

93203A



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SUPERVISOR'S USE ONLY

# OUTSTANDING SCHOLARSHIP EXEMPLAR



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

### ANSWER BOOKLET

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

Answer ALL questions from Question Booklet 93203Q.

Write your answers in this booklet.

Begin the answer to each new question on a NEW page. Number each question carefully and legibly.

Show ALL working.

Check that this booklet has pages 2–24 in the correct order and that none of these pages is blank.

**YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.**

## Worksheet for Question One

	Unadjusted trial balance		Adjustments		Profit or loss		Statement of changes in equity		Statement of financial position	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Advertising expenses	324 570				324 570					
Bank charges	2040				2040					
Depreciation – buildings	41 000				41 000					
Depr. – property, plant and equipment	–		7600 4560		103160					
Dividends paid	80 980				80 980		80 980			
Interest paid on long term loan	165 750		33 150		198 900					
Interest received		53 960		13 540		172 67500				
Purchases	1808 160				1808 160					
Sales		4 628 190				4628190				
Wages and salaries	1 117 500				1117500					
Auditor's remuneration – audit fees	107 970				107 970					
Contributed equity (5420 250 shares)		2 168 100	168 100				200 0000			
Retained earnings – 1 April 2013		766 680	42 025				724 655			
Revaluation surplus – 1 April 2013		1 210 450		240 400 175000 210125			1450850			
Cash	229 570		175000					19445		
Accounts receivable	786 000							786000		
Accounts payable		455 140							455140	
Inventory – 1 April 2013	153 330			153 330						
Prepaid insurance – 31 March 2014	86 640									
Term loan		2210 000						86640		
Savings account	1500 000								2210000	
Land	2859 600		240 400						1500000	
Buildings	2050 000								31000000	
Balance c/f	11313 110	11492 520							2050000	

## 3

5295.898



Question 1

General Journal for Oblivious Limited

1. 31/3/14	Cash	Dr	175000	175000
	Property, Plant & Equipment			

To correct accountant's previous error.

~~Property, Plant & Equipment~~

Disposal Account

228000

Property, Plant &amp; Equipment

228000

To write off sold Property, Plant &amp; Equipment.

Depreciation - Property, Plant &amp; Equipment

7600

Property, Plant &amp; Equipment - Accumulated Depreciation

7600

To record depreciation on sold Property, Plant &amp; Equipment for the year.

Property, Plant &amp; Equipment - Accumulated Depreciation

7600

Disposal Account

7600

To write off depreciation on sold PPE

Loss on disposal of Property, Plant &amp; Equipment

45400

Disposal account

45400

Cash

175000

Disposal account

175000

To record sale of Property, Plant &amp; Equipment

Accumulated Depreciation on sold PPE:  $7600 + \frac{22800}{3} \times 2 = 22867$

## WORKSHEET

Question 2

Oblivious Limited

Statement of financial position as at 31 March 2014

	Notes	\$NZ	\$NZ	\$NZ
<u>Current Assets</u>				
Cash		19445		
Accounts Receivable	1	746700		
Prepaid Insurance <del>200000</del>		96640		
Inventory on Hand	2	172400		
Accrued Income		<u>13540</u>		
			1038725	
<u>Noncurrent Assets</u>				
Savings Account		1500000		
Land, Property, Plant and Equipment	3	<u>5180850</u>		
			6680850	
Total Assets				7719575
<u>Less Liabilities</u>				
<u>Current Liabilities</u>				
Accounts Payable		455140		
Interest Payable		33150		
Taxation Payable		<u>280500</u>		
			768790	
<u>Noncurrent Liabilities</u>				
Term Loan	4	<u>2210000</u>		
			2210000	
Total Liabilities				2978790
Net Assets				4740785



Equity	Notes	2012	2012	2012
Contributed Equity	5, 6			2000000
Retained Earnings	6		1289935	1370215
Revaluation Surplus				724265
				1450850
				<del>482765</del>
Notes to the financial statements				4740785

