

**ANSWER 2 – AZTEC** *Aztec marks to max of 25 should be awarded in part (b) for reasonable comments + calc's*

**Note to students and tutors:**

The answer to this question is considerably longer and more detailed than could reasonably be produced under examination conditions. However, it is a new examination topic in the 2011 syllabus and must be regarded as more likely to be examined than other topics in the syllabus.

This question and comprehensive answer is a good learning tool. Even within this, it is possible to earn marks with the application of good exam technique; for example, most of the opening statement of financial position for Aztec (Europe) can be compiled relatively quickly and easily. The narrative element reflects the expectation that at Professional Level, application and understanding is examined.

(a) (i) **Journal entries to close books of Aztec**

	Dr \$	Cr \$
Capital reduction and reorganisation a/c	1,167,000	
Leasehold premises		397,000
✓ Vehicles and equipment		105,000
✓ Machinery		250,000
Inventory		295,000
Receivables		120,000
Transferring assets		
Finance lease obligation	25,000	
Payables	288,000	
✓ Wages, etc	80,000	
✓ Finance lease obligation	20,000	
Bank overdraft	112,000	
To capital reduction and reorganisation a/c		525,000
Transferring liabilities		
Aztec (Europe)	540,000	
✓ To capital reduction and reorganisation a/c		540,000
Liability for the agreed purchase consideration		
Shares in Aztec (Europe)	270,000	
✓ 13% Loan notes in Aztec (Europe)	270,000	
To Aztec (Europe)		540,000
Settlement of the agreed purchase consideration		
Equity shareholders	60,000	
7% Debentures	160,000	
✓ 11% Debentures	320,000	
To shares in Aztec (Europe)		270,000
13% Loan notes in Aztec (Europe)		270,000
Distribution of the purchase consideration		