

Accounting Transactions

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Manufacturing Accounting

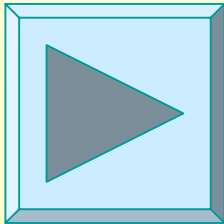
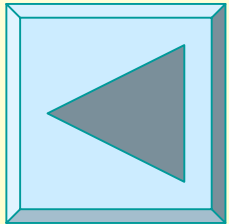
- $\text{Production cost} = \text{Prime cost} + \text{factory overhead cost}$
- $\text{Prime cost} = \text{Direct material} + \text{Direct Labour} + \text{Direct expenses}$
- $\text{Production cost of Goods Completed} = \text{Production cost} + \text{opening WIP} - \text{closing WIP}$

Non-profits organisation

- Income Statement
- Profit and Loss account rename as Income and Expenditure Accounts
- No profits or loss
- Only surplus or deficit
- Balance Sheet
- Capital rename as Accumulated Fund

Main Contents

- Discuss all SSAP
- Discuss accounting entry
- Provide a simple guideline



Capital Reduction Scheme (introduction)

- Reduce /Cancel liabilities
- Return capital in excess of company needs
- Cancel paid up share capital no longer represented by shares

Capital Reduction Scheme (Procedure)

- Must have a power in the articles
- Pass a special resolution
- Apply to the court for petition
- Position of creditors
- Court confirm
- File documents with Registrar Companies

Capital Reduction Scheme (Transaction)

- **Reduction of Capital**
- DR. Share Capital and Share premium , CR. Capital Reduction
- **Issue ordinary share/ fully or partially settlement**
- DR. Cash/Creditors/Debenture interest accrued, CR. Ordinary Shares
- **Assets**
- DR. Capital Reduction, CR. Intangible Assets
- DR. Capital Reduction, CR. Assets (revaluation deficit / decrease in value)
- DR. Assets , CR. Capital Reduction (revaluation surplus/increase value)

Capital Reduction Scheme (Transaction)

- **Settlement of liabilities**
- DR. Liabilities, CR. Cash
- **Reduction in liabilities**
- DR. Liabilities e.g. Creditors, debenture holders , CR. Cash
- **Settlement of non-balance sheet liabilities – cost of capital reduction**
- DR. Capital Reduction, CR. Cash
- **Issue of ordinary shares in lieu of preference share dividend in arrear**
- DR. Capital Reduction CR. Ordinary share

Capital Reduction Scheme (Transaction)

- **Debit balance of profit and loss account write off**
- DR. Capital Reduction, CR. Profit and Loss account
- **Profit / Surplus on capital reduction**
- DR. Capital Reduction , CR. Capital reserve
- **Loss / deficit on capital reduction**
- DR. Named Assets, CR. Capital Reduction

Group Accounting – Four level of investments

Level of investment	Accounting treatment (Income)	Accounting treatment (Assets)
Simple investment	Cr. Dividend (P & L)	B/S at cost(revalued)
Large investment (N.1)	Cr group shares of investee (N. 3)	Equity method of accounting(N.4)
Large investment (N.2)	Full consolidation	Full consolidation
Joint venture	Cr. Dividend / Proportional consolidation	Equity method or Proportional consolidation

Group Accounting – Four level of investments

- N1. Large investment carrying significant influence
- N2. Large investment giving control
- N3. Group share of investee's pre-tax profit in P/L and group's share of tax
- N.4 Cost plus group's share of post-acquisition retained profit

Simple Consolidated accounts

		Post-acquisition profits (H & S: economy entity)	
80%	Cost of Control	P & L	
20%	Minority Interest	Minority Interest	
Time	Pre-acquisition profits	Post-acquisition profits(Group performance)	

Simple Consolidation accounts (Con't)

- $\text{Goodwill} = \text{Consideration} - \text{issued share capital} - \% \times \text{Reserve}(\text{undistributed} + \text{distributed})$
- Associate : $\text{Net assets}(\text{Group share}) + \text{Goodwill not W/O or Original Cost} + \text{Group share post-acquisition profits} - \text{Goodwill W/O}$

Accounting for Foreign Currency – individual/Single company stage

- Purchases of goods for resale
- Exchange rates : 10/31/92 FF1=\$1.28 ,
- 11/30/92 FF1=\$1.34, 12/31/92 FF1=\$1.38
- 10/31/92 Cost of goods purchases for FF100,000
- Dr. Inventories, Cr. Creditors - \$128,000
- 11/30/92 Settlement of Creditors
- Dr. Creditors \$128,000 , Exchange Loss \$6,000
- Cr. Bank \$134,000
- 12/31/92 – no entries are made (the inventories are non-monetary assets, should not be subject to further translation once translated and recorded)

Accounting for Foreign Currency – individual/Single company stage (Con't)

