

**PAPUA NEW GUINEA UNIVERSITY OF TECHNOLOGY**

**DEPARTMENT OF BUSINESS STUDIES**

**2022 Second Semester Final Examination**

**AC322 – Corporate Accounting (BCAC 3)**

**TIME: 12:50 3<sup>rd</sup> Thursday November, 2022, TIME ALLOWED: 3 HOURS**

**INSTRUCTIONS TO STUDENTS**

1. You have 10 minutes to read the examination paper. You must not begin writing during this time.
2. You **MUST** answer all Questions even if you are not sure of an answer.
3. Make sure that you read each question carefully before you answer them. The mark awarded for the questions are shown beside each question.
4. Penalties will apply for not following instructions.
5. All answers must be written on the answer booklets provided. No other written material may be accepted. Please hand in every answer booklet provided to you after the examination.
6. Note Books, Textbooks, Notes, Mobile Phones are not permitted in the examination hall.
7. PRINT your name and student number on the answer booklet provided.  
PLEASE DO IT NOW.

**This Final Examination is worth 100 Marks towards your Final Grade.**

**Name of Examiner: Ms. Mali**

**Part A: Multiple Choice Questions. Select only A, B, C or D as one the best correct answer (40 marks)**

1. According to AASB 121/IAS21 The Effects of Changes in Foreign Exchange Rates, the currency of the primary economic environment in which the foreign entity operates is the:
  - a. local currency.
  - b. foreign currency.
  - c. functional currency.
  - d. presentation currency.
  
2. Which of the following standard apply to the preparation of Statement of Cash Flow?
  - a. IAS 1
  - b. IAS 7
  - c. IAS 8
  - d. IFRS 4
  
3. Property, plant & equipment items that:
  - a. have physical substance.
  - b. are held for resale.
  - c. not held for rental to others
  - d. are expected to be used up within one year from date of purchase
  
4. A business combination is defined as:
  - a. a transaction in which an acquirer obtains control of an acquire.
  - b. a transaction in which one entity obtains control of one or more other entities.
  - c. a transaction or other event in which an acquirer obtains control of one or more businesses.
  - d. a transaction or other event in which an entity obtains control of one or more businesses
  
5. According to IAS 21 The Effects of Changes in Foreign Exchange Rates, the currency in which the financial statements are presented by the reporting entity is the:
  - a. economic currency.
  - b. domestic currency.
  - c. functional currency.
  - d. presentation currency
  
6. For the purposes of consolidated financial statements, a group consists of:
  - a. an investor and its investees.
  - b. a parent entity and all its subsidiaries.
  - c. an entity that is controlled by a parent.
  - d. an entity that has one or more subsidiaries
  
7. The two least common valuation measures used in Accounting Standards are:
  - a. Fair value less costs to sell and carrying amount.
  - b. Net realizable value and fair value.
  - c. Value in use and net realizable value.
  - d. Cost and fair value
  
8. In a business combination, the acquirer is the party that:
  - a. sells the acquired business.
  - b. obtains control of the other business.
  - c. receives the acquisition consideration.
  - d. concedes control over the acquired entities.

9. Which of the following factors should be considered when determining the functional currency?
- Which currency mainly influences the costs of labour and materials?
  - Which currency mainly influences the selling price of the goods and services provided?
  - Which country has the most influence over competitive forces and regulations for the sales price of the goods and services?
  - All of these options should be considered.
10. Papindo Ltd acquired a number of assets for K500, 000 cash. The fair value of the assets on the date of acquisition were, Building K350, 000, Furniture & Fittings K50, 000 and Vehicle K100, 000. The journal entry to record this acquisition is:
- Dr Property, Plant & Equipment K500, 000 Cr Cash K500, 000
  - Dr Property, Plant & Equipment K550, 000 Cr Cash K550, 000
  - Dr Building K350, 000, Furniture & Fittings K50, 000, Vehicle K100, 000, Cr Cash K500 000
  - DR Building K380, 000 DR Furniture & Fitting K60 000, Vehicle K110, 000, Cr Cash K550, 000
11. The acquisition date for a business combination is the date on which:
- the acquirer effectively obtains control of the acquiree.
  - the business combination is announced to the public.
  - the acquirer announces the acquisition to the acquiree.
  - a substantive agreement between the combining parties is reached.
12. Which is the correct procedure of IASB STANDARD-SETTING PROCESS?
- Identify technical issue, Issue consultation document, Research and consider issue and Consider submissions
  - Identify technical issue, Request for input, Research and consider issue and Issue consultation document
  - Research and consider issue, Request for input, identify technical issue and Consider submissions.
  - Request for input, identify technical issue, Research and consider issue and Issue consultation document.
13. A subsidiary is an entity that:
- is controlled by another entity.
  - exercises control over a parent entity.
  - has the power to control a parent entity.
  - has significant influence over a parent entity
14. For the purposes of equity accounting, significant influence is regarded as the power of an investor:
- to dominate the financing decisions of an entity.
  - to control the financial and operating policies of an associate.
  - to participate in the day-to-day management of a joint venture interest.
  - to participate in the financial and operating policy decisions of an investee.
15. To identifying the control, these elements must be in placed:
- Power over the investor
  - Exposure, or rights to, variable returns
  - Investor's ability to use power to affects its amount of variable returns
  - Only b & c are correct
  - All of the above

16. 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. 20% or more of the voting power of the investee.
- b. 50% or more of the voting power of the investee.
- c. between 1% and 5% of the voting power of the investee.
- d. between 5% and 10% of the voting power of the investee.

