Assessment Schedule – 2014

Scholarship Accounting (93203)

Evidence Statement

Question One

	Unadjusted trial balance		Adjustments		Profit or loss		Statement of changes in equity		Statement of financial position	
	$	$	$	$	$	$	$	$	$	$
Advertising expenses	324 570				324 570					
Bank charges	2 040				2 040					
Depreciation – buildings	41 000				41 000					
Depr. – property, plant and equipment	-		103 160		103 160					
Dividends paid	80 980						80 980			
Interest paid on long term loan	165 750		33 150		198 900					
Interest received		53 960		13 540		67 500				
Purchases	1 808 160				1 808 160					
Sales		4 628 190				4 628 190				
Wages and salaries	1 117 500				1 117 500					
Auditor's remuneration – audit fees	107 970				107 970					
Contributed equity (5 420 250 shares)		2 168 100	168 100					2 000 000		
Retained earnings – 1 April 2013		766 680	42 025					724 655		
Revaluation surplus – 1 April 2013		1 210 450						1 210 350		
Cash	229 570			210 125					19 445	
Accounts receivable	786 000								786 000	
Accounts payable		455 140								455 140
Inventory – 1 April 2013	153 330			153 330	-	-	-	-	-	-
Prepaid insurance – 31 March 2014	86 640								86 640	
Term loan		2 210 000	110 500							2 099 500
Savings account	1 500 000								1 500 000	
Land	2 859 600		240 400						3 100 000	
Buildings	2 050 000								2 050 000	
Buildings – accum. depr. – 31 March 2014		390 730								390 730
Property, plant and equipment – cost	1 008 600		175 000	228 000					955 600	
Property, plant and equipment – accum. depr. – 31 March 2013		438 460	7 600	103 160						534 020
Bad and doubtful debts			39 300		39 300					
Allowance for doubtful debts				39 300						39 300
Interest payable				33 150						33 150
Interest receivable			13 540						13 540	
Disposal account			228 000	7 600 175 000 45 400						
Loss on sale – PPE			45 400		45 400	-	-	-	-	-
Changes in inventory			153 330	172 400		19 070				
Closing inventory – 31 March 2014			172 400						172 400	
Tax expense			280 500		280 500					
Tax payable				280 500						280 500
Current portion of long-term loan				110 500						110 500
Revaluation surplus				240 400				240 400		
Balance c / f					646 260		4 740 785	646 260		4 740 785
	12 321 710	12 321 710	1 812 405	1 812 405	4 714 760	4 714 760	4 821 765	4 821 765	8 683 625	8 683 625

Journal entries

Dr		Property, plant and equipment	175 000	
	Cr	Disposal account		175 000
Reallocation of incorrect entry				
Dr		Disposal account	228 000	
	Cr	Property, plant and equipment		228 000
Recognising gain on sale of item of property, plant and equipment				
Dr		Depreciation	103 160	
	Cr	Accumulated depreciation		103 160
Depreciation charge for the year required to be recognised				

Cost of PPE shown in TB	1 008 600
Add correction of incorrect entry	175 000
Less item of PPE disposed of at cost	(228 000)
	955 600
Depreciation @ 10% straight line	95 560
Add depr on item of PPE to date of disposal (4 months)	7 600
[(228 000 × 10%) ÷ 12] × 4	
=	103 160

Dr		Accumulation depreciation	7 600	
	Cr	Disposal account		7 600
Elimination of accumulated depreciation on disposed of PPE				
Dr		Loss on disposal of PPE	45 400	
	Cr	Disposal account		45 400
Recognition of loss on disposal of PPE				
Dr		Interest paid on long term loan	33 150	
	Cr	Interest payable		33 150
Interest accrued at recording date				
Dr		Long term loan	110 500	
	Cr	Current portion of long-term loan		110 500
Reallocation of current portion of long-term loan				
Dr		Contributed capital	168 100	
Dr		Retained earnings	42 025	
	Cr	Cash		210 125
Accounting for share buyback of 420 250 shares at $0.50 per share				
Dr		Closing inventory 31 March 2014	172 400	
	Cr	Changes in inventory		172 400
Recognising inventory at 31 March 2014				
Dr		Changes in inventory	153 330	
	Cr	Inventory at 31 March 2013		153 330
Reversal of inventory on hand at 31 March 2013				

