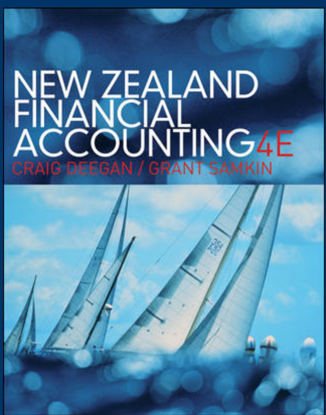

Errata to accompany

NEW ZEALAND FINANCIAL ACCOUNTING 4E

Craig Deegan | Grant Samkin

January 2010

How to use this booklet

Errata
These are typographical errors in the printed text whereby incorrect figures have been inserted into worked examples or solutions.

In other cases, worked calculations may be correct but the workings may include incorrect dates (eg. 2011 instead of 2010) that may confuse the reader.

McGraw-Hill apologises for these errors. While they are not extensive, McGraw-Hill recommends readers refer to the errata sheet if encountering any problems in the text.

Errata are easily identifiable by being boxed in green.

Updated for additional information
In places the author has provided clarification or additional information to inform the reader. The reader should request the separately available **Updated Corrections Guide** from the McGraw-Hill accounting team (mha_higher-education@mcgraw-hill.com) for more information.

This additional information is boxed in black.

New edition
As the reader will be aware, financial accounting and the standards and interpretations relating to it are being constantly updated. As authors of the premier text in this area for the New Zealand market, Craig Deegan and Grant Samkin are keen to provide students and practitioners with the most current book on the market.

Chapter 4

Solution to Worked Example 4.1(a), pages 121 & 122

- *Calculations correct in printed text, but different terminology included*
- *Machinery – fin-making machine" amended to "Impairment loss- machinery"*

Dr	Impairment loss—machinery		150 000	
	Cr	Accumulated impairment loss—machinery		150 000

Page 122

Dr	Accumulated impairment loss—machinery		150 000	
	Cr	Gain from reinstatement of previous impairment		150 000

Chapter 6

Review question 18, page 209

- *Figure of "1 000 000" amended to "1 100 000"*

	$
Residential land—recorded at cost	1 100 000
Factory land—previously revalued in 2009	700 000
Buildings—previously revalued in 2008	900 000

Chapter 11

End of chapter exercises (d), page 390

- *Cost of goods sold should read "179 472" not "200 000" as in the printed text*

(d) Journal entries in the books of Wheeler Limited

1 July 2011	Dr	Lease receivable		263 948	
	Dr	Cost of goods sold [$200 000 – $20 528]		179 472	
		Cr	Inventory		200 000
		Cr	Sales revenue		243 420

Recognising the sale of inventory to Thomson Limited and the related lease receivable

Review Question 12, page 392

- *(Date of 1 April "2011" replaced with "2010")*

12 Burt Limited entered into a non-cancellable, five-year lease agreement with Earnie Limited on 1 April 2010. The lease was for an item of machinery which, at the inception of the lease, had a fair value of $1 294 384.

Chapter 13

Worked example 13.6, page 427

- *"first and final call" amended to "final call"*
- *Figures of "4 000 000" amended to "3 000 000"*

The excess amounts paid on application are offset against the equity receivable rather than providing a refund to subscribers. Following this entry, each subscriber is considered to owe the company a further $0.40 per share as a result of the share allotment. (They will also need to pay another $0.30 when the final call is made on the shares.)

31 Aug. 2012	Dr	Cash	3 000 000	
	Cr	Equity receivable		3 000 000
	Receipt of $0.40 per share from shareholders—net of excess			

Chapter 15

Worked Example 15.3, page 497

- *Figure of "11 599" replaced with "11 594"*

30 June 2012	93 923	10 000	11 272	1 272	95 195
30 June 2013	95 195	10 000	11 423	1 423	96 618
30 June 2014	96 618	10 000	11 594	1 594	98 212
30 June 2015	98 212	10 000	11 788	1 788	100 000

Chapter 16

Solution to end of chapter exercise (a), page 556

- *Figure of "25 000 000" is replaced by "18 000 000"*

2012	Revenue ($50 million × 26.32%)	13 160 000		13 160 000
	Expenses ($38 million × 26.32%)	10 000 000		10 000 000
	Profit	3 160 000		3 160 000
2013	Revenue ($50 million × 70%)	35 000 000	13 160 000	21 840 000
	Expenses ($40 million × 70%)	28 000 000	10 000 000	18 000 000
	Profit	7 000 000	3 160 000	3 840 000
2014	Revenue ($50 million × 100%)	50 000 000	35 000 000	15 000 000
	Contract expenses ($40 million × 100%)	40 000 000	28 000 000	12 000 000
	Profit	10 000 000	7 000 000	3 000 000

