



## MAA261 FINANCIAL ACCOUNTING

*T3 2019*

### CASE DATA FOR RELIABLE MOWING PTY LTD

Reliable Mowing Pty Ltd is a business that provides mowing and garden maintenance. The business was formed on 1 July 2019, operates an office in Melbourne and is registered for Goods and Services Tax (GST). The business has a financial year ending 30 June. When commencing the business on 1 July 2019, Reliable Mowing Pty Ltd purchased the following assets for \$360,000 (plus GST):

	<b>Fair value of assets</b>
Land	\$105,000
Building	\$213,000
Equipment	54,000
	<b>\$372,000</b>

The purchase of the assets comprised \$150,000 cash and a loan for the remaining amount. Reliable Mowing Pty Ltd also had additional costs/discounts relating to the purchase: fencing of the land \$1,000 (plus GST), additional cost to have the land title transferred into the business' name, \$1,500, preparation of the building to make it suitable for intended use \$5,000 (plus GST), damage to the machinery caused by carelessness during installation that required repair, \$1,200 (plus GST), freight insurance while in transit for the machinery \$500 (plus GST). The building is expected to have a useful life of ten years and an estimated residual value of \$19,032. The equipment is expected to have a useful life of 5 years and be used for 30,000 hours and an estimated residual value of \$1,239. The equipment is expected to be used 10,000 hours in year 1, 8,000 hours in year 2, 6,000 in year 3, 4,000 in year 4 and 2,000 in year 5.

In two year time on 30 June 2021 Reliable Mowing Pty Ltd obtained an independent valuation of the land and buildings as suggested by your team. The independent valuation indicated that the land's fair value was \$90,000 and the building's fair value was \$186,000. The valuation report stated that the residual value of the building has been revised to \$10,000 and is expected to last an additional 8 years.

The building will require significant subsequent costs for the year ended 30 June 2021. As a result the building will need to be re painted and minor repairs will be carried out on the air conditioning and plumbing systems. Expenditure for this will be \$25,000 (plus GST).

On 30 June 2022, the equipment was overhauled (upgraded) at an additional cost of \$4,500 (plus GST). The upgrade will allow the equipment to be used for an additional 15,000 hours over 5 years, with a new residual value of \$2,400. The business will also incur a cost of \$800 to disposal of the old parts.

Reliable Mowing Pty Ltd enters into three contracts in the same week with We Care Aged Care Pty Ltd who have agreed to pay the total of \$605 000 (GST inclusive). We Care Aged Care Pty Ltd pay the total in full on 16 September 2021. The details for the three contracts are as follows:

Date of Contract	Description	Contract Price (GST Exc)	Stand Alone selling price (GST Exc)
2 February, 2021	Lawn Mowing	\$330,000	\$275,000
6 February, 2021	Gutter Cleaning	\$82,500	\$110,000
10 February, 2021	Furniture Assembly	\$137,500	\$165,000

The dates of completion for these contracts are as follows:

Lawn Mowing 31 July 2021

Gutter Cleaning 19 August 2021

Furniture Assembly 30 August 2021