93203Q

932032

S

NZQA

NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

QUALIFY FOR THE FUTURE WORLD
KIA NOHO TAKATŪ KI TŌ ĀMUA AO!

Scholarship 2015
Accounting

2.00 p.m. Monday 23 November 2015
Time allowed: Three hours
Total marks: 40

QUESTION BOOKLET

There are FIVE questions in this 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 2–9 in the correct order and that none of these pages is blank.

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

Note: All FIVE questions in this booklet have equal importance, but you should allow more time for Question Five as you will need to read the resources in the resource booklet to answer that question.

QUESTION ONE

The following quote paints a dire picture of the impact of business on natural capital.

> "In stark financial terms, all the evidence demonstrates a simple fact: we are failing to run the global bank that we call our planet in a competent manner. We no longer just take a dividend each year; instead, for some time, we have been digging deep into our capital reserves. And, after the near collapse of our entire financial system, we all know that such excessive risk-taking can cause immense havoc. The ultimate bank on which we all depend – the bank of natural capital – is in the red; the debt is getting ever bigger, and that is reducing Nature's resilience and considerably impeding her ability to re-stock. It leaves us dangerously exposed."
>
> HRH The Prince of Wales
> Speaking at the Prince's Accounting for Sustainability Forum
> St James's Palace, London, December 2013

REQUIRED

Explain to a New Zealand business owner what natural capital is, and whether accounting for it is an important current issue that should be considered.

QUESTION TWO

On 1 April 2014, the company your friend works for appointed a new Chief Executive Officer (CEO) on a five-year contract. To ensure that the company employed the best person, the CEO's remuneration package included a signing-on bonus of $500 000 on the day they started work, as well as an annual salary of $900 000.

Your friend believes that the best way to account for the remuneration payment is as follows.

1 April 2014	Dr		Remuneration in advance	500 000	
		Cr	Cash		500 000
	Recognising payment of CEO's signing-on bonus at date of employment				

At the 31 March 2015 reporting date, the payments of the salary would be accounted for as follows.

31 March 2015	Dr		Employment benefit expense	1 000 000	
		Cr	Remuneration in advance		100 000
		Cr	Cash		900 000
	Recognising CEO's employment benefit expense for the year				

REQUIRED

Discuss whether you agree with the accounting treatment for each of the two journal entries above, using as a basis 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).

QUESTION THREE

Ignore GST in this question.

Polello Limited is a manufacturing company with a number of different revenue streams. The following information has been extracted from the financial records for the reporting period ended 30 June 2015.

	Dr	**Cr**
	$	$
Auditor's remuneration	19 648	
Bad debts	7 140	
Consulting revenue		12 710
Contributed equity 30 June 2015 (35 200 ordinary shares)		123 840
Depreciation – fixtures and fittings	12 100	
Depreciation – manufacturing property, plant and equipment	28 938	
Directors' fees	39 480	
Discount on sales	2 900	
Dividends paid	38 600	
Dividend received		7 980
Employee benefit expense	66 738	
Interest paid on loan	28 560	
Interest received		4 650
Loss on sale of manufacturing property, plant and equipment	7 640	
Other expenses	16 490	
Purchases	205 472	
Rent paid	35 400	
Rent received		52 920
Retained earnings – 1 July 2014		290 930
Revaluation surplus – Land 1 July 2014		19 320
Sales		527 088
Income tax expense	38 290	
Net assets	492 042	
	1 039 438	1 039 438

Additional information

1. Included in net assets at 30 June 2015 is inventory with a closing balance of $31 790. Inventory at 1 July 2014 amounted to $27 670.
2. Included in "Other expenses" is a donation amounting to $2 690 made to a not-for-profit organisation that provides funding to *Mission to Seafarers*, a charity that helps seafarers in need.
3. The directors have decided to allocate those expenses that cannot be directly attributable to a cost category on the basis of floor area. The floor area covered by *Polello Limited* has been allocated as follows:

	%
Administration	15
Distribution	25
Manufacturing	60

4. A debtor who owed *Polello Limited* $5 880 on 30 June 2015 was declared bankrupt on 26 August 2015. The auditors have advised the directors that, under New Zealand equivalents to International Financial Reporting Standard, this amount should be written off at reporting date.
5. Interest of $2 600 is still owed by *Polello Limited* on its loan at reporting date.
6. At 30 June 2015, an amount of $6 162 was still owed to employees for work undertaken.
7. Included in net assets at 30 June 2015 is land that originally cost $142 400. On 21 May 2015, the land was revalued by *Advena Krump*, an independent valuer. The revaluation of $154 200 was based on the market value of the surrounding properties. No entry has been made to account for this transaction.
8. On 18 June 2015, *Polello Limited* bought back 4 800 shares at $4.20 per share. The accountant made the following incorrect entry to account for the transaction:

18 June 2015	Dr		Contributed equity	20 160	
		Cr	Cash		20 160
	Buyback of 4 800 shares at $4.20 per share				

9. The loss on the sale of equipment arose from the disposal of manufacturing equipment.
10. An analysis of the auditors' remuneration reveals that $10 920 was for audit fees, and the balance was fees for taxation planning services.
11. The tax expense has been correctly calculated.