1) <u>Accounts Receivable</u>	\$N2
Accounts receivable	786000
Less allowance for doubtful debts	39300
	746700

2) <u>Inventory on hand</u>	\$N2
Finished goods	172400

### 3) Property, Plant and Equipment

	Land	Buildings	Prop., Plant & Equipment	Total
At 1 April 2013	\$N2	\$N2	\$N2	\$N2
Cost or Valuation	2859600	2050000	955600	5865200
Accumulated Depreciation	-	(349730)	(438460)	(788190)
Carrying Amount	2859600	1700270	517140	5077010
For the year ended 31 March 2013				
Opening Carrying Amount	2859600	1700270	517140	5077010
Additions	-	-	228000	228000
Disposals	-	-	(228000)	(228000)
Revaluation Surplus	240400	-	103160	240400
Depreciation	-	(41000)	(95560)	(136560)
Closing Carrying Amount	3100000	1659270	421580	5180850
At 31 March 2013				
Cost or Valuation	3100000	2050000	955600	6105600
Accumulated Depreciation	-	(390730)	(534020)	(924750)
Carrying Amount	3100000	1659270	421580	5180850

~~4) PAPERB~~

### 3) Paperb, Plant and Equipment Ltd.

Depreciation rates are based on the straight-line model at the following rates:

Buildings	2% per annum
Property, Plant & Equipment	10% per annum

Land was revalued by Sherlock Watson, Independent registered valuer, on 18 January 2014. The valuation was based on the value of surrounding properties.

Had land not been revalued, its carrying amount at 31/12/14 would have been \$1649150 under the cost model.

The revaluation surplus was credited to revaluation surplus under equity.

Land and buildings are mortgaged to the value of \$2210000

### 4) Term Loan

This represents a mortgage bond taken out on 1 April 2013, with <sup>fixed</sup> interest rate of 9% per annum.

Principal payments, payable in equal instalments of \$110500, will commence on 31 October 2015.



5) Contributed Equity

	Number of Shares	\$N2
At start of year	5420250	2168100
Share repurchase	(420250)	(168100)
At 31 March 2014	5000000	2000000

6) Distributions

	Cents per share	\$N2
Dividends paid		80980
Share Repurchase		210125
Total distributions for 2014		291105

## Question Four

Intro  
length  $\leq$  cost  
undecidability - unresolvable for small firms.  
not undecidable - how for firms?

ASSESSOR'S  
USE ONLY

Integrated Reporting ~~IR~~ <sup>or <IR></sup> is a new type of reporting developed by the International Integrated Reporting Council which seeks to increase accountability of ~~businesses~~ <sup>provide</sup> and <sup>give</sup> significantly more non-financial information to users, who can then make better-informed decisions. Labelled "where values meet value creation", ~~IR~~ <sup>It</sup> seeks to tell a firm's value creation story through six different types of capitals, relational, human, natural, manufactured, intellectual and financial, imparting far more than the usual general purpose financial statements do. However, <sup>using such</sup> ~~such~~ a revolutionary <sup>style of</sup> reporting is not without its <sup>concepts</sup> ~~risks~~, among them large financial costs, and potential loss of understandability and timeliness due to their length, as well as a loss of verifiability due to its focus on non-financial information.

