Assessment Schedule – 2013
Scholarship Accounting (93203)
Evidence Statement

Question One

(a)

Journal entries

			Dr	Cr
Dr		Depreciation	4 608	
	Cr	Accumulated depreciation		4 608
Depreciation expense for the year				
Dr		Disposal account	138 240	
	Cr	Building		138 240
Write off of building				
Dr		Accumulated depreciation	29 108	
	Cr	Disposal account		29 108
Write off of accumulated depreciation				
Dr		Loss on destruction of building	109 132	
	Cr	Disposal account		109 132
Recognising loss on destruction of building				

Question One (b) Worksheet

	Unadjusted trial balance		Adjustments		Statement of comprehensive income		Statement of changes in equity		Statement of financial position	
	$	$	$	$	$	$	$	$	$	$
Advertising expenses	187 380				187 380					
Bank charges	1 250				1 250					
Sales		2 839 380				2 839 380				
Commission received		33 120				33 120				
Interest paid on term loan	99 440		9 040		108 480					
Depr. – property, plant and equipment	88 990				88 990					
Purchases	1 109 300				1 109 300					
Wages and salaries	685 580				685 580					
Auditor's remun. – audit fees	66 240				66 240					
Contributed equity		1 330 100						1 330 100		
Retained earnings –1 April 2012		354 400						354 400		
Revalu. Surplus – 1 April 2012		742 610	62 420					680 190		
Cash	79 490								79 490	
Accounts receivable	482 160			19 760					462 400	
Accounts payable		279 230								279 230
Inventory – 1 April 2012	94 070			94 070						
Term loan		1 356 000								1 356 000
Land	2 662 420			62 420					2 600 000	
Buildings	1 258 560			138 240					1 120 320	
Build – accum. depr. – 1 April 2012		214 560	29 108	4 608 56 016						246 076
Property, plant and equipment – cost	615 710								615 710	
Property, plant and equipment – accum. depr. – 31 March 2013		330 870								330 870
Dividends paid	49 680						49 680			
Balance c / f	7 480 270	7 480 270	100 568	375 114	2 247 220	2 872 500	49 680	2 364 690	4 877 920	2 212 176

Worksheet *(continued)*

	Unadjusted trial balance		Adjustments		Statement of comprehensive income		Statement of changes in equity		Statement of financial position	
	$	$	$	$	$	$	$	$	$	$
Balance c / d	7 480 270	7 480 270	100 568	375 114	2 247 220	2 872 500	49 680	2 364 690	4 877 920	2 212 176
Bad and doubtful debts			19 760 22 960		42 720					
Allowance for doubtful debts				22 960						22 960
Interest payable				9 040						9 040
Auditor's remuneration – tax			4 200		4 200					
Accrued expenses				4 200						4 200
Disposal account			138 240	29 108 109 132	–	–	–	–	–	–
Loss destruction – building			109 132		109 132					
Changes in inventory			94 070	82 000	12 070					
Closing inventory – 31 March 2013			82 000						82 000	
Depreciation – buildings			4 608 56 016		60 624					
Tax expense			105 534		105 534					
Tax payable				105 534						105 534
Balance c / f					291 000		2 606 010	291 000		2 606 010
	7 480 270	7 480 270	720 996	720 996	2 872 500	2 872 500	2 655 690	2 655 690	4 959 920	4 959 920

Question Two

Powersailor Limited
Statement of Comprehensive Income for the year ended 31 March 2013

	Notes	NZ$
Revenue	1	2 839 380
Other income	2	33 120
Raw materials and consumables used		(1 109 300)
Changes in inventory		(12 070)
Advertising expenses		(187 380)
Auditor's remuneration ($66 240 + $4 200)	3	(70 440)
Bank charges		(1 250)
Bad and doubtful debts ($19 760 + $22 960)		(42 720)
Depreciation ($88 990 + $60 624)		(149 614)
Employment benefit expenses		(685 580)
Finance charges	4	(108 480)
Loss on disposal of building		(109 132)
Profit before tax	5	396 534
Tax expense		(105 534)
Profit for the year		291 000
Other comprehensive income		
Items that will not be classified to profit or loss		
Loss on revaluation of land		(62 420)
Other comprehensive loss for the year net of tax		(62 420)
Total comprehensive income for the year		228 580