REQUIRED

For the reporting period ending 30 June 2015, prepare the following for *Polello Limited:*

- the Statement of Comprehensive Income, classified by function, in a single statement format, together with accompanying notes in a format suitable for external reporting purposes
- the Statement of Changes in Equity in a format suitable for external reporting purposes. You are not required to provide supporting notes for the Statement of Changes in Equity.

QUESTION FOUR

Ignore GST in this question.

The following ledger accounts have been extracted from the accounting records of *Kaihoko Limited*, a company whose reporting date is 30 June 2015.

Land				
Date	**Description**	**Dr**	**Cr**	**Balance**
1 March 2013	Cash	3 062 800		3 062 800 Dr
Buildings				
Date	**Description**	**Dr**	**Cr**	**Balance**
1 March 2013	Cash	2 038 800		2 038 800 Dr
Accumulated depreciation – Buildings				
Date	**Description**	**Dr**	**Cr**	**Balance**
30 June 2013	Depreciation		67 960	67 960 Cr
30 June 2014	Depreciation		203 880	271 840 Cr
Manufacturing plant and equipment				
Date	**Description**	**Dr**	**Cr**	**Balance**
1 July 2011	Cash	2 325 600		2 325 600 Dr
31 August 2014	Cash	189 900		2 515 500 Dr
Accumulated depreciation – Manufacturing plant and equipment				
Date	**Description**	**Dr**	**Cr**	**Balance**
30 June 2012	Depreciation		465 120	465 120 Cr
30 June 2013	Depreciation		465 120	930 240 Cr
30 June 2014	Depreciation		465 120	1 395 360 Cr

Additional information

1. On 1 July 2014, Mrs J Alice, an independent valuer, revalued the land and buildings originally purchased on 1 March 2013. The valuation was based on the market value of surrounding properties. Mrs J Alice valued the land at $4 355 000 and the buildings at $2 135 500.
2. On 31 August 2014, an item of manufacturing plant and equipment that had originally cost $330 600 (accumulated depreciation at 1 July 2014 – $160 400) was traded in on a new item of manufacturing plant and equipment that cost $377 400. *Kaihoko Limited* received $187 500 on the trade-in on the old manufacturing plant and equipment.
3. The only entry to record the acquisition of the new item of manufacturing plant and equipment that appeared in the accounting records was:

31 August 2014	Dr		Manufacturing plant and equipment	189 900	
		Cr	Cash		189 900
	Entry to account for the acquisition of manufacturing plant and equipment $377 400 less trade-in amount of $187 500				

4. On 30 June 2015, *Kaihoko Limited* purchased additional land and buildings at a cost of $3 504 000. Of this amount, $2 326 000 was allocated to the cost of the land. The acquisition of the land and buildings was financed by a long-term loan taken out with a bank. These amounts have not yet been recorded in the general ledger.
5. Depreciation is calculated on the straight-line basis at the following rates:

Buildings	10 per cent per annum
Manufacturing plant and equipment	20 per cent per annum

REQUIRED

Prepare ALL the journal entries and narrations necessary to account for *Kaihoko Limited's* manufacturing plant and equipment for the reporting period ending 30 June 2015.

QUESTION FIVE

Refer to the resource booklet to answer this question.

Since 2010, the price of *Pumpkin Patch Limited's* shares has declined steadily, in spite of reassurances from management that measures have been put in place to ensure that the situation improves.

The five-year share price movement for *Pumpkin Patch Limited* is detailed in the figure below.

For copyright reasons, this resource cannot be reproduced here.

Source (adapted): http://companyresearch.nzx.com.EZproxy, accessed 25 January 2015

A number of key statistical measures are detailed in the following table.

Pumpkin Patch Limited	2014	2013	2012	2011	2010
Liquidity					
Current ratio	3.04	1.55	0.93	1.28	1.42
Quick assets (liquid) ratio	0.63	0.52	0.31	0.37	0.46
Net profit dividend cover	n/a	n/a	n/a	–0.37	1.62
Cash flow dividend cover	n/a	n/a	n/a	1.74	2.62
Leverage					
Shareholders' equity %	26.83	34.09	16.93	11.76	42.57
EBIT : interest paid	–2.07	2.82	4.79	4.24	17.03
Activity					
Inventory turnover	3.31	4.89	4.89	4.01	5.35
Fixed assets turnover	7.43	7.2	6.76	6.25	7.19
Total assets turnover	1.77	2.17	2.05	1.73	2.24
Profitability					
Pretax profit: sales % (profit for the year %)	–5.34	2.86	4.75	3.61	9.88
Growth					
Turnover %	–16.55	–3.96	–11.16	–11.42	–7.36
Net income %	–300.87	118.39	–1 367.32	–107.36	195.37
Valuation					
Share price	37	78	91	105	184
Current P/E ratio	–9.7	14.08	10.95	16.13	10.92
Current dividend yield %	0	0	0	2.86	5.16

REQUIRED

Critically evaluate the measures taken by management to stabilise *Pumpkin Patch Limited's* share price.