Dr		Tax expense	280 500	
	Cr	Tax payable		280 500

Recognising tax expense for the year

Dr		Interest received	13 540	
	Cr	Interest received		13 540

Recognising interest revenue outstanding

Dr		Land	240 400	
	Cr	Revaluation surplus		240 400

Recognising revaluation of land for the year

Dr		Doubtful debts	39 300	
	Cr	Allowance for doubtful debts		39 300

Recognising allowance for doubtful debts for the year

Question Two

Oblivion Limited – Statement of Financial Position at 31 March 2014		
	Notes	**NZ$**
Non-current assets		
Property, plant and equipment	5	5 180 850
Total non-current assets		5 180 850
Current assets		
Inventory	6	172 400
Accounts receivable	7	746 700
Prepaid insurance		86 640
Interest receivable		13 540
Cash (19 445 + 1 500 000)		1 519 445
Total current assets		2 538 725
Total assets		7 719 575
Non-current liabilities		
Long-term loan	8	2 099 500
Total non-current liabilities		2 099 500
Current liabilities		
Accounts payable		455 140
Interest payable		33 150
Taxation payable		280 500
Current portion of long-term loan	8	110 500
Total current liabilities		879 290
Total liabilities		2 978 790
Net assets		4 740 785
Equity		
Contributed capital		2 000 000
Revaluation surplus		1 450 850
Retained earnings		1 289 935
		4 740 785

Notes to the financial statements

5 Property, plant and equipment

	Land	Buildings	Property, plant and equipment	Total
Balance at 1 April 2013				
At cost or valuation	2 859 600	2 050 000	955 600	5 865 200
Accumulated depreciation	–	(349 730)	(438 460)	(788 190)
Net book value	2 859 600	1 700 270	517 140	5 077 010
Year ended 31 March 2014				
Opening net book value	2 859 600	1 700 270	517 140	5 077 010
Additions			228 000	228 000
Disposals			(220 400)	(220 400)
Revaluation surplus (deficit)	240 400	–	–	240 400
Depreciation expense	–	(41 000)	(103 160)	(144 160)
Net book value	3 100 000	1 659 270	421 580	5 180 850
Balance at 31 March 2014				
Cost or valuation	3 100 000	2 050 000	955 600	6 105 600
Accumulated depreciation	–	(390 730)	(534 020)	(924 750)
Net book value	3 100 000	1 659 270	421 580	5 180 850

Depreciation is calculated at the following rate:

- Buildings – 2 per cent per annum, straight-line basis
- Property, plant and equipment – 10 per cent per annum, straight-line basis.

The land was revalued by Sherlock Watson, an independent registered valuer, on 18 January 2014. This was based on fair-market value of surrounding properties.

The surplus on revaluation has been credited to the asset revaluation surplus in equality.

Land and buildings are mortgaged to the value of $2 210 000 (2013 – $2 210 000). See Note 8.

Had land not been revalued, the carrying amount under the cost model would be $1 649 150.
($3 100 000 – $240 400 – $1 210 450).

6 Inventory

Finished goods	172 400

7 Accounts receivable

Accounts receivable	786 000
Less allowance for doubtful debts	(39 300)
	746 700

8 Long-term loan

Mortgage bond	2 210 000
Less current portion	(110 500)
	2 099 500

The long-term loan represents a mortgage bond secured over the land and buildings. The loan is repayable in equal instalments of $110 500, commencing on 31 October 2015. The interest rate is fixed at 9 per cent per annum.

Also equity note, as per appendix (Level 3).

	Number of shares	NZ$
9 Contributed capital		
Balance 1 April 2014	5 420 250	2 168 100
Shares repurchased	(420250)	(168100)
Balance 31 March 2014	5 000 000	2 000 000

Question Three

Suggested solution

Definition of an asset: A resource controlled by the entity as a result of the past event from which future economic benefits are expected to flow to the entity.

The recognition criteria: It is probable that future economic benefits associated with the item will flow to the entity. The item has a cost or value that can be measured with reliability.

Goodwill

It is unlikely that your friend's shop controls the asset of 'goodwill', as there has been no past event. Even though future economic benefits are expected to flow to the entity as a result of the proximity of the shopping centre, the associated benefits cannot be directly linked to an asset of the company.

