Assessment Schedule – 2015
Scholarship Accounting (93203)

Evidence

Question One

Issues that could be considered include but are not limited to:

Natural capital are those renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current, or future prosperity of an organisation. Natural capital includes: air, water, land, minerals, and forests; and biodiversity and ecosystem health.

Resources associated with natural capital are becoming increasingly scarce. As resource scarcity is becoming increasingly important to companies, they are looking for a strategic way of evaluating this environmental risk, and what impact it might have on their business and operations.

Impact on NZs primary industry

Can be seen as a point of difference for marketing purposes

Organisations have yet to develop meaningful ways of accounting for these environmental assets and their rate of depletion.

Currently, no framework is in place to account for natural capital.

Current accounting model is transactions-based, which does not consider assets that may not involve actual transaction.

Businesses focus on short-term profitability rather than long-term issues.

Initiatives such as a water accounting standard in Australia / carbon emission schemes exist.

Negative impact on reporting costs

Companies that are able to respond rapidly to changes in natural capital will thrive. They will be well placed to spot opportunities to innovate, as well as to manage the risks associated with natural capital.

Companies that do nothing may suffer unsustainable profits, cash flow problems, risks to their supply chain, and damage to brands and corporate reputations.

Like *Coca-Cola*, which has a strong focus on water stewardship, water quality and access to it is important to New Zealand dairy farmers and those farmers who rely on water for irrigation.

Companies that rely on tourism rely on the natural capital and clean, green image.

Cultural importance of natural capital to Māori

Question Two

Solution should consider the following:

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

Key characteristics

- There must be future economic benefits.
- The reporting entity must control the future economic benefits. (can the entity control the MD?)
- Transaction or other event must have occurred, giving rise to the reporting entity's control over the benefits.
- Item that meets the definition is recognised when:
    - 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 (can economic benefits expected to flow from employing the MD be measured reliably?)
    - expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity other than those relating to the distributions to equity participants
    - expenses are recognised in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured with reliability
    - recognition of expenses occurred simultaneously with the recognition of a decrease in assets.

Definition of an expense

Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

- Expenses cause reductions in net assets or equity
- Usual tests of probability and measurability apply

Discussion on whether agree with journal entry one and whether it is correct.

Discussion on whether agree with journal entry two and whether it is correct.

Question Three

Polello Limited **Statement of Comprehensive Income for the year ended 30 June 2015**		
	Notes	**$NZ**
Revenue	**1**	527 088
Less: Cost of sales		(318 450)
Gross profit		208 638
Add: Other income	**2**	78 260
		286 898
Less:		
Administrative expenses		(94 968)
Distribution costs		(36 450)
Less: Finance costs ($28 560 + $2 600)	**3**	(31 160)
Profit before tax	**4 and 5**	124 320
Income tax expense		(38 290)
Profit for the period		86 030
Other comprehensive income		
Gain on revaluation of land		11 800
Other comprehensive income for the year		11 800
Total comprehensive income for the year		97 830

Polello Limited **Statement of Changes in Equity for the year ended 30 June 2015**				
	Contributed equity	**Revaluation surplus land**	**Retained earnings**	**Total**
	NZ$	**NZ$**	**NZ$**	**NZ$**
Balance at 1 July 2014	144 000	19 320	290 930	454 250
Total comprehensive income		11 800	86 030	97 830
Distributions				
Dividends paid			(38 600)	(38 600)
Share buyback	(17 280)		(2 880)	(20 160)
Balance at 30 June 2015	126 720	31 120	335 480	493 320

Notes to the Statement of Comprehensive Income

1. Revenue

Sales	527 088

2. Other Income

Consulting revenue	12 710
Dividends received	7 980
Rent received	52 920
Interest received	4 650
	78 260

3. Finance costs

Interest on loan	31 160

4. Operating Profit

Operating profit has been determined after taking into account the following:

Auditors' Remuneration	
– Fees for audit	10 920
– Taxation planning services	8 728
	19 648
Donations	2 690
Directors' fees	39 480

5. Classification of expenses by nature

Changes in inventories	(4 120)
Raw materials and consumables used	205 472
Depreciation expense	41 038
Employment benefit expenses	72 900
Rent paid	35 400
Discount on sales	2 900
Other expenses	13 800
Bad debts	13 020
Loss on sale of manufacturing property, plant and equipment	7 640

Alternative working

Calculation of cost of sales	
Opening inventory	27 670
Purchases	205 472
Closing inventory	31 790
Cost of sales	201 352

