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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 2017
Accounting

2.00 p.m. Monday 27 November 2017
Time allowed: Three hours
Total marks: 32

QUESTION BOOKLET

There are FOUR 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 2–6 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 questions in this booklet have equal importance, but you should allow more time for Question Four because you will need to read the resources in the resource booklet to answer that question.

QUESTION ONE

Sanford Limited explains that "Our material issues relate to how Sanford creates value for stakeholders, our business and our wider operating environment, in the short, medium and long term" (2016 Annual Report, p. 22).

Figure One

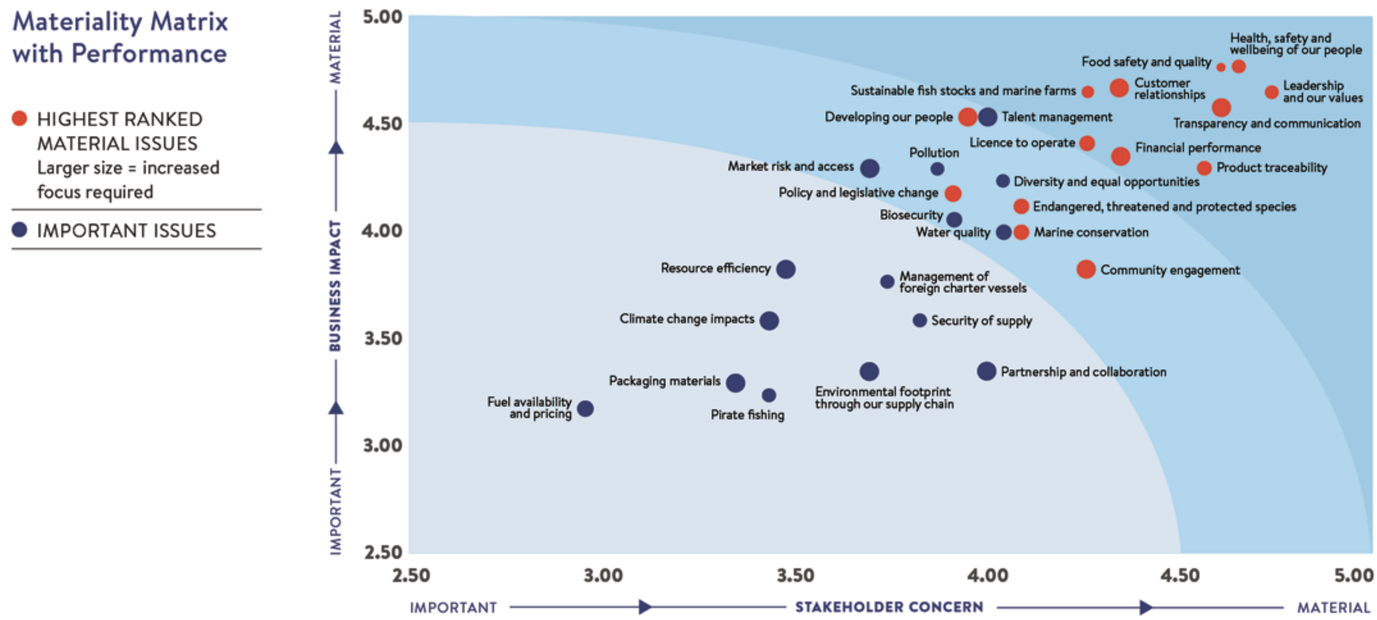
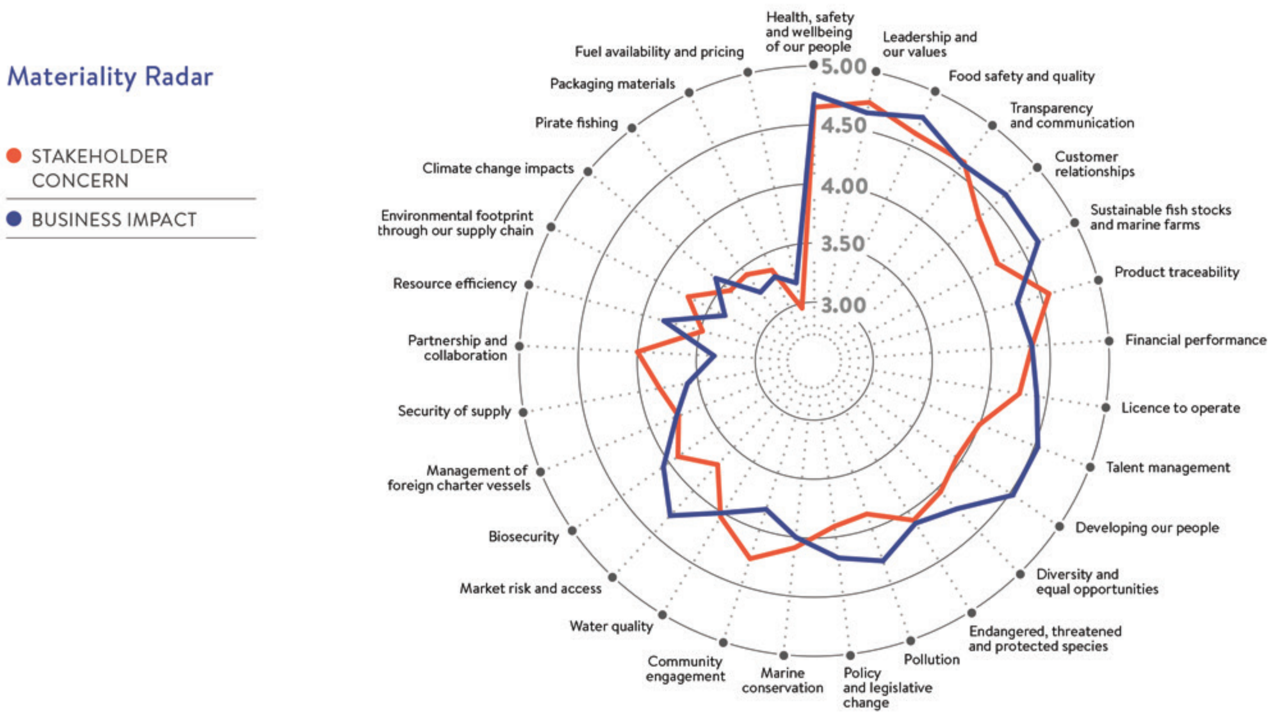


