**Additional Assessment item ACC382 202530**

**Review & Problem Questions Value:** Pass/ Fail

**Due date:** Friday, 20th June

# Submission method options: Email to [FOBJBS-Subject-Admin@csu.edu.au](mailto:FOBJBS-Subject-Admin@csu.edu.au) (submission via MS Excel is acceptable, as long as it is presented clearly). Otherwise, submit in MS Word format.

# Task

This assessment consists of 4 questions. A total of 120 marks are allocated to the questions below, which will then be converted to pass (PS) / fail grade (FL)

Please note the following:

1) All workings, where appropriate, must be shown to substantiate your answers. **Workings should be shown separately (and explained), not solely as part of the Excel formulas**  
2) Solutions should be rounded to the nearest dollar.  
3) To assist with the marking, narrations should be provided along with your journal entries.4) You need to have a genuine attempt at all four (4) questions.

**Question 1: Topic 1 - Accounting for Company tax (30 marks)**

Bob Ltd’s profit before tax for the year ended 30 June 2022 was $240,200. Included in this profit are the following items of income and expense:

|  |  |
| --- | --- |
| Amortisation of development costs | $16,000 |
| Carrying amount of equipment sold | 22,000 |
| Depreciation – building (5%) | 9,500 |
| Depreciation – plant (15%) | 13,500 |
| Doubtful debts expense | 4,000 |
| Employee benefits expense | 12,000 |
| Entertainment expense | 7,200 |
| Fines and penalties | 5,400 |
| Insurance expense | 6,200 |
| Proceeds on sale of equipment | 19,000 |
| Rent revenue | 32,000 |
| Royalty revenue (exempt income) | 4,400 |
| Warranty expense | 8,500 |
| Unearned revenue | 8,700 |

At 30 June, the company’s draft statements of financial position showed the following balances:

|  |  |  |
| --- | --- | --- |
|  | **2022** | **2021** |
| **Assets** |  |  |
| Cash | $27,400 | $14,600 |
| Accounts receivable | 22,000 | 23,000 |
| Allowance for doubtful debts | (4,000) | (3,500) |
| Inventories | 27,000 | 29,500 |
| Prepaid Insurance | 14,000 | 12,300 |
| Rent receivable | 22,000 | 25,000 |
| Development costs | 80,000 | - |
| Accumulated amortisation | (16,000) | - |
| Plant | 90,000 | 130,000 |
| Accumulated depreciation | (54,000) | (58,500) |
| Buildings | 190,000 | 190,000 |
| Accumulated depreciation | (38,000) | (28,500) |
| Deferred tax asset | ? | 18,000 |
| Goodwill | 11,000 | 11,000 |
|  | | |
| **Liabilities** |  |  |
| Accounts payable | 33,000 | 31,200 |
| Current tax liability | ? | 7,600 |
| Deferred tax liability | ? | 17,040 |
| Provision for employee benefits | 22,500 | 16,000 |
| Provision for warranties | 4,500 | 8,000 |
| Loan payable | 220,000 | 190,000 |
| Revenue received in advance | 8,700 | - |

*Additional information:*

1. The tax rate is 30%.
2. A tax deduction for development costs on 125% of the amount spent during the year is available for tax purposes. The profit reflects the amount of development costs amortised in the current period.
3. A tax deduction of $18,000 (20%) can be claimed on plant.
4. The plant sold on 1 July 2021 cost $40,000 when it was purchased 3 years before the date of sale.
5. Deductions are only available for annual leave when amounts are paid and not as they are accrued.
6. Actual amounts paid for insurance are allowed as a tax deduction.
7. No deduction is allowed for taxation purposes in relation to entertainment, fines, and penalties.
8. Rent revenue is taxable when amounts are received.
9. Depreciation of buildings is not allowed as a tax deduction.
10. The deferred tax asset (DTA) balance at 30 June 2021 comprised:  
    i) DTAs relating to temporary differences: $8,250  
    ii) DTAs relating to carried forward tax losses: $9,750
11. No journal entries related to deferred tax have been recorded for the year ended 2022. Assume the tax balances at 30 June 2021 are correct.