17. A key characteristics that separate intangible assets from the assets such as property, plant and equipment:

- a. Reliability
- b. Lack of physical substance
- c. Length of useful life
- d. Separability

18. Which of the following assets meets the identifiability criteria for recognition as an identifiable intangible asset that can be recorded as acquired in a business combination?

- a. Copyrights
- b. Skilled and loyal workforce.
- c. Continuing development programs
- d. Strong and favorable supplier relations

19. The entity that is represented by a single set of consolidated financial statements is the:

- a. legal entity.
- b. parent entity.
- c. economic entity.
- d. subsidiary entity.

20. The key characteristic that determines when consolidated financial statements should be prepared is:

- a. control.
- b. significant influence.
- c. substance over form.
- d. the existence of transactions between the entities.

**For Questions 21 to 30, each question is worth 2 marks each. (20 marks)**

21. Alpha Limited acquired a 25% investment in Beta Limited for 490, 000. Beta declared and paid a dividend of K50, 000. Alpha Limited does prepare consolidated financial statements. The appropriate entry for the investor to record this dividend is:

- a. DR Cash K12, 500; CR Investment in associate K12, 500
- b. DR Dividend revenue K12, 500; CR Investment in associate K12, 500
- c. DR Dividends payable K12, 500; CR Cash K12, 500
- d. DR Cash K12, 500; CR Dividend revenue K12, 500

22. Colins Ltd, owns 25% of Ambrose Ltd. Ambrose's profit after tax for the year ended 31 December 2021 is K65,000. The tax rate is 30%. During the year ended 31<sup>st</sup> December 2020, Ambrose sold inventories to Colins for K10,000. These items had previously cost Ambrose K7, 600. All the items were unsold by Colins at 31<sup>st</sup> December 2020 and were sold in January 2021. Colette's share of Ambrose's profit for the year ended 31 December 2021 is:

- a. K16, 250
- b. K16, 850
- c. K17, 930
- d. K16, 670

23. ABC Limited acquired 100% of the share capital of NAC Limited. NAC had total shareholder's equity of K550,000. The book values of NAC Limited's assets were: buildings 200,000, machinery K80,000. The fair values of these assets were: buildings K280,000, machinery K140,000. The tax rate is 30%. The fair value of the identifiable net assets is:

- a. K506,000
- b. K690,000
- c. K 648, 000
- d. K592, 000

24. What is foreign currency risk?

- a. The gains and losses we make if the exchange rate between the PGK and a foreign currency change.
- b. The risk of foreign currency exchange
- c. The gains and losses from business activities in overseas.
- d. The risk of losses that would made from foreign investments.

25. Which secondary factor indicates reporting entity's currency as functional currency?

- a. Funds are primarily dominated in the local currency, and come from foreign operation's activities including local fund raisings.
- b. Profits are remitted to the reporting entity.
- c. Profits generated by the foreign operation are retained by the foreign entity and are used for its expansion.
- d. None of the above

26. The following are the reasons for consolidating financial statements except;

- a. Reporting of risks and benefits
- b. Demand for relevant information
- c. Accountability
- d. Comparable information

27. In the case of a wholly owned subsidiary, if the fair value of the consideration transferred plus the fair value of the previously held interest is greater than the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary:

- a. goodwill has been purchased and must be recognised on consolidation.
- b. the difference is treated as a special equity reserve in the acquirer's accounting records.
- c. the difference is immediately charged to profit or loss in the period in which the business combination occurred.
- d. a gain on bargain purchase results.

28. BSP Bank has lent SVS Limited K700,000. Part of the loan contract prevents SVS from borrowing money in the future from other banks without the permission of BSP. As a result of this relationship:

- a. BSP Bank is regarded as a parent entity of SVS Limited.
- b. SVS Limited is regarded as a subsidiary of BSP Bank.
- c. a parent-subsidiary relationship does not exist between these two parties.
- d. a parent-subsidiary relationship exists between these two parties as BSP Bank is able to direct the relevant activities of SVS Limited.