Powersailor Limited
Notes to the 2013 Financial Statements

1 Revenue

Sales	2 839 380

2 Other income

Commission / interest received	33 120

3 Auditor's remuneration

Audit fee	62 240
Taxation services	4 200
	66 440

4 Finance costs

Interest paid	109 132

5 Taxation

New Zealand current taxation	105 534

Powersailor Limited
Statement of financial position at 31 March 2013

	Notes	NZ$
Non-current assets		
Property, plant and equipment	6	3 759 084
Total non-current assets		3 759 084
Current assets		
Inventory	7	82 000
Accounts receivable		439 440
Cash		79 490
Total current assets		600 930
Total assets		4 360 014

5 Property, plant and equipment

	Land	Buildings	Property, plant and equipment	Total
Balance at 1 April 2012				
At cost or valuation	2 662 420	1 258 560	615 710	4 536 690
Accumulated depreciation	–	(214 560)	(241 880)	(456 440)
Net book value	2 662 420	1 044 000	373 830	4 080 250
Year ended 31 March 2013				
Opening net book value	2 662 420	1 044 000	373 830	4 080 250
Disposals	–	(109 132)	–	(109 132)
Revaluation surplus (deficit)	(62 420)	–	–	(62 420)
Depreciation expense	–	(60 624)	(88 990)	(149 614)
Net book value	2 600 000	874 244	284 840	3 759 084
Balance at 31 March 2013				
Cost or valuation	2 600 000	1 120 320	615 710	4 259 710
Accumulated depreciation	–	(246 076)	(330 870)	(576 946)
Net book value	2 600 000	874 244	284 840	3 759 084

Depreciation is calculated at the following rates:
Buildings – 5 per cent per annum straight line basis
Property, plant and equipment – 10 per cent per annum reducing balance basis

The land was revalued on 24 March 2013 by Russell Cully NZIV, an independent valuer, to fair market value based on the fair value of surrounding properties. The deficit on revaluation has been debited to the asset revaluation reserve in equity.

Land and buildings are mortgaged to the value of $1 356 000 (2012 - $1 356 000). See note 10.

Had land not been revalued, the carrying amount under the cost model would be $1 919 810 ($2 600 000 – $680 190).

7 Inventory

Finished goods	82 000

8 Accounts receivable

Accounts receivable	462 400
Less allowance for doubtful debts	(22 960)
	439 440

Question 3

This is an open-ended question. All answers will vary. These headers act merely as a guide. How the candidate developed their answer is more important than merely listing points. To achieve Scholarship, candidates needed to have demonstrated critical thinking, integrated resources, and demonstrated understanding, together with logical development, precision, and clarity of ideas.

Concept of integrated reporting
Reporting mechanism to enhance accountability

Wide range of factors (financial, tangible, and intangible) determine the value of an organisation. Integrated reporting is the communication by an organisation of value creation over time as well as drivers of cash flow

Particularly an integrated report communicates how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium, and long term.

Development of a more cohesive / efficient approach to reporting that considers sustainable, governance, risks, and opportunities.

A way of understanding the links between financial results and sustainability impacts which is increasingly linked to long-term and short-term financial success

Integrated reporting reflects broad and long-term consequences of decisions made by management of an organisation.

Benefits
Integrated reporting will enable greater insight into the strategy, risks, and value creation of the company to be obtained

Concise communication of value, that is communicates in a clear way how resources and relationships are utilised to create value over time.

Improved consistency of message by reporters. Presented in a way / basis consistent over time and enables comparison with other organisations to the extent that it is relevant to the organisation's own value creation story.

Promotes / forces integrated thinking and breakdown of silos within business

It reflects the evolution of reporting and the role that a company plays in society.

Stakeholders are able to make an informed assessment about the longer term sustainability of a company and whether it is operating as a responsible corporate citizen.

Users are able to obtain complete perspective of the company through the inclusion of social, environmental, and economic performance along with the company's financial performance.

Integrated reporting will facilitate more holistic and meaningful reporting of financial results, enabling shareholders and clients to gain a better understanding of a company's triple bottom line.

Assists investor to manage risks and allocate resources more efficiently.

Will facilitate socially responsible investing for those investors interested in this.

As all aspects of a business – environmental, social, and governance aspects – impact profitability, integrated reporting enables potential investors and other stakeholders to obtain a holistic view of how the company is managing all these factors and their potential impact of the company's position.

Includes all material information, both positive and negative, in a balanced way without material error.