**Required:**

1. Prepare the current tax worksheet to calculate the current tax liability for the year ended 30 June 2022 (show all working). **(15 marks)**
2. Prepare the deferred tax worksheet to calculate the deferred tax asset and liability balances and adjustments for the year ended 30 June 2022.  
   Include all accounts and net balances where appropriate.**(13 marks)**
3. Prepare the journal entries to recognise the current tax liability, deferred tax assets, and liabilities at 30 June 2022. **(2 marks)**

**Question 2: Topic 2 - Business Combinations (20 marks)**

**Part A (12 marks)**

Iron Ltd is taking over the net assets of Man Ltd. The statement of financial position of Man Ltd immediately before the takeover on 1 July 2020 is as follows:

|  |  |  |
| --- | --- | --- |
|  | **Carrying amount** | **Fair value** |
| Cash | $12,000 | $12,000 |
| Accounts receivable | 60,000 | 62500 |
| Land | 360,000 | 340,000 |
| Buildings (net) | 265,000 | 275,000 |
| Equipment (net) | 160,000 | 182,000 |
| Plant (net) | 120,000 | 112,500 |
| Vehicles (net) | 90,000 | 92,000 |
|  | **1,067,000** |  |
| Accounts payable | 35,000 | 35,000 |
| Loan — ABC Bank | 245,000 | 245,000 |
| Share capital | 380,000 |  |
| Retained earnings | 407,000 |  |
|  | **1,067,000** |  |

The takeover agreement specified the following details:

1. Iron Ltd is to acquire all the assets of Man Ltd except for cash, and one of the vehicles (having a carrying amount of $19,500 and a fair value of $25,000), and assume all the liabilities except for the loan from the ABC Bank. Man Ltd is then to go into liquidation.
2. Iron Ltd is to supply sufficient cash to enable the debt to the ABC Bank to be paid off and to cover the liquidation costs of $3,500. It will also give $70,000 to be distributed to the owners of Man Ltd.
3. Iron Ltd is also to give a parcel of land to the owners of Man Ltd. The land has a carrying amount of $120,000 and a fair value of $110,000.
4. Iron Ltd is to issue 52,000 shares to the owners of Man Ltd. These have a fair value of $12 per share.

The takeover proceeded as per the agreement, with Iron Ltd incurring incidental costs of $15,500 and share issue costs of $9,200.

**Required:**

1. Prepare the acquisition analysis in relation to the acquisition to determine the gain on bargain purchase or goodwill. **(7 marks)**

2. Prepare the journal entries in the records of Iron Ltd to record its acquisition of Man Ltd on 1 July 2020. **(7 marks)**

**Part B (6 marks: between 300-600 words)**

What are acquisition-related costs? With reference to relevant accounting standard(s), discuss whether these costs should be capitalised or expensed.

**Question 3: Topic 3 and 4 - Consolidated financial statements, method, acquisition, business combination valuation and intra-group transactions (35 marks)**

Captain Ltd acquired its shares in America Ltd at 1 January 2020 for $40,000 on a *cum div.* basis. At that date, America Ltd recorded share capital of $20 000. America Ltd had declared prior to the acquisition a dividend of $3,500 that was paid in March 2020.

Financial information for Captain Ltd and its 100% owned subsidiary, America Ltd, for the year ended 31 December 2020 is provided below:

|  |  |  |
| --- | --- | --- |
|  | **Captain Ltd** | **America Ltd** |
| Sales revenue | $50,000 | $47,200 |
| Dividend revenue | 2,000 | 0 |
| Gain on sale of property, plant and equipment | 2,000 | 4,000 |
| Other income | 2,000 | 4,000 |
| Total income | 56,000 | 55,200 |
| Cost of sales | 42,000 | 36,000 |
| Other expenses | 6,000 | 2,000 |
| Total expenses | 48,000 | 38,000 |
| Profit before income tax | 8,000 | 17,200 |
| Income tax expense | 2,700 | 3,900 |
| Profit for the period | 5,300 | 13,300 |
| Retained earnings (1/1/20) | 12,000 | 6,000 |
|  | 17,300 | 19,300 |
| Dividend declared | 5,000 | 2,000 |
| Retained earnings (31/12/20) | 12,300 | 17,300 |