29. When accounting for a business combination a contingent liability is recognized if:

- a. its fair value can be measured reliably.
- b. it is a possible obligation and it is probable that it will occur.
- c. it is a present obligation that has failed to meet the recognition criteria.
- d. it is probable that an outflow of resources may occur in order to settle the obligation

30. Highlander Limited acquired a 25% investment in Islander Limited for K370, 000. Islander declared and paid a dividend of K76, 000. Highlander Limited does not prepare consolidated financial statements. The appropriate entry for the investor to record this dividend is:

- a. DR Cash K19, 00; CR Investment in associate K19, 000
- b. DR Investment in associate K19, 000; CR Dividend revenue K19, 000.
- c. DR Dividends payable K19, 000; CR Cash K19,000
- d. DR Cash K19, 000; CR Dividend revenue K19, 000

**Part B: True or False Questions. Write True if the statement is true or write False if the statement is not true (10 marks).**

1. Property, Plant & Equipment are recognized on the balance sheet if it is probable that future economic benefits associated with the item will flow to the entity.
2. One of key elements of fair value is, it is a previous exit price.
3. Accounting treatment for research costs are partly expensed and partly amortized.
4. Gains and losses arising from the translation of financial statements of foreign operations are items included in other comprehensive income statement.
5. The key users of financial statements are employees, managers and executives.
6. Highly trained staff do not qualify as intangibles due to the lack of control the entity has over the staff (they can leave).
7. Goodwill are future economic benefits from assets that could be individually identified or separately recognised in the combination.
8. Companies Act 1997- forms the statutory framework for accounting, auditing and corporate financial reporting in PNG.
9. Significant influence is the power to participate in the financial and operating policy decision of the investor.
10. In PNG the Accounting Standard Board adopted Australian Accounting Standards Board (AASBs).

**Part C: Four Problem Solving Questions. (Show your working out to collect full marks) (50 marks)**

1. Watson Limited acquires the net assets of Lake Limited for a cash consideration of K160,000. One half is to be paid on acquisition date and the other half is payable in one year's time. The appropriate discount rate is 8% p.
  - a. **The present value of the cash outflow in one year's time is: (3marks)**
  - b. **Using the same information in 1a, what would be the total consideration paid? (3marks)**

2. BSP Ltd acquired 95% of the issued share capital of NAC Ltd on 31 January 2020 for a cash consideration of K350, 000

At that time the net assets of NAC Ltd were represented as follows:

	K
Share Capital	450, 000
Retained Earnings	<u>100, 000</u>
Net assets	<u>550, 000</u>

When BSP acquired its investment in NAC the following information applied:

- An equipment held by NAC was undervalued by K35, 000. The equipment had originally cost K105,000, 3 years ago and was being depreciated at 8% per year accumulated depreciation was \$25, 200, so carrying amount = 105, 000 – 25, 200 = 79, 800
- A contingent liability relating to an unsettled legal claim with a fair value of K3, 000 was recorded in the notes to NAC financial statements.

The tax rate is 30%

**Required: you are to calculate goodwill or gain on bargain purchase. (10 marks)**

3. On 1 January 2022 Alpha Ltd acquired all the assets and liabilities of Bee Ltd but not Bee's issued shares. Details of the consideration paid:
1. Cash of K800,000, half to be paid on 1 January 2022, with the balance due on 1 January 2023. The incremental borrowing rate for Alpha Ltd is 9%
  2. 100,000 shares in Alpha Ltd were issued. The share price on 1 January 2022 was K1.50 per share. This price was a six-month high. Cost of issuing the shares was K2,300.
  3. Due to doubts whether the share price would remain at K1.50, Alpha Ltd agreed to pay cash equal to value of any decrease in the share price below K1.50. This guarantee was valid for 3 months (to 31 March 2022). Alpha Ltd believed that there was a 75% chance that the share price would remain at or above K1.50 until 31 March 2022 (and a 25% chance that it would fall to K1.30)
  4. Alpha Ltd transferred a patent to Bee Ltd. The fair value of the patent is K60,000. As the patent was internally generated by Alpha Ltd it has not been recognised in Alpha Ltd.'s books.
  5. Legal fees and associated costs with the acquisition totalled K5,000.

**a. Required: Calculate the consideration transferred. (10marks)**

**b. If Alpha paid K981, 972.48 to acquire all of Bee Ltd's net assets. Details of Bee Ltd's assets and liabilities acquired by Alpha Ltd are as follows:**

	Carrying Amount	Fair Value
Land	450, 000	495, 000
Plant and Equipment	360, 000	380, 000
Inventory	50, 000	77, 000
Accounts Receivable	30, 000	35, 000
Accounts Payable	(60, 000)	(75, 000)
Loan Payable	(76, 000)	(80, 000)
Net Assets	754, 000	832, 000

Bee Ltd has unrecorded contingent liability of K12, 000

- Calculate the FVINA acquired and determine the goodwill on acquisition. (6 marks)**
- Prepare the journal entry in the books of Alpha Ltd to account for the acquisition (14 marks)**

4. Australian company New Crest Ltd owned the Papua New Guinea company Golpi Mining Ltd. On 1 July 2021, Golpi Mining Ltd bought a machine for K1, 500, 000, when the exchange rate was AUD1 = PGK 3.50

**Required: Translate to presentation currency of the vehicle value for reporting purpose. (4marks)**

**THE END!**