Solution to end of chapter exercise (a), page 557

- *Figure of "18 925 000" replaced with "18 000 000"*
- *Term "income statement" can be updated with "statement of comprehensive income"*

Journal entries for 2013

31 March 2013	Dr	Construction in progress		18 000 000	
		Cr	Materials, bank, payables, accumulated depreciation, etc.		18 000 000
	Recording cost of construction				
31 March 2013	Dr	Accounts receivable		20 000 000	
		Cr	Progress billings		20 000 000
	Recording progress billings				
31 March 2013	Dr	Cash		19 000 000	
		Cr	Accounts receivable		19 000 000
	Recording collections of billings				
31 March 2013	Dr	Construction expenses (costs incurred) (statement of comprehensive income)		18 925 000	
		Cr	Revenue from long-term contract (statement of comprehensive income)		13 765 000
		Cr	Construction in progress (statement of financial position)		5 160 000
	Recognising construction expense				

Chapter 17

Suggested solution to Worked Example 17.6, page 586

- *Additional reporting line inserted*

	EFFECT ON 2011 ($)	EFFECT ON PERIODS PRIOR TO 2011 ($)
Decrease in interest expense	4 200	9300
(Increase) in income tax expense	(1 260)	(2 790)
Increase in profit	2 940	6 610
Increase in qualifying assets under construction	13 500	9 300
Increase in taxation payable	4 050	2 790
Increase in retained earnings at 30 June	9 450	6 510

Chapter 18

Worked Example 18.12, page 615

- *Figure of $60 000 replaced with $80 000*
- *Tax liability of $18 000 replaced with $24 000*
- *Additional deferred tax liability provision of $36 000 replaced with $30 000*

Before the revaluation, the temporary difference is $80 000. A deferred tax liability of $24 000 ($80 000 × 30%) would appear in the financial records. After the revaluation, the temporary difference is $180 000, which would require a deferred tax liability of $54 000 ($180 000 × 30%). As the deferred tax liability already has a balance of $18 000, a further $30 000 must be provided.

The journal entry to reflect the deferred tax on the revalued amount would be:

31 March 2012	Dr Revaluation surplus	30 000	
	Cr Deferred tax liability		30 000
	Allocating deferred tax to revaluation surplus		

Chapter 19

Worked Example 19.5, page 654

- *Phrase "trade creditors" changed to "Accounts Payable"*
- *Deferred tax liability changed from '20" to "0"*
- *Revaluation surplus changed from "30" to "50"*
- *Resulting total therefore changed from "1 237" to " 1 257"*

Current liabilities		
Accounts payable	77	88
Accrued expenses	20	10
Income tax payable	88	76
GST payable	18	8
	203	182
Non-current liabilities		
Long-term loans	110	122
Deferred tax liability	–	–
	110	122
Equity		
Contributed equity	500	400
Revaluation surplus	50	–
Retained earnings	707	602
	1 257	1 002
Total liabilities and equity	1 570	1 306

Chapter 23

Review question 10, page 763

- *Date should read "2011" not "2010"*

Issue price	$2.00
Paid	$0.50
Closing date for issue of partly paid shares	31 May 2011

Chapter 24

Solution to worked example 24.6, page 797

- *Figure of "630 000" amended to "780 000", and resulting calculations throughout amended accordingly*
- *Additional explanations provided to students*

Fair value of consideration transferred		3 920 000
less Fair value of identifiable assets acquired and liabilities assumed		
Contributed equity	2 500 000	2 500 000
Retained earnings—on acquisition	900 000	900 000
Revaluation surplus	780 000	780 000
		4180 000
Gain on bargain purchase		260 000

31 March 2012	Dr	Contributed equity	2 500 000	
	Dr	Retained earnings	900 000	
	Dr	Revaluation surplus	780 000	
		Cr Gain on bargain purchase of Surfer Limited		260 000
		Cr Investment in Surfer Limited		3 920 000

Eliminating the investment in Surfer Limited and revaluation surplus created in the previous entry and recognising gain on acquisition of Surfer Limited in statement of comprehensive income (in the absence of the statement of comprehensive income, the gain has been taken to retained earnings).

