

93203A



S

SUPERVISOR'S USE ONLY

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 (see below) *										
Dividends paid	80 980						80 980			
Interest paid on long term loan	165 750		33 150		198 900					
Interest received		53 960		135 400		67 500				
Purchases	1 808 160				1 808 160					
Sales		4 628 190				4 628 190				
Wages and salaries	1 117 500				1 117 500					
Auditor's remuneration – audit fees	107 970				107 970					
Contributed equity (5420 250 shares)		2 168 100	168 100					2 000 000		
Retained earnings – 1 April 2013		766 680	420 250					724 635		
Revaluation surplus – 1 April 2013		1 210 450		240 400				1450 850		
Cash	229 570			210 125					19 445	
Accounts receivable	786 000								786 000	
Accounts payable		455 140								455 140
Inventory – 1 April 2013	153 330			153 330						
Prepaid insurance – 31 March 2014	86 640								86 640	
Term loan		2 210 000								2 210 000
Savings account	1 500 000								1 500 000	
Land	2 859 600		240 400						3 100 000	
Buildings	2 050 000								2 050 000	
Balance c/f	11 313 110	11 492 520								

ASSESSOR'S
USE ONLY

Worksheet (continued)

	Unadjusted trial balance		Adjustments		Profit or loss		Statement of changes in equity		Statement of financial position	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance c/d	11 313 110	11 492 520								
Buildings - accum. Dep. - 31 March 2014		390 730							390 730	
Property, plant and equipment - cost	1 008 600		175 000	288 000					895 600	
Property, plant and equipment - accum. depr. - 31 March 2013		438 460	22 800	112 360						528 020
Disposal of Property, Plant, Equipment			288 000	288 000						
Loss of disposal of Property, Plant, Equipment			90 200		90 200					
Depreciation on Property, Plant, Equipment*			112 360		112 360					
Accrued Expense (Interest)				33 150						33 150
Inventory - 31 March 2014			172 400						172 400	
Change in Inventory			153 330	172 400		19 070				
Taxation Expense			280 500		280 500					
Taxation Payable				280 500						280 500
Accrued Income (Interest)				13 540					13 540	
Doubtful Debts			39 300			39 300				
Allowance for Doubtful Debts				39 300						39 300
Profit for Year					592 260		592 260			
Closing Equity								468 6785		468 6785
Balance c/f	12 321 710	12 321 710	1631 105	1831 105	4714760	4710760	4767765	4767765	8623625	8623625

If you need to re-do this Worksheet, use the duplicate Worksheet on pages 22-23.
Please cross out this Worksheet if you start over again on pages 22-23.

ASSESSOR'S
USE ONLY



QUESTION 2

 ASSESSOR'S
USE ONLY

"Oblivious Limited" Statement of Financial Position as at 31 March 2014

	Note	NZ \$	NZ \$
<u>Current Assets.</u>			
Cash		19445	
Accounts Receivable	1	746700	
Prepaid Insurance		86640	
Inventory	2	172400	
Accrued Income (Interest)		13540	
			1038725
<u>Non-current assets</u>			
Savings account	3	1500 000	
Carrying amount of Property, Plant + Equipment	4	51 ² 8 6850	
			6626850
Total Assets			\$7 ⁶ 7 5575
<u>Current Liabilities</u>			
Accounts Payable		455140	
Accrued Expenses (Interest)		33150	
Taxation Payable		280500	
			(768790)
<u>Non-current Liabilities</u>			
Term Loan	5	2210 000	
			(2210 000)
Net Assets.			\$4686785
<u>Equity</u>			
Contributed Equity			2000 000
Retained Earnings			1235935.
Land Revaluation Surplus			1450850
			\$4686785

Notes to "Oblivious Limited" Statement of Financial Position as at 31 March 2014

ASSESSOR'S
USE ONLY

① <u>Accounts Receivable</u>	NZ\$
Accounts receivable	786 000
Less allowance for doubtful debts	<u>39 300</u>
	746 700

② <u>Inventory</u>	NZ\$
Finished Undisclosed type (raw, in progress) finished	172 400

③ <u>Savings Account</u>	NZ\$
savings account	1500 000

The savings account earns interest at 4.5% p.a., and is in "Community Bank."