Additionally, the recognition criteria are problematic in that there is no cost or value that can be measured reliably.

The accounting treatment for the goodwill is inappropriate.

Brand name

Your friend's shop controls the brand as a result of the past event, purchasing the right to use the brand in terms of the sales agreement.

Future economics in the form of profits will be realised from the sale of products.

Future economic benefits will flow to the entity from the products bearing the brand names.

The cost of $630 000 can be measured reliably.

The accounting treatment for the brand name is, therefore, appropriate.

The amortisation cost

The amortisation of the brand name over five years meets the definition of an expense.

There is a decrease in economic benefits during the reporting period in the form of outflows or depletions of assets – the use of the brand name that results in a decrease in equity – expenses decrease equity.

The amortisation charge against profit is appropriate.

Question Four

Integrated reporting

- Elements of reform fatigue. There has been a substantial number of changes in international reporting standards, and integrated reporting is yet another change that distracts from running the company.
- While the integrated reporting council appears to have already changed the way companies report, it is unrealistic to expect integrated reports to become a trustworthy source for the “good and the bad” of corporate performance (as the IIRC puts it).
- Could this be just another form of marketing?
- In some countries (eg Australia) directors have claimed that integrated reporting will give lawyers another basis for class action suits.
- There is currently a wide variety in the form and scope of reporting, which limits comparability and usefulness.
- No conceptual framework for integrated reporting currently exists that clarifies assumptions, principles, or practices.
- Executing concepts of integrated reporting can be difficult (eg determining what performance areas to focus on).
- IR has substantial support from major accounting firms and large corporates. However, transition for all organisations may be difficult.
- Does the cost of producing an IR report outweigh the benefits?
- Businesses decide on which key concepts to report, and the level of reporting. This makes comparisons difficult.
- IR framework focuses on six key capitals, but the framework does not require reports produced to use their names, or structure itself around them, again creating confusion.
- Assurance concerns about how much is audited, and who performed the audit.
- Will auditors be able to audit six capitals, when they are very subjective?
- IR may provide sensitive information, so that investors can make better investment decisions. This may provide a competitive advantage to competitors.
- Other reporting obligations must still be met, so including an IR report may impact the length and complexity of reporting documents (additional compliance costs).
- Integrated reporting does not solve societal issues
- Place undue burden on SMEs
- To be really useful ALL organisations should adopt
- Consider political support

How these various issues are considered/integrated in the answer dictates the mark.

Question Five

MRP share price reflected a downward trend since first opening at a price of $2.73, up $0.23 cents from the issue price (graph, page 5, Question Booklet).

Issues that would suggest support for the share price:

- High volume of trading on the first day – especially with institutional investors who did not get the shares they wanted (Resources Two and Three)
- Float is well received by local and offshore investors (Resource Three)
- Clients/investors looking to buy up shares (Resource Three)
- Professional investors likely to flow into secondary market (Resource Three)
- Appeal of shares is heightened by solid cash flows, low-risk nature, and renewable energy base (Resource Four)
- *Forsyth Barr* recommends clients hold onto their shares (Resource Five)
- Earnings above *MRP*'s own forecast (Resource Five)
- Share price targeted to be $2.35 in 12 months (Resource Five)
- Share buybacks are used to support the share price by decreasing the number of shares in the market, creating demand (Resource Six)
- Experienced director with knowledge of industry is joining the board (Resource Nine).
- November 2014 share price increased to $3.00
- 2 year loyalty bonus
- Geothermal output/clean energy

Issues that would negatively impact share price:

- Opposition's retail electricity policy may have had an impact on retail investors (market uncertainty) (Resource Four)
- Speculative positions cleared out in favour of buy-and-hold investors, but *Forsyth Barr* values shares at below issue price (Resource Five)
- Tiwai Point smelter causing uncertainty (Resource Five)
- Regulatory risk from possible changes in Government (Resource Five)
- Consumers are swapping to alternative power /solar (Resource Five)
- Drought concerns (Resource Five)
- Share buyback returned cash to shareholders that could be used for investment purposes (Resource Six)
- Competition from *Meridian* share float? (Resource Six)
- Falling share prices for utility companies (Resource Seven)
- Freezing electricity prices lower demand, over-capacity, and strong competition (Resource Eight).

How these are integrated in the answer dictates the mark.