93203Q

932032

S

Scholarship 2010
Accounting

9.30 am Saturday 13 November 2010
Time allowed: Three hours
Total marks: 48

QUESTION BOOKLET

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

Answer ALL questions.

Write your answers in the Answer Booklet 93203A.

Show ALL working. Start your answer to each question on a new page. Carefully number each question.

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.

You have three hours to complete this examination.

QUESTION ONE (8 marks : 30 minutes)

You are the accountant for a company that owns a large shopping centre. The managing director is concerned about the future costs associated with refurbishment necessary to keep the shopping centre fully tenanted. Estimates obtained by the managing director indicate that the cost of this refurbishment in four years' time will amount to approximately $3.8 million. This refurbishment will maintain rather than increase future economic benefits.

Because the company currently derives rental income from the shopping centre, the managing director proposes the following journal entry be made in each of the four years to help provide for the future refurbishment costs:

			2010	2011	2012	2013
			$	**$**	**$**	**$**
Dr		Refurbishment costs	500 000	800 000	1 100 000	1 400 000
	Cr	Provision for refurbishment costs	500 000	800 000	1 100 000	1 400 000

The managing director rationalises that because the company is deriving rental income from the shopping centre, the above journal entry – if made in each of the four years – will match refurbishment costs with rental income.

Required
Using the appropriate element definition and recognition criteria contained in the *New Zealand Equivalent to the IASB Framework for the Preparation and Presentation of Financial Statements*, discuss whether the managing director's proposal is correct.

QUESTION TWO (8 marks : 30 minutes)

The following information has been extracted from the financial records of *Vital Limited* for the reporting period ended 31 March 2010.

	Dr	Cr
	$	$
Auditor's remuneration	4 678	
Bad debts	1 700	
Contributed equity		20 000
Depreciation – plant and machinery	6 890	
Directors' fees	9 400	
Dividends paid	8 000	
Dividend received		1 900
Gain on sale of available-for-sale financial asset		4 200
Interest paid on mortgage	6 800	
Other expenses	3 900	
Purchases	48 922	
Rent received		12 600
Retained earnings – 1 April 2009		21 650
Revaluation surplus – available-for-sale financial asset		4 800
Revaluation surplus – land 1 April 2009		4 600
Sales		87 560
Staff wages	15 890	
Income tax expense	5 100	
Net assets	46 030	
	157 310	157 310

Additional information:

1. Inventory had an opening balance on 1 April 2009 of $27 670 and a closing balance on 31 March 2010 of $31 790.
2. Included in "Other expenses" is a donation amounting to $2 690 made to a not-for-profit organisation that provides funding to Project Jonah, a charity that helps protect marine mammals.
3. On 1 April 2008, *Vital Limited* acquired 3 000 equity instruments (shares) in *Kally Limited* at $4.50 each. At the date of acquisition, *Vital Limited* management classified this investment as being available-for-sale. At 31 March 2009, the fair value of the equity instruments amounted to $6.10. On 16 September 2009, the investment was sold when the market price had increased to $7.50.
4. During the year, the fair value of the land held by *Vital Limited* was revalued by $6 150. *Vital Limited* has not yet accounted for the increase in land value.
5. An analysis of the auditors' remuneration reveals that $2 600 was for audit fees while the balance was fees for tax planning services.
6. The tax expense has been correctly calculated.

Required

For the reporting period ending 31 March 2010, prepare the following for *Vital Limited*:

- the statement of comprehensive income in a single statement format, classified by nature
- the statement of changes in equity
- the appropriate accompanying disclosure notes.

QUESTION THREE (8 marks : 30 minutes)

(a) Describe the concept of business ethics.

(b) Discuss some of the benefits for a business that acts ethically.

(c) Discuss what factors a New Zealand business operating in a developing country should consider to ensure that the business acts ethically.

QUESTION FOUR (8 marks : 30 minutes)

Your classmate is aware that in December 2009, *Allied Farmers Limited* purchased the assets of *Hanover Finance* and *United Finance* in exchange for shares. From extensive media coverage, your classmate is also aware that the share price had decreased steadily over a five-year period and at June 2010 was trading at 3.6 cents per share.

