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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

Scholarship 2014
Accounting

2.00 pm Thursday 20 November 2014
Time allowed: Three hours
Total marks: 40

QUESTION BOOKLET

Answer ALL questions.

Write your answers in Answer Booklet 93203A.

Pull out Resource Booklet 93203R from the centre of this booklet.

Check that this booklet has pages 2–5 in the correct order and that none of these pages is blank.

YOU MAY KEEP THIS BOOKLET AT THE END OF THE EXAMINATION.

QUESTION ONE (8 marks : 30 minutes)

The following information has been extracted from the financial records of *Oblivious Limited* for the reporting period ending 31 March 2014.

Unadjusted trial balance at 31 March 2014	**Dr**	**Cr**
	$	**$**
Advertising expenses	324 570	
Bank charges	2 040	
Depreciation – buildings	41 000	
Depreciation – property, plant and equipment	–	
Dividends paid	80 980	
Interest paid on long-term loan	165 750	
Interest received		53 960
Purchases	1 808 160	
Sales		4 628 190
Wages and salaries	1 117 500	
Auditor's remuneration – audit fees	107 970	
Contributed equity (5 420 250 shares)		2 168 100
Retained earnings – 1 April 2013		766 680
Revaluation surplus – 1 April 2013		1 210 450
Cash	229 570	
Accounts receivable	786 000	
Accounts payable		455 140
Inventory – 1 April 2013	153 330	
Prepaid insurance – 31 March 2014	86 640	
Long-term loan		2 210 000
Savings account	1 500 000	
Land	2 859 600	
Buildings	2 050 000	
Buildings – accumulated depreciation – 31 March 2014		390 730
Property, plant and equipment – cost	1 008 600	
Property, plant and equipment – accumulated depreciation – 31 March 2013		438 460
	12 321 710	12 321 710

The following additional information is available. Note: GST is to be ignored.

1. On 1 August 2013, *Oblivious Limited* sold an item of property, plant and equipment that cost $228 000 when it was acquired, on 1 April 2013. The sales proceeds amount to $175 000. When the cash was received, the accountant incorrectly debited cash and credited property, plant and equipment with the proceeds from the sale of the asset. No entry other than the one described has been made to account for the disposal.
2. Buildings are depreciated on the straight-line basis at 2 per cent per annum, while property, plant and equipment is depreciated on the straight-line basis at 10 per cent per annum. *Oblivious Limited* has yet to account for depreciation on property, plant and equipment.
3. The long-term loan of $2 210 000 represents a mortgage bond taken out on 1 April 2013 and secured over *Oblivious Limited*'s land and buildings. The mortgage bond is repayable in equal instalments of $110 500, commencing on 31 October 2015. The interest rate is fixed at 9 per cent per annum.

4. On 31 March 2014, *Oblivious Limited* bought back 420 250 shares at $0.50 per share for cash. This entry has yet to be made in the accounting records.
5. Inventory on hand at 31 March 2014 amounted to $172 400.
6. The tax expense for the year is $280 500. The amount has been correctly calculated.
7. Community Bank pays interest on *Oblivious Limited*'s savings account at the rate of 4.5 per cent per annum.
8. *Oblivious Limited*'s freehold land was revalued by Sherlock Watson, an independent registered valuer, on 18 January 2014. This valuation, based on the value of the surrounding properties, was $3 100 000. The effects of this revaluation have yet to be made. The revaluation surplus relates to this asset.
9. An allowance for doubtful debts of 5 per cent of accounts receivable at the reporting date must be made.

Required
Using the above information, complete the 10-column worksheet on pages 2 and 3 of the answer booklet.

QUESTION TWO (8 marks : 30 minutes)

Required
Using the worksheet you completed in Question One, prepare for *Oblivious Limited* for the reporting period ended 31 March 2014:
The Statement of Financial Position including any accompanying notes, in a format suitable for external reporting purposes.

QUESTION THREE (8 marks : 30 minutes)

Over a number of years, your friend's clothing store, which caters to the teenage market, has become very successful. A shopping centre completed in 2011 directly across the road from your friend's shop has proved popular. This has had a direct impact on your friend's shop, in that both his revenue and his profits have increased substantially. Based on the increased profitability, your friend purchased a brand named *Freedom for the Young*™ from a major Australian clothing company. The agreement gives your friend the right to use the brand name for five years for marketing and promotion purposes.

For the reporting period ending 31 July 2014, your friend had his accountant make the following entries in the shop's accounting records:

1 August 2013	Dr		Brand name	650 000	
		Cr	Cash		650 000
	Cost of brand name acquired on 1 August 2013				
31 July 2014	Dr		Amortisation – brand name	130 000	
		Cr	Accumulated amortisation – brand name		130 000
	Brand name amortisation charge for the year				
31 July 2014	Dr		Goodwill	500 000	
		Cr	Goodwill revaluation surplus		500 000
	Amount of goodwill that has resulted from increasing revenue and profits since the new shopping centre opened on 1 August 2011.				

Required
Using the definition and recognition criteria of the financial elements in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010 (NZ Framework) as a basis, discuss whether you agree with your friend's accounting treatment of each of the three journal entries detailed above.

QUESTION FOUR (8 marks : 30 minutes)

The benefit of integrated reporting is that it enables stakeholders to evaluate value creation across a broad range of areas. In spite of the perceived benefits of integrated reporting, concerns have been raised by a number of different parties.

Required
Explain what you think are the potential concerns associated with integrated reporting.

QUESTION FIVE (8 marks : 60 minutes)

Shares in *Mighty River Power Limited* were first traded on 10 May 2013 at $2.73 per share. The price of the shares for the six months ending 20 January 2014 is shown below. By 20 January 2014, the price of the shares had dropped to $2.025.

[For copyright reasons, this resource cannot be reproduced here. See below]

Required
Using the above graph and **Resources One** to **Nine** in the resource booklet, critically evaluate *Mighty River Power Limited*'s share price performance since the share float.

Source: *Mighty Power Limited* 2013 Annual Report.

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