Week 1 - Accounting Regulation

General-purpose financial statements are made to meet the information needs of primary users who are unable to command the preparation of individual tailor-made reports (special-purpose financial statements). General-purpose financial statements must comply with the AASB Framework and accounting standards. They are a grouping of financial statements (profit/loss, retained earnings…) and supporting notes that are included within an annual report presented to shareholders at the AGM.
Special-purpose financial statements are made to satisfy a specific purpose or certain user (eg bank demanding information on projected cash flow to allow a loan).

WEEK 4 – ACCOUNTING FOR INCOME TAXES

Taxable Profit:

- Profit for taxation purposes is known as taxable profit.
- Determined in accordance with Australian income tax legislation, not according to general accounting rules
- There are differences b/w accounting principles of revenue and expense recognition and taxation principles
- Therefore, accounting profit is not the same as taxable profit
- Tax expense for accounting purposes (shown on statement of comprehensive income) is calculated after applying relevant accounting standards from GAAP
- Income tax payable to tax office (statement of financial position) based on taxable profit derived by the entity applying the rules of taxation law.
- ACCOUNTING PROFIT ≠ TAXABLE PROFIT

Item	Generally accepted accounting rule	Tax rule
Many accrued expenses (e.g. long-service leave, warranty costs)	An expense when accrued	Recognised as a tax deduction when paid
Many prepaid expenses (e.g. prepaid rent)	Initially an asset—expensed when economic benefits used	Typically a tax deduction when paid
Revenue received in advance (e.g. rental revenue)	Treated as a liability and recognised as revenue when earned	Typically taxed when received
Entertainment and goodwill impairment	Treated as an expense	Not a tax deduction in current or subsequent periods
Doubtful debts	Treated as an expense when recognised	Treated as a tax deduction when debtor is actually written off in subsequent period
Development expenditure	Often capitalised and subsequently amortised	Typically a tax deduction when paid for

Accounting for income taxes

- Governed by AASB 112
- Applies the 'balance sheet' method: the recognition of tax-related assets and liabilities in the balance sheet is based on the differences b/w accounting and tax values of assets and liabilities

WEEK 6 – IMPAIRMENT OF ASSETS & INTANGIBLE ASSETS

Impairment of Non-Current Assets
If non-current asset's carrying amount exceeds its recoverable amount it must be written down to its recoverable amount:

- This write-down is called <u>impairment loss</u>.
- *Carrying amount* is the cost of the asset (or revaluated amount) less accumulated depreciation and impairment losses

Recoverable Amount
The recoverable amount of an asset is the higher of its *net selling price* or *value in use*.

- Net selling price = Fair value less cost to sell
    - Amount obtained from the sale of an asset in an arm's length transaction b/w knowledgeable willing parties, less costs of disposal.
- Value in use = PV of future cash flows expected from continued use of the asset.

Impairment Test (AASB 136)

- The purpose of impairment test is to determine whether the carrying amount of assets exceeds its recoverable amount
- Not necessary to test each asset at the reporting date.
- Impairment test can be performed where there is an indication that an asset may be impaired. (faulty, damaged, obsolete…)
- Entity must determine by looking at information whether there is sufficient evidence to suspect that an asset may be impaired. If no evidence then assume that no impairment.
    - <u>External sources of information</u>:
        - *Market value* – Significant decrease in market value of asset
        - *Entity's Environment/Market* – significant adverse changes in the manner in which the asset has been used. (eg. Reduction of market share because of new products in marketplace)
    - <u>Internal source of information</u>:
        - *Physical damage* – asset has suffered considerable physical changes/damages.
        - *Changed use within the entity* – asset may be expected to be used differently.
        - *Economic performance of asset* – the internal report indicates that economic condition of the asset will be worse than expected (eg. Higher maintenance costs or lower cash flows/profits).

<u>Journal Entry for an impairment loss</u>:

Dr Impairment loss – machinery/land…
  Cr Accumulated Impairment loss – machinery/land…

<u>Cash Generating Units</u>
Impairment losses will sometimes be determined by reference to a *cash-generating unit* (CGU) rather than to a specific asset

- Cash generating unit = (AASB 136) 'the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets' (Eg. A division of the company)

It may not be possible to estimate the recoverable amount (RA) of an individual asset because it is part of a larger group of assets which together form a CGU.

- Then it is necessary to determine whether there has been an impairment in the RA of the whole CGU.
- Impairment losses must be deducted from assets in proportion to their size.
  (Eg below asset 1=½ of assets, asset 2=2/5 of assets, asset 3= 1/10 of assets).