The consolidation adjustments can be posted to the consolidation worksheet.

Current liabilities					
Accounts payable	140	55			195
Non-current liabilities					
Deferred tax liability				120(c)	120
Loans	1 145	215			1 360
Equity					
Contributed equity	5 500	2 500	2 500(d)		5 500
Retained earnings	2 120	900	900(d)	260(d)	2 350
Revaluation surplus				500(a)	
			7 880(d)	280(c)	–
	8 905	3 670	7 880	7 880	9 555

Chapter 24 cont.

End of chapter exercise, page 803

- *Figure for Plant "900" changed to "950" and resulting calculations therefore changed accordingly*

Cash	150	150
Accounts receivable	200	200
Land	750	800
Plant	800	950
	1 900	2 100

No revaluations were undertaken in the financial statements of Billa Limited before consolidation. At the date of acquisition of Billa Limited, Billa Limited's liabilities amounted to $1.050 million. The tax rate is 30 per cent. Deferred tax is not provided for on non-depreciable assets.

(a) *Revaluing the assets of Billa Limited*

31 March 2012	Dr	Land		50 000	
	Dr	Plant		150 000	
		Cr	Revaluation surplus		155 000
		Cr	Deferred tax liability		45 000

Fair value of consideration transferred		1 100 000
less Fair value of identifiable assets acquired and liabilities assumed		
Contributed equity	350 000	350 000
Retained earnings—on acquisition	500 000	500 000
Revaluation surplus	155 000	155 000
		1 005 000
Goodwill on acquisition date		95 000

Page 804

31 March 2012	Dr	Contributed equity	350 000
	Dr	Retained earnings	500 000
	Dr	Revaluation surplus	155 000
	Dr	Goodwill	95 000

Contributed equity	1 100	350	350(b)		1 100
Retained earnings b/d	1 730	710			1 935
Revaluation surplus	–	–	155(b)	155(a)	–
Current liabilities					

Land	1 200	750	50(a)		2 000
Plant	2 000	800	150(a)		2 950
Investment in Billa Limited	1 100	–		1 100(b)	–
Goodwill	–	–	95(b)	5(c)	90
	4 900	2 000	1 255	1 255	6 090

Chapter 25

Worked Example 25.4, page 829

- *Inventory figure of "455" amended to "625"*
- *Land figure of "400" amended to "240"*

Current assets		
Cash	270	35
Accounts receivable	220	190
Inventory	750	615
Non-current assets		
Land	1 440	240
Plant	2 450	390
Investment in Little Limited	1 000	–
Deferred tax asset	110	55
	6 240	1 525

Solution to Worked Example 25.4, page 831

- *Resulting inventory number of "455" changed to "625" as above*
- *Resulting land figure changed as above*

Current assets					
Cash	270	35			305.0
Accounts receivable	220	190			410.0
Inventory	750	615		15(f)	1 350.0
Non-current assets					
Land	1 440	240			1 680.0
Plant	2 450	390			2 840.0
Investment in Little Limited	1 000	–		1 000(a)	–
Deferred tax asset	110	55	4.5(g)		169.5
Goodwill	–	–	100 (a)		100.0
Accumulated impairment loss	–	–		30(b)	(30.0)

Challenging Question 13, page 854

- *Dividends figure of "93 000" amended to "116 250" and resulting calculations changed as below*

Gross profit	282 500	427 500
Dividends received from Irons Limited	116 250	–
Management fee revenue	33 125	–
Gain on sale of plant	43 750	–
Expenses		
Administrative expenses	(38 500)	(48 375)
Depreciation	(30 625)	(71 000)
Management fee expense	–	(33 125)
Other expenses	(149 625)	(96 250)

Page 855

Gross profit	226	302
Dividends received from Parko Limited	93.0	–
Management fee revenue	26.5	–
Gain on sale of plant	40	35
Expenses		
Administrative expenses	(30.8)	(38.7)
Depreciation	(29.5)	(56.8)
Management fee expense	–	(26.5)
Other expenses	(119.6)	(72)

Chapter 27

Solution to Worked Example 27.1(i), page 910

- *Calculation of controlling interests in Melmann Ltd*
- *Second half of calculations corrected as below*

