |          |          |

| Date   | Description                        | Dr<br>\$ | Cr<br>\$ |
|--------|------------------------------------|----------|----------|
| 5.6.05 | Accounts receivable                | 60,748   |          |
| 5.6.05 | Sales                              |          | 60,748   |
|        | Credit sales of NZ\$65,000 at 1.07 |          |          |

| Date    | Description   | Dr<br>\$ | Cr<br>\$ |
|---------|---|----------|----------|
| 10.6.05 | Cash  | 13,889   |          |
| 10.6.05 | Foreign exchange loss   | 130      |          |
| 10.6.05 | Accounts receivable   |          | 14,019   |
|         | Receipt of NZ\$15,000 at 1.08. (Foreign exchange loss is difference between exchange rate of 1.07 and 1.08) |          |          |

| Date    | Description  | Dr<br>\$ | Cr<br>\$ |
|---------|--|----------|----------|
| 15.6.05 | Cash   | 6,757    |          |
| 15.6.05 | Foreign exchange loss  | 252      |          |
| 15.6.05 | Accounts receivable  |          | 7,009    |
|         | Receipt of NZ\$7,500 at 1.11. (Foreign exchange loss is difference between exchange rate of 1.07 and 1.11) |          |          |

| Date    | Description   | Dr<br>\$ | Cr<br>\$ |
|---------|---|----------|----------|
| 15.6.05 | Payables  | 47,619   |          |
| 15.6.05 | Cash  |          | 45,045   |
| 15.6.05 | Foreign exchange gain   |          | 2,574    |
|         | Payment of NZ\$50,000 at 1.11. (Foreign exchange gain is difference between exchange rate of 1.05 and 1.11) |          |          |

| Date    | Description   | Dr<br>\$ | Cr<br>\$ |
|---------|---|----------|----------|
| 30.6.05 | Cash  | 11,364   |          |
| 30.6.05 | Foreign exchange loss   | 318      |          |
| 30.6.05 | Accounts receivable   |          | 11,682   |
|         | Receipt of NZ\$12,500 at 1.10. (Foreign exchange loss is difference between exchange rate of 1.07 and 1.10) |          |          |

| Date    | Description   | Dr<br>\$ | Cr<br>\$ |
|---------|---|----------|----------|
| 30.6.05 | Payables  | 2,164    |          |
| 30.6.05 | Foreign exchange gain   |          | 2,164    |
|         | Restatement of NZ\$50,000 payable to closing rate of 1.10 (A\$45,454). (Foreign exchange gain is difference between exchange rate of 1.05 and 1.10) |          |          |

| Date    | Description  | Dr<br>\$ | Cr<br>\$ |
|---------|--|----------|----------|
| 30.6.05 | Foreign exchange gain  | 765      |          |
| 30.6.05 | Accounts receivable  |          | 765      |
|         | Restatement of NZ\$30,000 receivable to closing rate of 1.10 (A\$27,273). (Foreign exchange loss is difference between exchange rate of 1.07 and 1.10) |          |          |

## Sources of additional information

ICAA, *Members' Handbook* available online at: <[www.icaa.org.au/membershandbook](http://www.icaa.org.au/membershandbook)>.

Standards are also available online at: <[www.aasb.com.au](http://www.aasb.com.au)>.

*Corporations Act 2001* – Chapter 2M and related definitions.

Eddey P., Arthur, N. and Knapp, J. (2001) *Accounting for Corporate Combinations and Associations* 5<sup>th</sup> ed. Sydney: Prentice Hall.

Jubb, P., Langfield-Smith, I., and Haswell, S. (2002) *Company Accounting* 3<sup>rd</sup> ed. Melbourne: Nelson.

Leo, K.J. and Hoggett, J.R. (2001) *Company Accounting in Australia* 5<sup>th</sup> ed. Brisbane: John Wiley.

## End of Financial Accounting Suggested Solutions