

# Tutorial 3 Questions

## Comprehension questions

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1. What is a cash-generating unit (CGU)?
2. What are some internal indicators of impairment?
3. Recognition of intangible assets

Flynn Ltd has the following:

- a. the cost of testing in search for product alternatives
- b. an investment in a subsidiary company
- c. customer lists that have been generated during the past 3 years
- d. training costs associated with a new product
- e. legal costs incurred in securing a patent
- f. long-term receivables.

**Required**

Which of these should be included as an intangible asset in the accounts of Flynn Ltd?  
Give reasons for your answers. (LO3)

## Application and analysis questions

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### 1. Depreciation and revaluation of assets

In the 30 June 2022 annual report of Wombat Ltd, the equipment was reported as follows:

Equipment (at cost)	\$	250 000
Accumulated depreciation		<u>75 000</u>
		<u>175 000</u>

The equipment consisted of two machines, Machine A and Machine B. Machine A had cost \$150 000 and had a carrying amount of \$90 000 at 30 June 2022. Machine B had cost \$100 000 and had a carrying amount of \$85 000. Both machines are measured using the cost model and depreciated on a straight-line basis over a 10-year period. No scrap value at the end of their useful life.

On 31 December 2022, the directors of Wombat Ltd decided to change the basis of measuring the equipment from the cost model to the revaluation model. Machine A was

revalued to \$90 000 with an expected useful life of 6 years, and Machine B was revalued to \$77 500 with an expected useful life of 5 years.

At 1 July 2023, Machine A was assessed to have a fair value of \$81 500 with an expected useful life of 5 years, and Machine B's fair value was \$68 250 with an expected useful life of 4 years.

**Required**

- Prepare journal entries to record depreciation during the year ended 30 June 2023, assuming there was no revaluation.
- Prepare the journal entries for Machine A for the period 1 July 2022 to 30 June 2023 on the basis that it was revalued on 31 December 2022.
- Prepare the journal entries for Machine B for the period 1 July 2022 to 30 June 2023 on the basis that it was revalued on 31 December 2022.
- Prepare the revaluation journal entries required for 1 July 2023.
- According to accounting standards, on what basis may management change the method of asset measurement, for example from cost to fair value?

**2. Revaluation adjustments and reversals**

On 1 January 2022, Lima Ltd revalued land from \$100 000 to \$200 000. On 1 January 2023, the company subsequently revalued the land to \$160 000. And on 1 January 2024, the company again revalued the asset downwards to \$80 000.

**Required:**

- Prepare the journal entries required to record the revaluation adjustment for the year ended 30 June 2022.
- Prepare the journal entries required to record the revaluation adjustment for the year ended 30 June 2023.
- Prepare the journal entries required to record the revaluation adjustment for the year ended 30 June 2024.

**3. Reversal of impairment losses**

Saxon Ltd conducted an impairment test at 30 June 2021. As a part of that exercise, it measured the recoverable amount of the entity, considered to be a single CGU, to be \$217 600. The carrying amounts of the assets of the entity at 30 June 2021 were:

Equipment	\$ 200 000
Accumulated depreciation	(40 000)
Patent	40 000
Goodwill	6 400
Inventories	32 000
Receivables	1 600

The receivables held by Saxon Ltd were all considered to be collectable. The inventories were measured in accordance with AASB 102/IAS 2 *Inventories*. For the period ending 30

June 2022, the depreciation charge on equipment was \$14 720. If the equipment had not been impaired the charge would have been \$20 000. At 30 June 2022, the recoverable amount of the entity was calculated to be \$10 400 greater than the carrying amount of the assets of the entity. As a result, Saxon Ltd recognised a reversal of the previous year's impairment loss.

**Required**

**Prepare the journal entry(ies) accounting for the impairment loss at 30 June 2021 and the reversal of the impairment loss at 30 June 2022 (LO5 and LO6)**

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