

QUESTION ONE: ACCOUNTING SUBJECTIVITY

In tutorial 1, you discussed Dr Ruth Hines seminal article “Financial Accounting: In Communicating Reality, We Construct Reality”. In this article, the student says to the master:

“It seems to me, that your power is a hidden power, because people only think of you as communicating reality, but in communicating reality, you construct reality.” (p. 257).

Required:

- A. Using one example from your accounting education (in ACCY 308 and other courses), explain how this “reality construction” occurs in accounting practice. (10 marks)
- B. Discuss how accountants can be arguably regarded as “powerful” members in society. (10 marks)

You are welcome to combine your discussion for both questions.

Expected TOTAL Word Count: 500 words

[TOTAL OF 20 MARKS]

QUESTION TWO: ASSOCIATES AND JOINT ARRANGEMENTS

Blackbooks Ltd is a large bookseller with various inter-company investments. On 1 July 2019, the entity acquired 35% of the issued shares in The Little Shop Around the Corner Ltd for a purchase consideration of \$65,000. In that same accounting period, Blackbooks Ltd – in conjunction with Once Upon a Book Ltd – acquired joint control of A Novel Idea Ltd.

As a member of the financial accounting team you are tasked with determining how to account for this investment.

Additional information:

- For the reporting period ending 30 June 2020, The Little Shop Around the Corner Ltd reports a net profit for the year of \$200,000 from which it paid a dividend on 30 June 2020 to shareholders of \$45,000. The entity also revalued land upwards by \$50,000.
- The tax rate is 30 per cent.

Required:

- A. Blackbooks Ltd has determined that The Little Shop Around the Corner Ltd is an “associate” and that its joint control of A Novel Idea Ltd constitutes a “joint arrangement”. Explain the key differences between associates and joint arrangements, and how they are accounted for. (10 marks)

- B. Prepare the accounting journal entries that Blackbooks Ltd would recognise for its investment in The Little Shop Around the Corner Ltd (its associate), for the reporting period ending 30 June 2020. (10 marks)

[Note: You need to take into consideration all the transactions since investment date.]

[TOTAL OF 20 MARKS]

QUESTION THREE: DETERMINING SUBSIDIARY STATUS

In the following two independent situations, determine whether a parent-subsiary relationship exists based on the definition of “control” per NZ IFRS 10.

- A. Stark Ltd and Targaryen Ltd each hold 50% of the shares in Snow Ltd, all companies being involved in the renewable energy industry. Stark Ltd agrees that Targaryen Ltd should provide the management of Snow Ltd because of the expertise provided by its managing director, Danny Targaryen. Targaryen Ltd received a management fee for providing its expertise. (10 marks)
- B. On the 1 March 2021, Homelander Ltd acquired 42% of the ordinary shares of Starlight Ltd. Under the company’s constitution, each share is entitled to one vote. On the basis of past experience, only 65% of the eligible votes are typically cast at the annual general meetings of Starlight Ltd. No other shareholders hold a major block of shares in Starlight Ltd. (10 marks)

[TOTAL OF 20 MARKS]

QUESTION FOUR: CONSOLIDATED FINANCIAL STATEMENTS

On 1 April 2019, Rosebud Ltd purchased 85% of the shares of Elmdale Ltd, for \$175,000. At acquisition date, Elmdale Ltd’s equity comprised:

	<u>Elmdale</u> <u>Ltd</u>
Asset revaluation surplus	\$20,000
Retained earnings	22,000
Share capital	123,000

On 1 April 2019, all the identifiable assets and liabilities of Elmdale Ltd were recorded at fair value.

Additional information

- On 1 April 2019, Rosebud Ltd gave Elmdale Ltd a loan of \$25,000, accruing interest at a rate of 8%.
- On 31 August 2019, Rosebud Ltd provided consulting services to Elmdale Ltd for \$8,200. This is paid for in cash.
- During the period ending 31 March 2020, Elmdale Ltd paid \$16,000 in cash dividends.
- During the period ending 31 March 2020, Elmdale Ltd declared (but not paid) \$14,000 in dividends.
- During the reporting period ending 31 March 2020, Rosebud Ltd sold inventories to Elmdale Ltd for \$16,000. The inventories had previously cost Rosebud Ltd \$12,000.
- On 30 September 2019, Elmdale Ltd sold Rosebud Ltd Land for \$80,000. This had originally cost Elmdale Ltd \$30,000.
- The tax rate is 30%.

Required:

Using the information provided above, prepare the adjusting journal entries for the consolidation worksheet for the period ending **31 March 2020**. Show all of your workings.

[TOTAL OF 40 MARKS]