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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

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

Scholarship 2016
Accounting

9.30 a.m. Wednesday 30 November 2016
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 because you will need to read the resources in the resource booklet to answer that question.

QUESTION ONE

Your friend has recently started a garden design and landscaping business. In order to ensure that he has sufficient funds to complete his first major project to a high standard, your friend invoiced his client and received $9 500 before he completed the design and landscaping work.

REQUIRED

Explain how your friend should recognise this event. You need to make reference to the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010 (NZ Framework).

QUESTION TWO

In 2014, *Sanford Limited* became the second New Zealand company to produce an integrated annual report. As a fishing company, *Sanford Limited* is heavily dependent on natural capital (often described as the stock of natural resources and environmental assets that provide current and future goods and services) for its success.

REQUIRED

Critically evaluate how well *Sanford Limited* has addressed the reporting for natural capital in its 2015 Integrated Annual Report.

QUESTION THREE

The following information was extracted from the financial records of *Golden Limited* at 31 March 2016.

	Dr	Cr
	$	$
Accounts payable		143 340
Accounts receivable	467 400	
Bank overdraft		34 700
Buildings	1 587 600	
Accumulated depreciation – buildings		330 700
Investment in *Wools Limited*	340 000	
Cash	5 410	
Contributed equity		2 322 000
Income tax payable		40 250
Inventory	435 710	
Land	2 276 860	
Long-term loan		1 548 000
Plant and equipment	1 032 000	
Accumulated depreciation – plant and equipment		567 600
Retained earnings		821 130
Revaluation surplus – Land		337 260
	6 144 980	**6 144 980**

Additional information

1. Depreciation is calculated on the straight-line basis at the following rates:
   - Plant and equipment 15 per cent per annum
   - Buildings 5 per cent per annum.
2. Depreciation for the current year has already been correctly recorded and included in retained earnings.
3. The investment comprises 100 000 shares in *Wools Limited*. These shares have not been revalued to fair value.
4. The long-term 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 the loan is charged at 9 per cent per annum. The interest expense for the current year was correctly recorded and included in retained earnings. The long-term loan is secured over the company's land.
5. Inventory comprises 20 per cent raw materials, 30 per cent work in progress, and the rest in finished goods.
6. The directors of *Golden Limited* have decided to make an allowance for doubtful debts at 5 per cent of the accounts receivable balance at the reporting date. This adjustment has yet to be made.
7. Income tax payable has been calculated correctly.

REQUIRED

Prepare, in a format suitable for external reporting purposes, *Golden Limited*'s Statement of Financial Position at 31 March 2016 and accompanying notes.

You are NOT required to prepare an Equity Note or a Statement of Changes in Equity.

Use only the information that has been provided.

QUESTION FOUR

The following information has been extracted from the accounting records of *Roach-Home Limited* for the reporting period ending 31 March 2016.

	Dr	Cr
	NZ$	**NZ$**
Advertising expenses	25 950	
Auditors' remuneration	33 690	
Bad debts expense	7 660	
Depreciation expense	54 800	
Dividends received		26 870
Electricity expense	99 300	
General expenses	61 430	
Income tax expense	33 100	
Insurance expense	12 600	
Interest expense	13 500	
Interest received		30 980
Inventory at 1 April 2015	72 450	
Loss on sale of equipment	3 200	
Purchases	741 660	
Rent expense	194 400	
Sales		1 607 240
Staff salaries expense	288 330	
Net assets	23 020	
	1 665 090	**1 665 090**

Additional information

1. A debtor who owed *Roach-Home Limited* $7 800 on 31 March 2016 was declared bankrupt on 18 May 2016. The auditors have advised the directors that under New Zealand equivalents to International Financial Reporting Standards, this amount should be written off at the reporting date. As a result of this transaction, *Roach-Home Limited* decided to create an allowance for doubtful debts of $5 500 for the reporting period ending on 31 March 2016.
2. A 12-month insurance policy covering accident, fire, and theft was purchased on 1 August 2015 for $12 600.
3. On 1 October 2013, *Roach-Home Limited* borrowed $180 000 from a bank. The loan is repayable in full on 1 October 2023. The bank charges interest at the rate of 9 per cent per annum.
4. Inventory on hand at 31 March 2016 was $58 990.
5. Auditors' remuneration comprises $16 800 for the annual audit and $5 300 for consulting services, with the balance paid for taxation services.
6. The loss on the sale of equipment arose from the disposal of manufacturing equipment.
7. In the "General expenses" account, $5 950 is included for donations made to Project Jonah. The balance of "General expenses" should be allocated to "Administration expenses".
8. Management allocates company expenditure as follows:

	Cost of sales	**Distribution costs**	**Administration expenses**
Depreciation expense	40%	10%	50%
Electricity expense	40%	25%	35%
Insurance expense	70%	10%	20%
Rent expense	60%	15%	25%
Staff salaries expense	70%	10%	20%

9. The income tax expense has been correctly calculated.

REQUIRED

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

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

Ignore GST.

You are NOT required to provide a tax note.

QUESTION FIVE

Sanford Limited's consolidated statement of cash flows is detailed on the next page. This statement reflects that for the reporting period ending 30 September 2015, *Sanford Limited*'s cash position deteriorated from a negative $15 821 000 at 30 September 2014 to a negative $50 258 000 at 30 September 2015.

REQUIRED

Critically evaluate the three areas of operating, investing, and financing activities to assess how well *Sanford Limited* managed its cash flows for the 2015 reporting period, and future operating plans. You should also take into consideration any additional information provided in the resource booklet.

Sanford Limited
Statement of Cash Flows for the year ended 30 September

	2015	**2014** Restated*
	$000	**$000**
Cash flow from operating activities		
Receipts from customers	474 618	469 723
Interest received	191	365
Dividends received	17	20
Payments to suppliers and employees	(400 856)	(424 653)
Income tax paid	(9 255)	(3 007)
Interest paid	(9 746)	(9 970)
Net cash flows from operating activities	54 969	32 478
Cash flow from investing activities		
Sale of property, plant and equipment	10 045	6 714
Sale of intangible assets	-	1 934
Contributions received in advance	1 099	2 510
Sale of investments	-	12
Dividends received from associates	664	1 119
Purchase of property, plant and equipment	(16 076)	(12 301)
Purchase of business	(1 940)	(13 870)
Net cash flows from investing activities	(6 208)	(13 882)
Cash flow from financing activities		
Proceeds from borrowings	18 489	24 250
Repayment of term loan	(80 003)	(26 243)
Dividends paid to parent shareholders	(21 518)	(21 534)
Dividends paid to non-controlling shareholders in subsidiaries	-	(26)
Purchase of own shares	(222)	(213)
Net cash flow from financing activities	(83 254)	(23 766)
Net (decrease) in cash and cash equivalents	(34 493)	(5 170)
Effect of exchange rate fluctuations on cash held	56	5
Cash and cash equivalents at beginning of year	(15 821)	(10 656)
Cash and cash equivalents at 30 September	(50 258)	(15 821)
Represented by		
Bank overdraft and borrowings at call	(56 218)	(18 285)
Cash on hand and at bank	5 960	2 464
	(50 258)	(15 821)