Assessment Schedule – 2016

Scholarship Accounting (93203)

Evidence

Question One

Suggested solution

What was the initial transaction when the invoice was created?

A number of issues to consider:

Although your friend has received cash, does the amount constitute revenue received? That is, at the date of receiving the cash, does its receipt of the $9 500 meet the definition of revenue?

The definition of income is dependent on the definition of assets and liabilities.

Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases in liabilities that result in increases in equity, other than those relating to contributions from equity participants.

Income, therefore, is a transaction or event that causes an increase in net assets of the entity other than owner contributions.

It, therefore, appears that the receipt of the $9 500 could be considered income.

However, the NZ Framework defines a liability as a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

The three key characteristics:

- There must be an expected future disposition of economic benefits to other entities.
- There must be a present obligation.
- A past transaction or other event must have created the obligation.

A key characteristic of a liability is that there must be a present obligation.

An obligation is a duty or responsibility to act or perform in a particular way.

An obligation is legally enforceable.

Your friend has an obligation to design and landscape the client’s garden, so an obligation exists.

A current liability?

Question Two

There were a number of different approaches candidates could take. The bullet points merely address a number of the issues that could have been considered.

- Met requirements of IIRC integrated reporting framework.
- Independent assurance by KPMG, who are happy with the selection of the non-financial information.
- Impact of Global Reporting Initiative reporting principles and guidelines.
- Consider use of language in assurance reports, which is not as definitive as that used in an audit report.
- Reporting on natural capital is an evolving process. The current accounting framework is transactions-based.
- Seafood is not an infinite resource; therefore, need to treat with care … too much experience with overfishing and collapse of resources in other countries.
- Stakeholders want sustainable fish stocks. Ability to operate as a going concern in the future as an organisation that relied on natural capital
- Targets set for short-, medium-, and long-term value creation – for example, pet food.
- *Sanford*'s share of quota management system?
- Role of Ministry for the Environment and Ministry of Fisheries and what they say
- Seabird migration and other by-catches
- Mussel and salmon farming and link to natural capital
- Reputational issues
- Moral obligation
- Removes focus from short term profitability
- Link to profits / financial performance
- Preparation of an integrated report does not prevent exploitative practices

Question Three

Suggested solution

Golden Limited

Statement of financial position at 31 March 2016

	Notes	2016
		NZ$
ASSETS		
Non-current assets		
Property, plant & equipment	1	3 998 160
Investment	2	340 000
Current assets		
Cash		5 410
Accounts receivable ($467 400 – $23 370)	3	444 030
Inventory	4	435 710
Total current assets		885 150
Total assets		5 223 310
LIABILITIES		
Non-current liabilities		
Long term loan ($1 548 000 – $103 200)	5	1 444 800
Current liabilities		
Trade and other payables	6	143 340
Income tax payable		40 250
Current portion of long term liability		103 200
Bank overdraft		34 700
Total current liabilities		321 490
Total liabilities		1 766 290
NET ASSETS		3 457 020
EQUITY		
Contributed equity		2 322 000
Retained earnings (821130 – 23 370)		797 760
Revaluation surplus		337 260
TOTAL EQUITY		3 457 020

Golden Limited

Notes to the 2016 Financial Statement

1. Property, plant and equipment	**Land**	**Buildings**	**Plant & equipment**	**Total**
Opening book value 1 April 2015	2 276 860	1 336 280	619 200	4 232 340
Additions	-	-	-	-
Disposals	-	-	-	-
Depreciation		79 380	154 800	234 180
Closing book value 31 March 2016	2 276 860	1 256 900	464 400	3 998 160
Balance at 1 April 2015				
At cost or valuation	2 276 860	1 587 600	1 032 000	4 896 460
Accumulated depreciation	-	330 700	567 600	898 300
Balance at 31 March 2016	2 276 860	1 256 900	464 400	3 998 160

Depreciation is calculated on the straight line basis at the following rates:

- Plant and equipment 15% per annum
- Buildings 5% per annum.

The land is mortgaged as detailed in Note 4.

If land had not been revalued, its value under the cost model would have been $1 939 600.

2. Investment / Financial asset		
Investment comprises		
100 000 shares in *Wool Limited*		340 000
3. Trade and other receivables		
Accounts receivable		467 400
Allowance for doubtful debt ($467 400 × 5% = $23 370)		(23 370)
Fair value of trade and other receivables		440 030
4. Inventory		
Inventory comprises		
Raw materials		87 142
Work in progress		130 713
Finished goods		217 855
		435 710
5. Long-term loan		
Long-term loan		1 548 000
Less Current portion		(103 200)
		1 444 800

The long-term loan is secured over the company's land (see Note 1). The loan is to be repaid on a straight-line basis over 15 years with the first payment to be made on 31 October 2016. Interest on loan is charged at 9% per annum.