*Additional information:*

1. The income tax rate is 30%.
2. At 1 January 2020, all identifiable assets and liabilities of America Ltd were recorded at fair value except for inventories, for which the carrying amount was $950 less than fair value. Some of these inventories have been a little slow to sell, and 10% are still on hand at 31 December 2020. Inventories on hand in America Ltd at 31 December 2020 also includes items acquired from Captain Ltd during the period ended 31 December 2020. These were sold for $8,000 at cost plus 25% by Captain Ltd.
3. 40% of the goodwill on acquisition of America Ltd by Captain Ltd was written off as the result of an impairment test on 31 December 2020.
4. During March 2020, Captain Ltd provided some management services to America Ltd at a fee of $500 paid by 31 December 2020.
5. On 1 July 2020, America Ltd sold machinery to Captain Ltd at a gain of $6,000. This machinery had a carrying amount to America Ltd of $40,000, and was considered by Captain Ltd to have a 4-year life.
6. By 31 December 2020, the financial assets acquired by Captain Ltd and America Ltd from external entities increased in value by $3,000 and $2,200 respectively with gains and losses being recognised in other comprehensive income.
7. On 1 January 2020, Captain Ltd sold an item they classified as plant to America Ltd who classified it as inventory. The sales price was $500 which included a profit to Captain Ltd of $200. America Ltd sold this to another entity on 31 March 2020 for $700.

**Required:**

1. Determine the gain on bargain purchase or goodwill as at acquisition date. **(3 marks)**
2. Prepare the consolidation journal entries for Captain Ltd immediately after acquisition on 1 January 2020. **(5 marks)**
3. Prepare the consolidation journal entries for Captain Ltd as at 31 December 2020.  
   **(14 marks)**
4. Prepare the consolidation worksheet for the preparation of the consolidated financial statements by Captain Ltd as at 31 December 2020. **(7 marks)**
5. Prepare the Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020. **(6 marks)**

**Question 4: Topic 3 and 4 (continued) and Topic 5 - Non-Controlling Interest (35 marks)**  
  
On 1 July 2015, Rocket Ltd acquired 75% of the issued shares of Raccoon Ltd for $180,000. The following balances appeared in the records of Raccoon Ltd at this date:

|  |  |
| --- | --- |
| Share capital | $90,000 |
| General reserve | 9,000 |
| Retained earnings | 44,000 |

At 1 July 2015, all the identifiable assets and liabilities of Raccoon Ltd were recorded at fair value except for the following:

|  |  |  |
| --- | --- | --- |
|  | **Carrying amount** | **Fair value** |
| Inventories | $62,000 | $79,000 |
| Plant (cost 145,000) | 125,000 | 162,000 |
| Accounts receivable | 81,000 | 72,000 |

The plant had a remaining useful life of 5 years beyond 1 July 2015, with benefits to be received on a straight-line basis over the period. The plant was sold by Raccoon Ltd on 1 January 2020 for $17,000. By 30 June 2016, receivables had all been collected and inventories sold. Any adjustments for differences at acquisition date between carrying amounts and fair values are made on consolidation.

*Additional information:*

1. The tax rate is 30%.
2. Raccoon Ltd sold inventory to Rocket Ltd for $14,000. This inventory had cost Raccoon Ltd $7,000. At 30 June 2017, one-fifth of this inventory still remained in Rocket Ltd.
3. At 1 July 2019, inventories of Rocket Ltd included goods of $4,000 resulting from a sale on 1 February 2019 of non-current assets by Raccoon Ltd at a before-tax profit of $700. These items were on-sold to external entities by Rocket Ltd on 1 September 2019. This class of non-current assets is depreciated using a 10% per year.
4. On 1 January 2020, Raccoon Ltd sold an item of equipment to Rocket Ltd for $8,000 at a before-tax profit of $2,400. For equipment assets, Raccoon Ltd applies a 5% per year depreciation rate, while Rocket Ltd uses a 2.5% per year rate.
5. The movement in the General reserve was from Retained earnings on hand at 1 July 2015.
6. Financial information for the year ended 30 June 2020 includes the following:

|  |  |  |
| --- | --- | --- |
|  | **Rocket Ltd** | **Raccoon Ltd** |
| Sales revenue | 336,000 | 204,000 |
| Dividend revenue | 12,000 | 0 |
| Other revenue | 48,000 | 32,000 |
| Total revenue | 396,000 | 236,000 |
| Cost of sales | 232,000 | 104,000 |
| Other expenses | 16,000 | 8,000 |
| Selling and administrative (including depreciation) | 32,000 | 24,000 |
| Total expenses | 280,000 | 136,000 |
| Profit from trading | 116,000 | 100,000 |
| Gain on sale of property, plant and equipment | 16,000 | 6,100 |
| Profit before tax | 132,000 | 106,100 |
| Income tax expense | 52,800 | 41,500 |
| Profit for the period | 79,200 | 64,600 |
| Retained earnings (1/7/19) | 160,000 | 78,500 |
|  | 239,200 | 143,100 |
| Transfer to general reserve | 15,200 | 5,000 |
| Interim dividend paid | 16,000 | 30,000 |
| Final dividend declared | 16,000 | 15,000 |
|  | 47,200 | 50,000 |
| Retained earnings (30/6/20) | 192,000 | 93,100 |
| Asset revaluation surplus (1/7/19) | 12,000 | 7,000 |
| Gains on property revaluation | 4,000 | 3,000 |
| Asset revaluation surplus (30/6/20) | 16,000 | 10,000 |

**Required:**

1. Determine the gain on bargain purchase or goodwill as at acquisition date using the full goodwill method. Assume the fair value of the Non-Controlling Interest on 1 July 2015 was $52,500. **(4 marks)**
2. Determine the gain on bargain purchase or goodwill as at acquisition date using the partial goodwill method. **(3 marks)**
3. Prepare the consolidation journal entries for Rocket Ltd using the partial goodwill method at 1 July 2015. **(6 marks)**
4. Prepare the consolidation journal entries for Rocket Ltd using the partial goodwill method at 30 June 2020.

These consolidation journal entries should be prepared in the following format:  
(a) Business combination valuation entries at 30 June 2020  
(b) Pre-acquisition entries at 30 June 2020  
(c) NCI share of equity at 1 July 2015  
(d) NCI share of equity changes from 1 July 2015 to 30 June 2019  
(e) NCI share of equity changes from 1 July 2019 to 30 June 2020  
(f) Intra-group transaction adjustments required as at 30 June 2020 **(22 marks)**

Questions adapted from:

Arthur, N., Luff, L., Keet, P., Egan, M., Howieson, B., Ram,. R. (2016). *Accounting for corporate combinations and associations* (8th ed.). Pearson Education.  
  
Leo, K. J., Sweeting, J., Knapp, J. & McGowan, S. (2014). *Company Accounting*, (10th ed.). John Wiley & Sons, Australia.  
  
Loftus, J., Leo, K., Daniliuc, S., Boys, N., Luke, B., Ang, H., & Byrnes, K. (2020). *Financial Reporting.* (3rd ed.). John Wiley & Sons Ltd.

**SUBJECT LEARNING OUTCOMES**

This assessment task will work towards assessing the following learning outcome/s:

* be able to compute and account for company income tax;
* be able to prepare consolidated financial statements for economic entities where the parent has a 100% ownership interest in subsidiary and where a non-controlling interest is involved.
* be able to account for and prepare relevant financial report disclosures in relation to investments in associates and business combinations.

This assessment task covers topics 1 to 5 and has been designed to develop your understanding and application of the accounting processes for determining current and deferred tax, and the consolidation of financial statements where one entity controls another.