Non-controlling interest in the current period's profit and movements in reserves in the current period		
Profit for the year	55 000	
less Dividends received from entity within group*	–	
less Impairment of goodwill in Martie Limited*	(8 000)	
	47 000	11 100
less Dividends paid by Melmann Limited	(50 000)	(15 000)
		386 100

Dr	Contributed equity		300 000	
Dr	Retained earnings—1 April 2011		90 000	
Dr	Non-controlling interest in earnings		11 100	
	Cr	Dividend declared		15 000
	Cr	Non-controlling interest		386 100

Page 912

- *Resulting calcuations amended as above*

Profit for the year	230 000	55 000	60 000		269 667
Non-controlling interest in earnings				11 100(i) 18 667(j) 8 400(k)	(38 167)

Non-controlling interest	386 100(i) 540 000(j) 8 400(k)	934 500

Page 913

5 800 000	1 645 000	1 260 000	2 889 833	2 889 833	7 053 000

Chapter 27 cont.

Worked Example 27.2, Consolidation worksheet journal entries, page 922 (ii)

- *Figure of "(45 920)" replaced with "(39 240)"*
- *Resulting calculations amended*

less Impairment loss—goodwill (relating to purchase of Small by Medium Limited)	(38 240)		–	
less Unrealised profit in opening inventory (last year's closing inventory)	(80 000)		–	
Tax effect of unrealised profit in opening inventory	24 000		–	
Adjusted post-investment retained earnings—1 April 2011	145 760	43 728	333 200	133 280

Dividends paid and declared	(90 000)	(27 000)	(110 000)	(44 000)
		335 328		352 480

Page 923

Dr	Contributed equity		168 000	
Dr	Retained earnings—1 April 2011 ($72 000 + $43 728)		115 728	
Dr	Goodwill		42 857	
Dr	Non-controlling interest in earnings		36 043	
	Cr	Final dividend		27 000
	Cr	Non-controlling interest		335 628

Page 924

Retained earnings—1 April 2011	720 000	480 000	670 000	24 000(c) 168 000(e) 192 000(f) 56 000(j) 38 240(m) 115 728(s) 261 280(t) 59 976(u)	7 200(d)	961 976
	1 176 000	648 000	863 000			1 357 204
Interim dividend	(125 000)	–	(110 000)		66 000(p) 44 000(t)	(125 000)
Final dividend	(260 000)	(90 000)	–		63 000(q) 27 000(s)	(260 000)
Retained earnings—31 March 2012	791 000	558 000	752 000			972 204
Contributed equity	3 300 000	560 000	160 000	392 000(e) 96 000(f) 168 000(s) 64 000(t)		3 300 000
Revaluation surplus	–	–	–	38 400(b) 53 760(f) 35 840(t)	128 000(a)	–
Non-controlling interest					335 628(s) 352 480(t) 75 888(u)	763 996

Page 925

Total assets	5 261 000	1 923 000	1 231 000	4 974 093	4 974 093	7 296 000

Chapter 27 cont.

Worked Example 27.2, Consolidation worksheet journal entries, page 922 (ii) cont.

Profit before tax	955 143	760 000
Income tax expense	(472 600)	(304 000)

Page 926

Balance at 1 April 2011	3 300 000	961 976	4 261 976	*747 681	5 009 657
Total comprehensive income for the year	–	395 228	395 228	**87 315	482 543
Distributions	–	(385 000)	(385 000)	(71 000)	(456 000)
Balance at 31 March 2012	3 300 000	972 204	4 272 204	763 996	5 036 200

*The tables on page 922 & 923 can be used to derive these figues as follows ($282 857 + $43 728 + $227 840 + $133 280 + $59 976)
**(36 043 + $35 360 + $15 912)

Page 927

EQUITY		
Capital and reserves		
Contributed equity	3 300 000	3 300 000
Retained earnings	972 204	791 000
	4 272 204	4 091 000
Non-controlling interest	763 996	–

Challenging Question 13(vi), page 943

- *Date of 'July' amended to 'April'*

(vi) On 31 March 2012 Maroubra Limited sold plant and machinery to Clovelly Limited for $3 200 000. Maroubra Limited originally purchased the plant and machinery for $3 600 000, on 1 April 2006. The original estimated useful life of the factory building was 20 years.

Chapter 28

Worked Example 28.1, page 949

- *Figure of "94" replaced with "82"*
- *Figure of "56" replaced with "68"*

Current assets		
Cash	82	100
Accounts receivable	250	175
Dividends receivable	68	–
Inventory	500	325

Chapter 28 cont.