Because they must, by nature, include lots of non-financial information ~~that~~ Integrated Reports (IRs) are long. While the report on the surface may only be 40 or so pages (NZ Post, NZ's only company ~~who~~ <sup>that</sup> has adopted IIR, produced a 44-page report in 2013), due to the compression and/or exclusion of the general purpose financial statements from the main document, the supporting information to the report is generally very lengthy. NZ Post's supporting information, for example, is 120 pages



long. A total of around 160 pages, this report would have cost a significant amount to compile, considering the <sup>cost of the</sup> information-gathering, organisation and writing of the report. While not every IR will be 160 pages, the fact that extra information in the form of <sup>analysis</sup> the aforementioned six capitals, along with pages on the seven elements, which include an overview, governance, future outlook, resource allocation and strategy, opportunities and risks, business model and ~~performance~~ ~~whole other~~ section, means that IRs are significantly, the last of which including the general purpose financial statements, means that IRs are significantly longer than their traditional counterparts. The <sup>constraint</sup> cost of producing them is prohibitive for smaller businesses, and restricting it to only large firms. If IRs are indeed detrimental for users, then small businesses who can't afford to provide the depth of information will lose out to those who can shoulder the cost, which is hardly fair. The completion of IRs would also take far longer than that of traditional reports in order to gather this extra information. One must question, therefore, whether the information in IRs can still be considered timely, giving a picture of the company on balance day, or if the information, collected <sup>on</sup> the financial year, is no longer a relevant indicator of present performance. Finally, the sheer length of the IR means that users ~~will~~ may be tempted just to read the main document and not the supporting information.



meaning that they miss ~~key~~ relevant financial information that could be useful for decision-making, causing them to make unfounded decisions. For example, a potential investor may read NZ Post's IR, be impressed that they focus on staff empowerment, ~~and~~ customer service and reducing carbon ~~emissions~~ emissions and decide to invest in them on an ethical basis. Meanwhile, the business could be in financial trouble with declining profits and high levels of debt, making their decision risky, but as this is not included in the main body, the user may miss out on this information. In short, the length of IRs provides many opportunities for concern in relation to cost constraints in user decision-making.

✓ Further concerns can be added on the ✓ verifiability of the information in IRs and whether, therefore, they can be considered true, fair and faithful representations of a company's value creation story. Financial information is generally easily verifiable. Source documents, such as invoices, cheque books and receipts, can be checked to see if transactions occurred and whether the dollar amount assigned to them is correct. In this way, auditors can provide opinions on whether a report ~~is~~ provides a faithful representation or not. ~~And~~ with non-financial

information that is harder to do. Concepts such as employee happiness, sustainability, customer service and reputation cannot be measured in a way that is wholly accurate and free from bias. Thus, statements such as <sup>that in</sup> NZ Post's IR, that they are an expert in communicating messages to people, that their customers are happy and that they empower their staff, are hard ~~for~~ to verify and may not be totally reliable. Auditors cannot meticulously check these and provide a 100% confident opinion on them. Thus ~~IRs~~ for what IRs gain in ~~completeness~~ comprehensive analysis of non-financial information, there is a loss in verifiability and faithful representation which is a major concern as users will not be able to trust IRs with complete confidence, hampering their ability to make well-informed decisions, as reliability is one of IFRS's guiding principles.

In conclusion, while IRs are more comprehensive and include a wealth of non-financial information, <sup>potential</sup> losses of timeliness, understandability, verifiability, and reliability, as well as increased cost constraints remain key concerns that negatively impact users' ability to make decisions based on them. If further guidelines based on the measurement and expression of non-financial information were developed, this would begin to solve some of these concerns.



Question 3

I agree <sup>on</sup> my friend's treatment of the brand name acquisition: Brand name has been debited, presumably as an intangible asset, and bank has been credited to represent the transfer of funds to the Australian clothing company in return. <sup>whether</sup> The Brand name can be treated as an intangible asset <sup>depends firstly on</sup> ~~because~~ <sup>whether</sup> there was a past event involving its procurement <sup>and then</sup> was: when it was purchased from the Australian clothing company, evidenced by a source document — the "agreement". My friend has present control over the name, as he can use it for <sup>✓</sup> "marketing and promotional purposes" at present <sup>✓</sup> (For the next 5 years). It is questionable whether the brand will bring in future economic benefit; presumably, my friend is hoping that his/her association with the <sup>✓</sup> brand will attract customers associated with the brand, increasing cash at bank when they come to his/her store to buy clothes. The value ascribed to the brand name can be measured reliably, at \$650,000, as it was established by an arms length transaction and is therefore free from bias. His/her treatment of the brand as an asset therefore hinges on whether it is more than 50% likely to bring in this economic benefit. If the brand name has a history of selling well and it is in present high