- Foreign Currency Loan
- Exchange rates : 7/1/92 A\$1=\$6.0 ,
- 12/31/92 A\$1=\$5.8
- 7/1/92 Bank loan obtained for A\$1,000,000
- Dr.Cash at bank, Cr. Loan - \$6,000,000
- 12/31/92 Revaluation on loan
- Dr. Loan \$200,000 , Exchange Gain \$200,000
- The unsettled bank loan is monetary items, need to be translated at the closing rate at the balance sheet

Accounting for Foreign Currency – individual/Single company stage (Con't)

- Foreign Currency Loan to finance foreign currency assets
- Exchange rates : 7/1/92 A\$1=\$6.0 ,
- 12/31/92 A\$1=\$5.8
- 7/1/92 Bank loan obtained for A\$1,000,000 to purchase property for A\$800,000
- Dr.Cash at bank \$1,200,000 , Property - \$4,800,000
- Cr. Loan \$6,000,000
- 12/31/92
- Dr. Reserve and Cr. Property \$160,000 – retranslation of property
- Dr Loan \$200,000 Cr. Reserve 160,000 and Exchange Gain \$40,000 – retranslation of loan

Accounting for Foreign Currency – Speculative Forward Contract(Con't)

- Exchange rates : 12/31/92 – two month forward rate YEN\$1 = \$0.0602, spot rate for 2/28/1993 : YEN\$1=\$0.00598
- 12/1/92 enter a forward contract to buy 100 million YEN at the rate of YEN\$1=\$0.0583
- 12/31/92 Dr. Accounts Receivable CR. Exchange Gain - \$190,000 $(0.0602 - 0.0583) \times 100$ million
- 2/28/1993 DR. Bank-YEN \$5,980,000 Exchange Gain \$40,000 and CR. Bank-\$ 5,830,000, Accounts Receivable \$190,000

Accounting for Foreign Currency – Non-Speculative Forward Contract(Con't)

- Hedge of monetary item

Accounting Method for Investment in Associate

- Cost Method
- H Ltd, with subsidiaries, acquired 25% interest in A Ltd for \$90,000 on 1/1/1998. For the year ended 12/31/1998, A Ltd declared dividend of \$10,000
- 1/1/1998 – investment in A Ltd recorded at cost
- DR Investment in A Ltd 90,000
- CR Cash 90,000
- 12/31/1998 – dividend receive from A Ltd
- DR Cash 2,500
- CR Dividend income 2,500

Accounting Method for Investment in Associate

- Consolidation Method is not appropriate because the investor does not absolute control over associates
- Equity method, one-line consolidation
- H Ltd, with subsidiaries, acquired 25% interest in A Ltd for \$100,000 on 1/1/1998. At the date of acquisition, A Ltd has the following
 - Ordinary Shares (\$1 each) - \$200,000 Share premium- \$40,000 and Retained profits- \$160,000
 - For the year ended 12/31/1998, A Ltd records profits after tax of \$16,000, dividend has not been proposed or paid

Accounting Method for Investment in Associate

- 1/1/1998 (in the books of H Ltd)
- DR Investment in A Ltd 100,000
- CR Cash 100,000
- 12/31/1998 (in the books of H Ltd's consolidated financial statement)
- DR Investment in A Ltd 4,000
- CR Share of profits A Ltd 4,000

Premium on acquisition

The balance sheet of A Ltd

	1993	1998
	\$'000	\$'000
Net tangible assets	<u>1,040</u>	<u>1,640</u>
Ordinary Shares	800	800
Retained profits	<u>240</u>	<u>840</u>
	<u>1,040</u>	<u>1,640</u>

- H Ltd, with subsidiaries, acquired 25% holding in the ordinary shares of A Ltd on 1/1/1994 at a cost of \$320,000. The net tangible assets of A Ltd are stated at their fair value

Premium on acquisition

The consolidated balance sheet of H Ltd

1998

\$'000

share of net tangible assets	410
Premium on acquisition	<u>60</u>
	<u>470</u>

premium on acquisition

Cost of investment	320
Less : Share of net assets acquired at fair value	<u>260</u>
Premium on acquisition	<u>60</u>

OR

Cost of investment	320
Less : Share of ordinary share acquired and retained profits the date of acquisition	<u>260</u>
Premium on acquisition	<u>60</u>

Unrealised profits on inter-company sale

- Using equity method in the consolidated financial statement, unrealised profits/loss should be eliminated
- Investing company is a seller
- DR Consolidated profit and loss /reserve
- CR Investment in an associate
- Associate is a seller
- DR Consolidated profit and loss/reserve – share of profit of associate
- CR Inventory – investing company

Acquisition and Merger

**The balance sheet of the two companies
before combination**

	City Ltd	Poly Ltd
	\$'000	\$'000
Sundry assets	<u>150</u>	<u>70</u>
Ordinary shares of \$1 each	100	20
Revenue Reserve	<u>50</u>	<u>50</u>
	<u>150</u>	<u>70</u>

**The assets of the Poly Ltd were revalued at \$100,000
it is the group policy's to write off any goodwill arising on
acquisition immediately against reserve**