Obtaining control over an entity, page 953

- *Worked calculation in printed text is correct but figure of "8" replaced with "80"*

Fair value of consideration transferred (to obtain control)	30 355
plus Amount of non-controlling interest ($30 355 + $7005) × (20 ÷ 80)	9 340
plus Fair value of any previously held non-controlling interest	*7 005

Worked Example 28.3, page 958

- *Figure of "1 385 000" replaced with " 1 285 000"*
- *Resulting figures changed as a result*

	800 000	700 000
Investment in Moon Limited	1 285 000	–
Total assets	4 140 000	2 410 000
Liabilities		
Accounts payable	500 000	82 000
Dividends payable	360 000	80 000
Deferred tax liability	200 000	320 000
Equity		
Contributed equity	1 500 000	800 000
Revaluation surplus	300 000	488 000
Retained earnings	1 280 000	640 000
Total liabilities and equities	4 140 000	2 410 000

Earth Limited
Statement of changes in equity for the year ending 31 March 2012

	CONTRIBUTED EQUITY ($)	RETAINED EARNINGS ($)	REVALUATION SURPLUS ($)	TOTAL ($)
Balance at 1 April 2011	1 500 000	1 100 000	300 000	2 900 000
Total comprehensive income for the year	–	720 000	–	720 000
Distributions paid—interim dividends	–	(180 000)	–	(180 000)
Distributions declared—final dividends	–	(360 000)	–	(360 000)
Balance at 31 March 2012	1 500 000	1 280 000	300 000	3 080 000

Solution to Worked Example 28.3, page 959

- *All workings in the printed text are correct, however:*
- *Total balance of investment in Moon Limited should read '1 285 000' rather than '1 385 000' as in the printed text*

Worked Example 28.4, page 964

- *Date should read "2010' rather than "2011"*

At 1 April 2010, all the assets of Subsidiary Limited were recorded at their fair value.

- *All workings in calculation in printed text are correct, however plant line should read '7000' and 'Investment in Subsidiary Limited should read "4500'*

Plant	7 000	2 900
Investment in Subsidiary Limited	4 500	–

Chapter 28 cont.

Solution to Worked Example 28.4, page 967

• *Adjustments made to* Statement of Financial Position *(as below)*

STATEMENT OF FINANCIAL POSITION					
Equity					
Contributed equity	6 500	3 500	2 625(a)		
			875(f)		6 500
Retained earnings b/d	19 900	3 600			21 725
Revaluation surplus	–	1 200	825(a)	25(b)	
			300(f)		–
Sale of shares reserve				175(b)	100
				125(c)	300
Non-controlling interest				2 075(e)	2 075
Current liabilities					
Accounts payable	2 200	920			3 120
Dividends payable	2 600	1 600	1 200(d)		3 000
Non-current liabilities					
Loans	4 500	2 320			6 870
	35 700	13 140			43 640
Current assets					
Cash	650	450			1 100
Accounts receivable	3 250	3 175			6 425
Dividends receivable	1 200	–		1 200(d)	–
Goodwill			375(a)		
			125(c)		500
Inventory	4 500	2 325			6 825
Non-current assets					
Land	14 600	4 290			18 890
Plant	7 000	2 900			9 900
Investment in Subsidiary Limited	4 500	–		4 500(a)	–
	35 700	13 140	9 775	9 775	43 640

Solution to Worked Example 28.6, page 971

• *Calculation of the gain or loss on the disposal of Cairns Limited*

• *Balance of goodwill should read "(184 000)" rather than "(277 000)" as printed*

• *Resulting loss therefore adjusted accordingly*

Balance of goodwill written off	(184 000)
Loss on disposal of Cairns Limited	274 000

Chapter 29

Solution to Worked Example 29.1, page 1005

- *Revaluation surplus reinterpreted to $400 000 rather than $280 000 as printed*
- *Resulting figures on p.1006 & 1007 outlined below*

As Joy Limited revalued its land, the journal entries in its own accounts would have resulted in a debit to land of $400 000 and credit entry to revaluation surplus of $400 000. Cassie Limited's share of the post-acquisition increase in revaluation surplus would be calculated as follows:

Increase in the revaluation surplus of Joy Limited	$400 000
Cassie Limited's equity interest	× 30%
Cassie Limited's share of the movement in Joy Limited's reserve	$120 000