even be in my friend's share's journal unless  
he/she purchased the business in the past.  
All of these reasons point to the fact that this  
entry should be deleted, with a \$500,000  
credit to Goodwill and a \$500,000 debit  
to Goodwill revaluation surplus to cancel it. *g*

## Question 5

hbo 17  
- science  
- pathology  
- cook time  
- hold on to the shares  
- non-fin. uncertainty  
- buy back  
- Respite 7.  
5.

To an outsider, Mighty River Power's (MRP) share prices post-flaunting 49% of the company's shares in May 2013 would look like a disaster story. Indeed, just looking at the decline in share price from around \$2.36 on 22 June '13 to around \$2.03 on 20 Jan '14 is enough to question the ~~success~~ National Government's sale, and wonder what the brokers who thought

✓ the share price went off to "a very good start" (National Business Review, 10 May, 2013) were thinking. However, if one looks at some of the non-financial information associated with MRP's share-price trends, and at its financial performance indicators, one can see a company whose share price has the potential to increase after the cut-off date of the graph, 20 Jan '14, and a company that could prove a good long-term investment.

✓ When looking at MRP's falling share price, one needs to ask "why?" Why did the downward trend continue, even after the announcement of a share buy-back, which is meant to be "highly normal" and "a sign of confidence the directors have in the company" due to potential market undervaluation (The Press 11 Oct '13). The answer lies in non-financial information, including NZ's declining demand for energy & the Labour-Green



Coalition's plan for ~~the~~ creating a single  
 buyer of electricity in NZ. NZ is  
 deindustrialising, with the closing of the  
 Tasman Paper mill and other plants. Appliances  
 are becoming more energy-efficient and  
 households more energy-conscious due to  
 the impending threat of global warming. To  
 exacerbate this, low aluminium prices  
 mean that there was a risk in the 2013  
 FY that Timari Point, an aluminium smelter  
 that consumed a lot of electricity, would  
 close. Less demand for electricity  
 equates to lower revenues, lower  
 profits and lower dividend payouts for  
 MRP investors. Likewise, the ~~previous~~  
 government's Labour-Green's power policy  
 would have had similar effects on  
 revenue: if they had created one buyer of  
 electricity, ~~from~~ NZ power, electricity prices  
 would be set by the government,  
~~market~~ inevitably favouring the consumer  
 with lower prices and therefore lower  
 revenues for MRP. Because this <sup>negatively</sup> impacts  
 MRP's profitability, shareholders saw the shares  
 as risky and sold them, resulting in a lower  
 price. This was ~~even~~ exacerbated by the  
 Coalition announcing ~~the~~ this policy around  
 the time of the share sale that increased  
 the risk to investors that their investment



would not be a safe long-term one.

An article in The Press on 31 May '13 picks up on this theme, with the Government lamenting the effect that the opposition's policy had on retail take-up. Investors do not value risk highly. However, some of these risks, such as the potential creation of NE power, came to no avail after the end of the share price graph; worse with National remaining in power and Timor Point promising to remain open until 2017. Consequently, the price had the capability to increase after 20 Jan 2014.

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## Outstanding Scholarship

Taken as a whole, this paper provides evidence of meeting the outstanding performance descriptors. It meets all four performance descriptors.

### Question 1

This question required candidates to prepare complete a 10-column worksheet which took into account the additional information provided.