Question Four

(a) The functions of the XRB are prescribed by the *Financial Reporting Act 1993* and comprise:

- developing and implementing an overall strategy for financial reporting standards and auditing and assurance standards (including developing and implementing tiers of financial reporting and assurance);
- preparing and issuing accounting standards;
- preparing and issuing auditing and assurance standards, including the professional and ethical standards that will govern the professional conduct of auditors; and
- liaising with national and international organisations that exercise functions that correspond with, or are similar to, those conferred on the XRB.

(b) A New Accounting Standards Framework was considered necessary for the following reasons:

- The focus of the IASB is on developing accounting standards for application by for-profit entities, financed through the capital markets. IFRS information reflects the needs of capital market users.
- IFRS's are less relevant for non-capital market entities such as government departments and other non-profit entities such as charities.
- User needs for information cannot be met by a single set of accounting standards such as that envisaged by the IASB.
- The New Zealand government decided to establish a new statutory reporting framework. This will remove most small and medium sized for-profit entities from the requirement to report in accordance with generally accepted accounting practice (GAAP).
- Registered charities will however have to report using GAAP.

Other issues considered

- User needs – provide information to external users who would otherwise not be able to obtain that information
- Different users have different needs, and this must be reflected in the reporting requirements
- Two-step, multi-standard approach can better meet the needs of users as opposed to a one-step IFRS approach
- Facilitates development of a conceptual framework for not-for-profit public benefit entities
- Tiered approach considered beneficial for New Zealand environment

Question Five
A number of different approaches could have been used to answer this question. The nature of the approach dictated evaluation. Merely listing relevant points from resources was inadequate. To achieve Scholarship, candidates needed to have demonstrated critical thinking, integrated resources, and demonstrated understanding, together with logical development, precision, and clarity of ideas.

Part A
Issues that could have been considered to contextualise – *that is act against a high share price*

Loss after tax at almost 8 million at end of 2012 but loss per share steady at 8 cents. Operating revenue more than doubled in 2012 – operating expenses increased by similar level leaving operating deficit approximately $300 000 more than previous year.

Dividends unlikely so only way for existing shareholders to see benefit is through growth (Resource 5 & 6). Concerns are that Sam Morgan reduced his shareholding by 1 000 000 shares as well as Dury (company founder), Edward and Winkler reducing their shareholding (Resource 2 & 8). Where major shareholders are selling down shares, this could indicate potential issues.

Risky investment – Forsyth Barr and Craigs cautious recommendations (Resource 5)

Following a US model of growth where shareholders accept no dividends. Loss expected to increase as expansion in overseas markets (Resource 4)
Xero may be a takeover target
Loss due to aggressive growth and loss is expected to increase as company expands in overseas markets (Resource 4)

In favour of increasing share price
Share price of company dictated by supply and demand. It is a free market in which demand (and ultimately price) is fuelled by perception.
Sufficient cash resources from capital raising (Resource 4)
International advisory board (Resource 3)
Angle investors – wealthy investors hold bulk of shares also a number of institutional investors.
Exceeding growth targets (Resource 5)
Revenue exceeds growth targets. Focusing on chasing sales – revenue has more than doubled. (Resource 4, 6 & 7)
Expanding into Australian US and UK markets – partly through acquisition of Paycycle (Resource 3)
Increase in customer numbers (Resource 3 & 4)
Additional revenue streams from “add ons” eg from Paycycle
Acquisition of Paycycle provided access into Australian market and provides additional client base as well as potential revenue from selling “add on” to existing customers
Similar to US tech giant models (Twitter, Amazon and Facebook) which made losses for years before growth.

Part B
Cash flows from operating activities
Receipts from subscription customers reflected in increased revenue growth of almost $10 million (Resource 4)
Interest received decreased in spite of net increase in cash held.
Better managed operating cash flows or benefits from economies of scale resulting from higher customer numbers. Cost side of the business relatively stable.
Payment of suppliers and employees increased by almost $8 million. Increase in payment to employees reflected by increase in employee numbers. Additionally, tech employees are expensive (note the number of employees earnings over $100 000). Further, this expense is likely to increase given that notice has been given of additional employees being taken on. This single item is greater that receipts from customers. Funded in part from proceeds of share issue

Cash flow from investing activities primarily shown acquisition of property, plant and equipment and investment in subsidiary also financed through share issue. Capitalised development costs can be explained by development of apps / smart phone applications Xero personal and Xero touch.

Cash inflow from financing activities – proceeds of share issue. This is needed for operations – see particularly resources 6 & 8. Company has sufficient resources from capital raising “war chest” of cash.
No debt so is excess cash invested in most effective manner to work for the company?