Acquisition and Merger

- The consideration offered for the shares of Poly Ltd is $60,000 \times \$2$
- The shares of City Ltd issued at a premium $\$60,000 \times (\$2 - \$1) = \$60,000$
- Journal entries of City Ltd
- DR Cost of investment in Poly Ltd - \$120,000
- CR Ordinary Shares - \$60,000
- CR Share Premium - \$60,000

Acquisition and Merger

Acquisition Accounting Consolidation Balance Sheet

	\$'000
Sundry assets	<u>250</u>
Ordinary shares	160
Revenue Reserve	30
Share premium	<u>60</u>
	<u>250</u>

Acquisition and Merger

Goodwill on consolidation

		\$'000
Cost of investment		120
Less : acquired ordinary shares and reserve at fair value		
Ordinary shares	20	
Revenue Reserve	50	
Revaluation of assets	30	100
Goodwill on consolidation		<u>20</u>

Acquisition and Merger

Merger Accounting Consolidation Balance Sheet

	\$'000
Sundry assets	<u>220</u>
Ordinary shares	160
Revenue Reserve	<u>60</u>
	<u>220</u>
Revenue Reserve of two companies	100
Less : amount of oinal value shares issued exceed the nominal value of shares received	<u>40</u>
	<u>60</u>

Change in Composition of the Group

- 1/1/1993, H Ltd acquired 80% interest in S Ltd for \$3,500,000
- 1/1/1994, H Ltd disposed 20% of its interest in S Ltd for \$1,500,000 to unaffiliated parties
- The details are as follows:

	1.1.1993	1.1.1994
	\$'000	\$'000
Ordinary shares	1000	1000
Retained profits	1000	1400

Restrictions on Distributions

- US subsidiary with retained profits for the year of HK\$234,000, is subject to a withholding tax of 30%

	\$
Retained profits for the year	234,000.00
Withholding Tax 30%	
-charge to profit and loss account and classified as deferred tax	
Retained profits after taxation	<u>(70,200.00)</u>
	<u>163,800.00</u>

Change in Composition of the Group

- The results of S Lt were stated at a fair value, both at the date of acquisition and date of disposal
- Goodwill on acquisition is to be write off against reserve

	\$'000	
Proceed		1500
Cost of investment for disposal of 20% interest $\$(3500 \times 20/80)$	875	
Group share of post acquisition profit $\$(1400-1000) \times 20%$	80	955
		545
		545

Contract Accounting

	YR1	YR2	YR3
Agreed Contract amount	9000	9000	9000
Change		200	200
Total contract income	9000	9200	9200
Contract expenses upto financial yr	2093	6168	8200
Contract expenses upto contract ends	5957	2032	0
Total estimated contract expenses	8050	8200	8200
Estimated profits	950	1000	1000
Completed percentage	26%	74%	100%

Contract Accounting

- In Yr 1,
- Income = 2,340 (9000×0.26)
- Expenses = 2,093 ($8050 \times .26$)
- Profit = 247 ($2340 - 2093$)
- Recognise profits in year 1
- Income = 2340, expenses = 2093
- Profits = 247

Contract Accounting

- In Yr 2,
- Income = 6,808 (9200×0.74) , Expenses = 6,068 ($8200 \times .74$)
- Profit = 740 (6808-6068)
- Recognise profits in year 2
- Income = 4468 (6808-2340:YR1), expenses = 3975 (6068-2093:YR 1)
- Profits = 493 (4468-3975)

Contract Accounting

- In Yr 3,
- Income = 9200 (9200×1) , Expenses = 8200 (8200×1)
- Profit = 1000 ($9200 - 8200$)
- Recognise profits in year 2
- Income = 2392 ($9200 - 6808$:YR 2), expenses = 2132 ($8200 - 6068$:YR 2)
- Profits = 260 ($2392 - 2132$)

Contract Accounting - Presentation

	A	B	C	D	E	Total
Recogn. Inc.	145	520	380	200	55	1300
Recogn. Exp	110	450	350	250	55	1215
Est loss				40	30	70
Recogn. profit	35	70	30	-90	-30	15

Contract Accounting – Presentation

	A	B	C	D	E	Total
Cost in contract	110	510	450	250	100	1420
Recogn. Cost	110	450	350	250	55	1215
Cost of contract		60	100		45	205

Contract Accounting - Presentation

	A	B	C	D	E	Total
Contract income	145	520	380	200	55	1300
Progress in receive	100	520	380	180	55	1235
Unissued invoice	45			20		65
Advance		80	20		25	125

Contract Accounting - Presentation

	A	B	C	D	E	Total
Cost incurred	110	510	450	250	100	1420
Recogn profits – loss	35	70	30	-90	-30	15
Cost of contract	145	580	480	160	70	1435
Progress pmt	100	520	380	180	55	1235
Receipts – customer	45	60	100		15	220
Payment – customer				-20		-20

Contract Accounting - Presentation

- Contract Income = 1300
- Contract cost and recogn profits =1435
- Receive in Advance = 125
- Receive from customer = 220
- Payment to customer = -20