- |    |  |
|----|--|
| 1. | The 10-column worksheet provides some evidence of highly developed knowledge, skills and understanding in that the candidate was able to correctly make the majority of adjustments from information provided in the question. The majority of the worksheet has been correctly extended into the statement of financial performance/profit or loss, statement of movements in equity and statement of financial position. |
| 2. | Provides evidence of sophisticated integration and abstraction as well as evidence of critical thinking in that the candidate understood the need to correct the incorrect entry made by the accountant as well as account for depreciation from the date of acquisition (beginning of the reporting period) to the date of the disposal of the item of property, plant and equipment.                                     |
| 3. | The workings in the form of journal entries provided by the candidate provide clear evidence of convincing communication through planning the answer. Adjustments are easily traced through to the worksheet.  |

Overall, this candidate demonstrated highly developed knowledge as well as understanding the logic of processing and the use of a 10-column worksheet. This is at an Outstanding Scholarship level.

### Question 2

This is a technical question and follows on from Question 1. It required candidates to prepare a statement of financial position including any accompanying notes in a format suitable for external reporting purposes. As the statement of financial position is prepared at a point in time, there was no necessity to identify trends and relationships.

- |    |   |
|----|---|
| 1. | Candidate provides evidence of convincing communication of accounting information in the format of a statement of comprehensive income (by nature) including accompanying notes, as well as the current asset and non-current asset sections of the statement of financial position notes in a format suitable for external reporting purposes. Appropriate headings used and reporting currency disclosed. Most of the figures are technically correct, and the bulk of accompanying notes are provided. Appropriate terminology used. |
| 2. | The figures detailed in the statement of financial position provide clear evidence of a logical development of the answer. The figures have been clearly transferred to the financial statements, illustrating sophisticated integration in that the candidate has insight into how the worksheet in Question 1 can be used to facilitate the preparation of financial statements.  |

Notwithstanding a few minor issues associated with this answer, overall the candidate has effectively communicated a statement of financial position including accompanying notes in a format suitable for external reporting purposes. This is at an Outstanding Scholarship level.

### Question 3

This is a concepts question that required candidates to use 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) to discuss whether they agreed with particular accounting entries that had been made.

- |    |  |
|----|--|
| 1. | This paragraph provides evidence that the candidate understands the definition and recognition criteria of the financial element asset and expense in the NZ Framework.                                |
| 2. | This paragraph provides evidence that the candidate can apply the definition and recognition criteria of the elements of financial statements contained in the NZ Framework to a particular situation. |

Overall, this candidate has effectively communicated how the definition and recognition criteria of financial elements contained in the NZ Framework can be applied to given situations. This is at an Outstanding Scholarship level.

### Question 4

This is a current issues question and relates to integrated reporting. The question required candidates to explain what they thought were the concerns associated with integrated reporting.

- |    |   |
|----|---|
| 1. | These comments demonstrate understanding and independent reflection of some of the concerns associated with integrated reporting. |
| 2. | The candidate's analysis and evaluation is clear and logically developed from the material developed earlier in the paragraph.    |
| 3. | The candidate's analysis and evaluation is clear and logically developed.   |

Overall, the candidate has effectively communicated a competent overview of some of the concerns or issues surrounding integrated reporting. However, while these issues have been covered in depth, the breadth of analysis could have been greater. The candidate has produced a sufficiently sophisticated analysis to reach the standard for Scholarship.

### Question 5

In this question, a number of resources were provided. Candidates were required to use the resources to critically evaluate *Mighty River Power Limited's* share price performance.

- |    |  |
|----|--|
| 1. | Convincing communication evident through the care taken to plan out answer and follow it.  |
| 2. | This paragraph show sophisticated integration and synthesis of the resource material, as well as sophisticated analysis and extrapolation. |
| 3. | The candidate's analysis and evaluation are clear and logically developed.   |

Overall, the candidate has shown a competent level of integration and synthesis of some of the resource material, but more could have been made of the financial results. Nevertheless, the candidate has produced a sufficiently sophisticated analysis to reach the standard for Scholarship.