Allocation of expenses

	Administration expenses 15%	**Cost of sales** 60%	**Distribution expenses** 25%
Purchases		205 472	
Changes in inventory (27 670 – 31 790)		(4120)	
Auditors' remuneration	19 648		
Bad debts ($7 140 + $5 880)	13 020		
Depreciation – plant and machinery		28 938	
Depreciation – fixtures and fittings	1 815	7 260	3 025
Directors' fees	39 480	–	–
Discount on sales			2 900
Employment benefit expenses ($66 738 + $6162)	10 935	43 740	18 225
Loss on sale of manufacturing PPE		7 640	
Other expenses – donation	2 690		
Other expenses ($16 490 – $2 690)	2 070	8 280	3 450
Rent paid	5 310	21 240	8 850
	94 968	318 450	36 450

Working

Correct journal entry should have been:

Dr		Contributed equity (3.6 × 4800)	17 280
Dr		Retained earnings	2 880
	Cr	Cash	20 160

Average cost per share $144 000 ÷ 40 000 = 3.60

Question Four

Kaihoko Limited
Journal (extract)

1 July 2014	Dr		Land	1 292 200	
		Cr	Revaluation surplus		1 292 200
	Revaluation of land to fair value				
	Dr		Accumulated depreciation	271 840	
		Cr	Buildings		271 840
	Reversal of accumulated depreciation				

	Dr		Buildings	368 540	
		Cr	Revaluation surplus – buildings		368 540
	Revaluation of buildings to fair value				
31 Aug 2014	Dr		Depreciation	11 020	
		Cr	Accumulated depreciation		11 020
	Depreciation on disposed item of manufacturing plant				
	Dr		Accumulated depreciation	171 420	
		Cr	Disposal account		171 420
	Write-off of accumulated depreciation of manufacturing plant disposed of ($160 400 + $11 020)				
	Dr		Disposal account	330 600	
		Cr	Manufacturing plant		330 600
	Write-off of cost of manufacturing plant disposed of				
	Dr		Manufacturing plant	187 500	
		Cr	Disposal account		187 500
	Recognition of amount received on trade in of item of manufacturing plant disposed of				
	Dr		Disposal account	28 320	
		Cr	Gain on sale of item of plant		28 320
	Recognising gain on disposal of item of manufacturing plant				
30 June 2015	Dr		Land	2 326 000	
	Dr		Buildings	1 178 000	
		Cr	Long-term loan		3 504 000
	Recognition of cost of land and buildings acquired on 30 June 2015				
30 June 2015	Dr		Depreciation	675 450	
		Cr	Accumulated depreciation – buildings		213 550
		Cr	Accumulated depreciation – manufacturing plant		461 900
	Depreciation on property, plant and equipment for year				

Question Five

Issues to consider

Falling share price after posting below acceptable profits.

Challenging conditions in core markets of Australia, New Zealand, and Ireland, coupled with problems with suppliers in China.

Company focusing on growing online sales and closing underperforming stores (Resource A). However, there are additional costs associated with closing underperforming stores (Resources A and D).

Company looking to open stores in Middle East (Resource B). However, there has not been a good experience with expanding into overseas markets, particularly in the USA and Great Britain (Resource B). What is to say that this venture will be a success?

Reorganisation costs continue to hit the business (Resource C). This needs to end sometime. Another fashion retailer, *Postie Plus*, went into voluntary administration (Resource C).

There are going concern issues (Resource D). The steps taken need to convince suppliers of finance that *PPL* are able to continue into the foreseeable future. Bank covenant issues (Resources D and E), and *Goldman Sachs* exploring the possibilities of capital raising (Resource E). Inventory turnover time is improving, but is it enough?

Is there a white knight in Rod Duke, a director of the company (Resource F) or Pepkor (South African retailer)?

Are increasing profits (Resource G) sufficient to attract additional financing?

Other issues

Resignation of Di Humphries? Is writing on the wall?

Write down of IT software and store assets.

Strong NZ dollar resulting in lower overseas earnings

PPL needs to continually adapt to extremely dynamic international market place in which it operates.

Developing omni-channel business model that focuses on leveraging PPLs existing customer data base and implementing new supply chain and distribution arrangements to provide customers with the ability of where to shop.

Debt and inventory levels up.

International segment continues to grow.

Online sales decline in 2014, which was a concern.

2015 summer collection positively received.

Opening up of new international markets – has not been successful in doing this in the past.