30 June 2013 (in consolidation worksheet)

Dr Investment in Joy Limited	120 000	
Cr Revaluation surplus		120 000
Recognising Joy Limited's share of increase in revaluation surplus		

Page 1006

Dr Investment in Joy Limited	120 000	
Cr Revaluation surplus		120 000
Recognising Joy Limited's share of increase in revaluation surplus		

Page 1007

Dr Investment in Joy Ltd	120 000		Dr Investment in Joy Ltd	120 000	
Cr Revaluation surplus		120 000	Cr Revaluation surplus		120 000
Recognising Joy Limited's share of increase in revaluation surplus			*Recognising Joy Limited's share of increase in revaluation surplus*		

Table 29.2, page 1008

- *Amount of associate in 2012 recalculated to "540 000" rather than "537 000"*
- *Amount of associate in 2013 recalculated to "540 000" rather than "537 000"*
- *Resulting values recalculated*

	COST METHOD ($)	*EQUITY METHOD ($)*
Revenue recognised in 2012	12 000	30 000
Revenue/(Expense) recognised in 2013	6 000	(15 000)
Carrying amount of associate as at 30 June 2012	540 000	558 000
Carrying amount of associate as at 30 June 2013	540 000	657 000
The above carrying amounts were determined as follows:		
Acquisition costs		540 000
less Dividend income recognised by Cassie Limited in 2012 ($40 000 × 30%)		(12 000)
plus Cassie Limited's share of associate's 2012 profit ($100 000 × 30%)		30 000
Carrying value as at 30 June 2012 according to equity accounting		558 000
less Dividend income recognised by Cassie Limited in 2013 ($20 000 × 30%)		(6 000)
less Cassie Limited's share of associate's 2013 loss ($50 000 × 30%)		(15 000)
plus Share of the revaluation of associate's land		120 000
Carrying value as at 30 June 2013 according to equity accounting		657 000

Chapter 29 cont.

Solution to End of Chapter Exercise, page 1019

- *Value should read "$833 175" rather than "$831 375"*

The carrying value of the investment in the financial statements of Lopez Limited (using the cost method) would be $750 000. The carrying amount of the investment in the associate (adopting equity accounting) as shown in the consolidated financial statements would be $833 175, which would be the original cost of the investment plus the share of the associate's profit less Lopez Limited's proportional interest in the dividend payments made by Lightning Bolt Limited.

Challenging Question 18, page 1023

- *Value should read "$3 250 000" rather than "$1 300 000"*

18 On 1 July 2011 Peet Limited purchased 40 per cent of the ordinary shares of Keet Limited for $3 250 000. The remaining 60 per cent of the ordinary shares of Keet Limited are owned by two shareholders, Radio Limited, which owns 40 per cent of the shares, and Birdman Unit Trust, which owns 20 per cent of the shares.

Chapter 31

Worked Example 31.8, page 1069

- *Calculations correct in the printed text*
- *Date should read "2013" rather than "2012"*

For year ending 31 July 2013	
Foreign exchange gain on forward contract on 1 September 2012	221 091
Foreign exchange loss on accounts payable on 1 September 2012	(416 667)

End of Chapter Exercise, page 1077

- *Calculations correct in the printed text*
- *In opening explanatory paragraph, figure should read $100 000 rather than $500 000*

On 1 March 2012, Narrabeen Limited, a New Zealand company, entered a purchase transaction with Huntington Limited (USA) for the supply of US$1 million in inventory. The goods are purchased FOB New York on 1 March 2012. The amount is payable on 1 August 2012. A forward-exchange contract for the delivery of US$100 000 is taken out with ABC Bank on 1 May 2012. Narrabeen Limited requires delivery of the US dollars on 1 August 2012. Narrabeen Limited uses fair-value hedge accounting and the applicable discount rate is 6 per cent. The end of reporting period of Narrabeen Limited is 30 June.

Challenging Question 19, page 1082

- *Date should read "July" rather than "August"*
- *Resulting figure of "UK£0.36" should therefore read "UK£0.38"*

DATE	*FORWARD*
15 March 2012	UK£0.34
11 May 2012	UK£0.38
30 June 2012	UK£0.40
02 July 2012	UK£0.38

(d) Explain the effect of an 'effective' hedge contract on ABC Limited's profit or loss. Assume a discount rate of 12 per cent per annum.