6. Trade and other payables		
Accounts payable		143 340

QUESTION FOUR

Suggested solution

(a) For items 1 to 4 of the additional information, provide the journal entries and narrations necessary to correctly account for the transactions

31 Mar 2016	Dr		Bad debts	7 800	
		Cr	Accounts receivable		7 800
	Writing off bad debt at reporting period				
	Dr		Doubtful Debts	5 500	
		Cr	Allowance for doubtful debts		5 500
	Creating allowance for doubtful debts at reporting period				
	Dr		Prepaid insurance	4 200	
		Cr	Insurance expense		4 200
	Recognising prepaid insurance				
	Dr		Interest expense	2 700	
		Cr	Interest payable		2 700
	Recognising additional interest expense due for the reporting period				
	Dr		Changes in inventory	72 450	
		Cr	Inventory at 1 April 2015		72 450
	Reversal of inventory on hand at 1 April 2015				
	Dr		Inventory at 31 March 2016	58 990	
			Changes in inventory		58 990
	Recognising inventory on hand at 31 March 2016				

(b) Prepare the Income Statement classified by function together with accompanying notes for *Roach-Home Limited* for the reporting period ending 31 March 2016 in a format suitable for external reporting.

Roach-Home Limited

Statement of Comprehensive Income for the year ended 31 March 2016

	Notes	**2016**
		NZ$
Revenue	1	1 607 240
Cost of sales		1 144 311
Gross profit		462 929
Other income	2	57 850
Distribution costs		115 088
Administration expenses		286 181
Finance costs	4	16 200
Profit before tax	3	103 310
Income tax expense		33 100
Profit for the year		70 210

Roach-Home Limited
Notes to the Statement of Comprehensive Income

1. Revenue	
Sales	1 607 240
2. Other income	
Dividends received	26 870
Interest received	30 980
	57 850
3. Profit before tax	
Profit before tax has been determined after taking into account the following:	
Classification of expenses by nature	
Advertising expenses	25 950
Auditors' remuneration	
- Audit fee	16 800
- Consulting services	5 300
- Taxation services	11 590
	33 690
Bad debts expense	15 460
Depreciation expense	54 800
Donations	5 950

Electricity expense	99 300
General expenses	55 480
Insurance expense	8 400
Loss on sale of equipment	3 200
Raw materials and consumables used	741 660
Changes in inventory of finished goods	13 460
Rent expense	194 400
Staff salaries expense	288 330
Doubtful debts expense	5 500
4. Finance costs	
Interest paid	16 200

Calculation of cost of sales	
Opening inventory	72 450
Purchases	741 660
Closing inventory	58 990
	755 120

Allocation of expenses	**Cost of sales**	**Distribution costs**	**Administration expenses**
Cost of sales	755 120	-	-
Advertising	-	25 950	-
Auditors remuneration	-	-	33 690
Bad debts (7 660 + 7 800 + 5 500)	-	-	20 960
Depreciation	21 920	5 480	27 400
Electricity	39 720	24 825	34 755
Insurance (12 600 – 4 200)	5 880	840	1 680
General expenses	-	-	61 430
Loss on sale of equipment	3 200	-	-
Rent expense	116 640	29 160	48 600
Staff salaries expense	201 831	28 833	57 666
	1 144 311	115 088	286 181

QUESTION FIVE
Suggested solution

Consolidated Statement of Cash Flows

- The Consolidated Statement of Cash Flows shows the cash movements that took place in the organisation during a particular period of time. They are summarised into operating, investing, and financing activities. Overall, the net cash position has increased from an unfavourable $15 821 000 in 2014 to an unfavourable $50 258 000 in 2015. *Sanford Limited* is generating positive cash flows from operating activities ($54 969 000 in 2015 and $32 478 000 in 2014). This increase in operating activities has come about because of higher receipts from customers of $4 895 000 but primarily lower payments to suppliers and employees of $23 797 000 and employees.
- There has been a decrease in cash outflows from investing activities in 2015 compared with 2014, with the amount decreasing from $13 882 000 in 2014 to $6 208 000 in 2015. Although the acquisition of property, plant and equipment is slightly higher in 2015 ($16 076 000) than in 2014, the bulk of the decrease can be attributed to not making the same level of purchase of business in 2015.
- Cash outflows from financing activities amounted to $83 254 000 in 2015, compared with cash outflows of $23 766 000 in 2014. The outflows resulted primarily from the repayment of debt of $80 003 000 in 2015. *Sanford Limited* does not appear to have any solvency problems and should be able to support the level of dividends in the future. Improvement to EBIT as a result of debt reduction
- *Sanford Limited* has shifted focus from harvesting a commodity to providing increasing value of seafood resources.
- Innovation is a key focus and has affected 2015 and, likely, future years.
- Decisions made to exit skipjack tuna market, and aquaculture business affected by slow mussel growth, affected receipts from customers.
- Fishing operations successful, with most species caught above planned volumes.
- Greater emphasis on strategic customers and a strong emphasis on fresh fish market.
- Growing market in China.
- Employee expenses reduced with closure of Christchurch mussel processing plant.
- Greater efficiencies strived for.
- Increased cash flow from operations together with $10 million from sale of skipjack trawler was used to fund purchase of PPE and Wynyard seafood market business.
- New freezer trawler purchased from Norway will enable more value to be added through more targeted processing.
- Develop further fish sales and more innovation in the use of waste from fish.
- Investment in technology to focus on target catches and less by-catches.
- New IT platform.
- Non recurring cost of $16m in 2015.