Figure Two



Key: 2.5–5 indicate level of importance

REQUIRED

Using Figure One and Figure Two from *Sanford Limited*'s 2016 Annual Report, explain what the company means by materiality in the context of their Annual Report. You should also clearly indicate whether the meaning of materiality contained in the Annual Report is inherently different from the concept of materiality contained in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010 (NZ Framework).

QUESTION TWO

Your friend has a business, *Endless Glow Limited*, that manufactures cosmetics. During the financial year, your friend developed a new line of products, *Cosmetic1*, aimed specifically at the under-25 demographic. Your friend has registered a patent to protect the formula for *Cosmetic1*. The ingredients for *Cosmetic1* are sourced only from renewable resources. There are no artificial chemicals and the product is not tested on animals. *Cosmetic1* is unique in that it provides users with a healthy 'glow' particularly when a 'selfie' is taken.

Your friend provides you with a list of figures showing how they have arrived at the value of *Cosmetic1* to include in their Statement of Financial Position.

Cosmetic1

	$
Patent costs	5 000
Research costs	36 000
Development of business plan	9 000
Value of *Cosmetic1*	150 000
	200 000

The value of $150 000 for *Cosmetic1* was determined through market research by an international firm that specialises in valuing products. In their report, the international firm suggests that as *Cosmetic1* is likely to be well received and to have high demand, a value of $150 000 can be placed on it.

REQUIRED

Using the definition and recognition criteria contained in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010 (NZ Framework), explain to your friend whether or not they have correctly determined the value of the asset *Cosmetic1* to be included in *Endless Glow Limited*'s Statement of Financial Position.

QUESTION THREE

The following information has been extracted from the financial records of *Weatherbomb Limited* at 30 June 2017.

	NZ$
Accounts payable	243 100
Accounts receivable	444 600
Allowance for doubtful debts	13 900
Buildings	4 624 000
Accumulated depreciation – buildings	839 500
Cash (Dr)	618 900
Contributed equity	5 395 200
Dividends paid	96 000
Income tax payable	106 900
Inventory	1 024 300
Land	7 976 000
Revaluation surplus – land	2 880 000
Long-term loan payable	3 710 400
Plant and equipment	2 740 200
Accumulated depreciation – plant and equipment	1 412 900
Retained earnings	1 925 800
Profit for the year	996 300

Additional information

1. During the current reporting period, *Weatherbomb Limited* issued an additional 90 000 ordinary shares at $2.40 each. The adjustment to take this entry into account has been made.
2. *Weatherbomb Limited* initially records all items of property, plant and equipment at cost. Depreciation is calculated on the straight-line basis at the following rates:
   - Plant and equipment 20 per cent per annum
   - Buildings 5 per cent per annum.
3. On 1 January 2017, the land and buildings were revalued by K Williamson, an independent valuer. The revaluation of $7 153 000 for the land and $4 760 000 for the buildings was based on the market value of the surrounding properties. Depreciation and revaluation adjustments have yet to be made for the current reporting period.
4. The directors have decided to make an allowance for doubtful debts at 7.5 per cent of the accounts receivable balance at the reporting date. This adjustment has yet to be made.
5. The long-term loan payable is secured over the company's land.
6. Income tax payable has been correctly calculated.

REQUIRED

(a) Prepare any necessary General Journal entries for items 2 to 4 that can be determined from the additional information provided.

(b) Prepare the asset and equity sections of the Statement of Financial Position as at 30 June 2017.

(c) Prepare only the appropriate accompanying property, plant and equipment disclosure note in a format suitable for external reporting purposes.

(d) Prepare the Statement of Changes in Equity for the reporting period ending 30 June 2017.

Note: Use only the information provided. Ignore GST.

QUESTION FOUR

You have been given $10 000 to invest in a company. You are aware of a number of sources of information on which you can draw when making an investment decision. These include but are not limited to company annual reports and various forms of media, including newspapers.

REQUIRED

Discuss how you would make use of the information provided by the various media forms contained in the resource booklet when deciding whether to invest your $10 000 in *Restaurant Brands New Zealand Limited* and / or *Sanford Limited*.