The following financial ratios have been calculated using the financial information contained in the annual reports of *Allied Farmers Limited*:

Allied Farmers Limited
Shares Performance 2006–2009

	2009	2008	2007	2006
Return on shareholders' funds %	(183.3)	9.0	(11.31)	5.16
Equity ratio %	2.55	11.46	7.45	11.54
Times interest earned (interest coverage)	0.06X	1.23X	0.92X	2.74X
Share price	$0.35	$1.30	$1.99	$2.25

Required
Using the information in the above table and in the accompanying Resource Booklet, explain to your classmate why shareholders appear to have lost confidence in *Allied Farmers Limited* as an equity investment.

Your analysis should consider:

- the return on average shareholder funds
- financial stability
- the dividends and earnings returns.

Note: Additional calculations may be used to support your analysis.

QUESTION FIVE (8 marks : 30 minutes)

The following information was extracted from the financial records of *Golden Limited* at 31 March 2010.

	Dr	Cr
	$	$
Accounts payable		94 960
Accounts receivable	173 680	
Buildings	1 926 720	
Accumulated depreciation – buildings		342 530
Cash	33 720	
Contributed equity		2 408 400
Income tax payable		41 760
Inventory	400 100	
Land	2 274 600	
Long-term loan		1 650 600
Plant and equipment	1 070 400	
Accumulated depreciation – plant and equipment		588 720
Retained earnings		752 250
	5 879 220	5 879 220

Additional Information

1. On acquisition, *Golden 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.

   On 1 April 2009, B.L. Sky, an independent valuer, revalued the land and buildings on hand. The revaluation of $3 400 000 for the land and $1 600 000 for the buildings was based on the market value of the surrounding properties. Depreciation or revaluation adjustments have yet to be made for the reporting period ending 31 March 2010.
2. 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 January 2011. Interest on the loan is charged at 6 per cent per annum. The long-term loan is secured over the company's land.
3. Company directors have decided to make an allowance for doubtful debts at 5 per cent of the accounts receivable balance at the reporting (balance sheet) date. This adjustment has not been made.
4. Income tax payable has been calculated correctly.

Required
For the reporting period ending 31 March 2010, prepare the following for *Golden Limited*:
- the statement of financial position
- the appropriate accompanying property, plant and equipment disclosure note in a format suitable for external reporting purposes.

Notes:
- Use only the information provided.
- You are NOT required to prepare equity notes or a statement of changes in equity.

QUESTION SIX (8 marks : 30 minutes)

Little Luggage Ltd currently produces 60 000 luxury suitcases per year for *Classic Travellers' Ltd*, who sell the suitcases in their chain of stores around New Zealand.

The variable cost per suitcase is $40. *Little Luggage Ltd* sells the luxury suitcases to *Classic Travellers' Ltd* for $70 each. The fixed costs per year for *Little Luggage Ltd* are $569 400.

(a) Explain what the term variable cost per suitcase means. Provide examples from *Little Luggage Ltd* in your answer.

(b) Calculate the contribution margin per unit.

(c) Calculate the breakeven point:
- in units
- in dollars.

Because the contract with another supplier has fallen through, *Classic Travellers' Ltd* has asked *Little Luggage Ltd* to also produce 40 000 standard suitcases. These standard suitcases would have a selling price of $50 each and a variable cost of $30 each. *Little Luggage Ltd*'s factory has current capacity to produce both the luxury suitcases and the standard suitcases, hence the fixed costs would stay the same.

(d) Using the planned sales mix, calculate the contribution margin per unit on the production of both the luxury suitcases and the standard suitcases.

(e) Using the planned sales mix, calculate the breakeven point for producing both the luxury suitcases and the standard suitcases:
- in units
- in dollars.

(f) Using the information from your answers above, recommend whether *Little Luggage Ltd* should accept the new contract from *Classic Travellers' Ltd* to produce 40 000 standard suitcases, in addition to their current production of 60 000 luxury suitcases.