**MARKING CRITERIA AND STANDARDS**

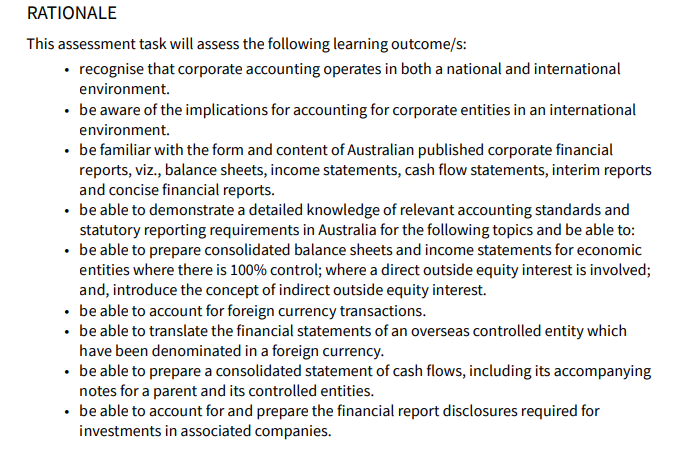
Focus areas:  
• Accuracy;  
• Ability to apply accounting standards and statutory requirements;  
• Presentation: format, vocabulary, legibility, spelling, structure.

The detailed allocation of marks for each question has been provided after each question for your information. Please note that whilst the criteria is presented in a HD – PS format, your mark ( and overall grade for the subject) will be converted to either a PS or FL format:

| **Criteria** | **Requirement** | **Pass (PS) 50% - 100%** | **Fail (FL) 49% - 0%** |
| --- | --- | --- | --- |
| **Question 1 Accounting for Company Tax** | **1. & 2.** | Current and Deferred tax balances determined with minor or some errors. Workings are logical, mostly accurate, and clearly presented. | Major errors in tax balances or missing/illogical workings. |
|  | **3.** | Journal entries are complete and mostly accurate, with clear narrations. | Journal entries are incomplete or contain significant errors. |
| **Question 2 – Part A Business Combinations** | **1.** | Acquisition analysis and goodwill/bargain purchase calculations are mostly correct with clear logic. | Significant errors in acquisition analysis or unclear/missing logic. |
|  | **1. & 2.** | Journal entries are mostly accurate with clear narrations. | Journal entries are incomplete or contain major errors. |
| **Question 2 – Part B Acquisition-related Costs** | **—** | Explanation is clear, well-structured, and references AASB standards. Shows understanding of capitalisation vs expensing. | Explanation lacks clarity, detail, or proper referencing. Shows limited understanding. |
| **Question 3 Consolidated Financial Statements** | **1.** | Goodwill/bargain purchase calculated with minor errors. Workings are logical and mostly accurate. | Major errors in calculation or unclear/missing workings. |
|  | **2. & 3.** | Consolidation journal entries are mostly accurate and well-structured. | Journal entries are incomplete or contain significant errors. |
|  | **4.** | Consolidation worksheet is mostly accurate and well-organised. | Worksheet contains major errors or is poorly structured. |
|  | **5.** | Consolidated financial statement is complete, well-formatted, and includes OCI. | Statement is incomplete, poorly formatted, or missing OCI. |
| **Question 4 Non-Controlling Interest** | **1. & 2.** | Goodwill/bargain purchase calculations are mostly correct. Workings are logical and clearly presented. | Major errors in calculations or unclear/missing workings. |
|  | **3. & 4.** | NCI and other consolidation entries are mostly accurate and well-structured. | Entries are incomplete, incorrect, or poorly structured. |

**PRESENTATION**

Assessment submissions must be in **MS Word or PDF** format. As a CSU student you are entitled to a free copy of Microsoft Office 2016 Suite (Office 365) on up to 5 PCs or Macs and other mobile devices, including Android, iPad and Windows tablets. To find out more information and how to download go to this link: <https://www.csu.edu.au/division/dit/staff/training/self-help/collaboration-and-communications/office-365>.



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