Journal Entry for an impairment loss for CGU:

Dr	Impairment loss	200 000	
Cr	Accumulated Impairment loss – asset 1		100 000
Cr	Accumulated Impairment loss – asset 2		80 000
Cr	Accumulated Impairment loss – asset 3		20 000

NOTE: IF impairment loss takes asset below its RA then the difference cannot be deducted. RA must be used and the excess impairment must be deducted from the other assets of a pro-rata basis (proportionally as before)

Cost Method – in Cassie Ltd accounts

To recognise initial recognition of shares in Joy Ltd JUNE 2019
Dr Investment in Joy Ltd 540000
Cr Cash at bank 540000

To recognise dividends provided ($40000X30%) JUNE 2019
Dr Dividend receivable 12000
Cr Dividend revenue 12000

To recognise receipt of previous dividend declared) OCT 2019
Dr Cash at bank 12000
Cr Dividend receivable 12000

To recognise share of dividend ($20000X30%) JUNE 2020
Dr Dividend receivable 6000
Cr Dividend revenue 6000

Equity method – Associate (not parent)

To recognise initial recognition of shares in Joy Ltd JUNE 2019
Dr Investment in Joy Ltd 540000
Cr Cash at bank 540000

To record Cassie Ltd's share of Joy Ltd's profit JUNE 2019
Dr Investment in Joy Ltd 30000
Cr Share of associate's P/L 30000

To recognise dividends provided ($40000X30%) JUNE 2019
Dr Dividend receivable 12000
Cr Dividend revenue 12000

To recognise receipt of previous dividend declared) OCT 2019
Dr Cash at bank 12000
Cr Dividend receivable 12000

To recognise share of current loss of Joy Ltd JUNE 2020
Dr Share of associate's P/L 15000
Cr Investment in Joy Ltd 15000

To recognise share of dividend ($20000X30%) JUNE 2020
Dr Dividend receivable 6000
Cr Dividend revenue 6000

To recognise share of revaluation surplus JUNE 2020 *(400000*.7(TAX)*.3(SHARE))*
Dr Investment in Joy Ltd 84000
Cr Revaluation surplus 84000

Equity method – As parent entity (in consolidated financial statements)

To record investor's share of associate's profit JUNE 2019
Dr Investment in Joy Ltd 30000
Cr Share of associate's P/L 30000

To recognise dividends provided ($40000X30%) JUNE 2019
Dr Dividend receivable 12000
Cr Investment in Joy Ltd 12000

To record prior period share of profits(Prior period share of profit – prior period dividends received) JUNE 2020
Dr Investment in Joy Ltd 18000
Cr Retained earnings – 30 JUNE 2019 18000

To recognise investment in Joy, revenue from associate are reduced to reflect current period loss JUNE 2020
Dr Share of associates P/L 15000
Cr Investment in Joy Ltd 15000

To recognise share of dividend ($20000X30%) JUNE 2020
Dr Dividend receivable 6000
Cr Dividend revenue 6000

To recognise share of revaluation surplus JUNE 2020 *(400000*.7(TAX)*.3(SHARE))*
Dr Investment in Joy Ltd 84000
Cr Revaluation surplus 84000

Week 11 – Joint Arrangements

AASB 11 Joint Arrangements: considers how to account for interests held in joint arrangements.

- This is particularly common in the mining industry, real estate development and construction industries.
    - In mining, venturers contribute resources for joint use with a view to share the production output.
    - In property development, one venturer might contribute expertise and the other financial capital, with both parties having a share in the final construction.

Joint Arrangements

- Joint arrangement is an arrangement of which 2 or more parties have joint control.
- Joint arrangements can take many different forms/structures (partnerships, trust, corporations).
- Joint arrangements can even exist when a separate vehicle has not been established. Here the joint arrangement can simply involve the shared use of assets, other resources and expertise of the parties.
- Separate vehicle: is a separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality.

Joint Control

> *Paragraph 7 of AASB 11*: The contractually agreed sharing of control of an arrangement, which exists only when decision about the relevant activities require the unanimous consent of the parties sharing control.

As joint arrangements (either joint operations or joint ventures) are subject to joint control:

- Stronger than 'significant influence', a defining characteristic relating to investments in associates, but weaker than 'control';
- No one entity has control of the joint arrangement and consequently the arrangements are not considered to be subsidiaries of a parent entity.

Therefore we do not consolidate interests in joint arrangements with the accounts of the investor.

Joint Venture

> *AASB 11 & AASB 128*: A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

- Parties to a joint venture are called joint venturers.
- Required accounting treatment is defined in *paragraph 24 of AASB 11*:

> > Joint venturer shall recognise its interests in a joint venture as an investment and shall account for that investment using the equity method.