④ Property, Plant and Equipment

	Property, Plant and Equipment NZ\$	Buildings NZ\$	Land NZ\$
<u>As at 1 April 2013</u>	1123		
Cost or valuation	1123 600	2050 000	2859 600
accumulated depreciation	(438 460)	(349 730)	0
net book value ^(NBV) / carrying amount	714 5140	1700 270	2859 600
<u>For the year ended 31 March 2014</u>	68		
Opening Carrying Amount	714 5140	1700 270	2859 600
Disposals (cost - NBV)	(205 200)	0	0
Depreciation (including disposals)	(112360) (112360)	(41 000)	0
Revaluation	0	0	240 400
<u>Closing carrying amount</u>	480 280 367 580	1659 270	3100 000

	Property, Plant and Equipment	Buildings	Land
	NZ \$	NZ \$	NZ \$
As at 31 March 2014	895		
Cost or valuation	955 600	2050 000	3100 000
accumulated depreciation	(528 020)	(396 730)	0
carrying amount	426 580 367 580	1659 270	3100 000

Total Carrying Amount: \$516 850

All

The assets are depreciated as follows:

- Buildings at 2% p.a straight line
- Property, Plant and Equipment at 10% p.a straight line.

The land and buildings are mortgaged by \$220 000 (see note 5), this is at an interest rate of 9% with repayments of \$110 500 starting on 31 October 2015.

The freehold land was revalued by Sherlock Watson, an independent registered valuer on the 18th January 2014. The valuation was based on the value of the surrounding properties. The increase in fair value was credited to the "Revaluation surplus".

If the land was not revalued, the fair value would be, under the cost model, \$1649,150.

⑤ Term Loan.

this loan of \$220 000 is secured over the Land and Buildings.

It is payable in equal instalment of \$110500,
starting on the 31 October 2015. The interest
rate is fixed at 9% p.a.

QUESTION 3

The "Brand Name" agreement is classified as an asset by the clothing store. This is the correct accounting treatment, as the Brand Name agreement meets the definition and recognition criteria of an asset, as set out by the NZ Framework.

The NZ Framework defines an asset as something resulting from a past transaction, ~~an~~ over which the business exercises current exclusive control, and this will result in future economic benefits flowing to the entity. The Brand name fits into this, as ^{the agreement} ~~it~~ was purchased in the past from a major Australian clothing company. Presently, the clothing store has complete control over the brand name's ~~and its~~ use in their advertising. It is not "exclusive control" as most assets are, but is a type of lease. For the purpose of the concept "Substance over Form", the agreement, like a long term lease, should be treated as an asset. The brand name will result in more sales by being included in advertising, thus ~~are~~ cash resources embodying economic benefits. Thus - the agreement concerning the Brand name meets the definition of an asset.

The Brand Name agreement also meets the NZ Framework's element recognition criteria. This is that ~~the element~~ it must be probable that the economic benefit will flow to or from the entity, and that the element can be measured reliably. It is probable that the brand will have an impact on sales, as the brand has had success in doing so in Australia, and is popular here in NZ, so will likely increase sales. It can be measured reliably, as the price of acquisition of \$650,000 is on source documents, such as the tax invoice for payment sent by the Australian clothing company. Thus the brand meets the recognition criteria of the asset.

The agreement has a useful life of 5 years, so will continue to bring in economic benefit outside the current accounting period. Thus, it would be considered a non-current asset.

Thus the agreement that allows use of the brand name, ~~is correctly~~ being classified as an asset is in accordance with the NZ Framework and so is ~~also~~ correctly treated.

The brand name is amortised over the 5 years it is useful. This is questionable ⁱⁿ ~~as~~

as the economic benefit that flows to the entity by the asset may not be equal in each period in actuality.

10

ASSESSOR'S
USE ONLY

terms of presenting reliable figures that ~~are~~ reliably represent the decrease in fair value. ~~which is used~~ ~~as a~~ ~~straight line~~ ~~amortisation~~ ~~basis~~ ~~of~~ ~~20%~~ ~~per annum~~, reaching the end of its useful life after 5 years at \$6 fair value. The method used is a straight line amortisation basis, of 20% per annum, reaching the end of its useful life after 5 years at \$6 fair value. This is the most reliable measure to use, given the nature of the asset. It should be noted that as the brand goes out of fashion after a couple of years, the amount of economic benefit may be mostly attributed to the first one or two years of its life. The nature of the brand's usefulness in future periods is unclear however, and so the safest way to amortise the asset Brand name is to use a straight line basis.

The treatment of goodwill is disagreeing with the NZ Framework. The goodwill represents the reputation, location, and favour, client base of the already established business. The ~~reliable~~ ~~amount~~ ~~that~~ ~~is~~ ~~reported~~ ~~in~~ ~~the~~ ~~accounts~~ It is the difference between what somebody would pay for the business, and the net assets. The amount of this difference (Goodwill) is unclear until the

business is actually sold. ~~Perhaps the goodwill~~
 Thus a reliable figure only becomes
 available ~~on~~ on selling the business. The
 figure used in the entries, of \$500,000 is
 not reliable, as ~~the~~ the true ^{economic benefits that will} ~~impact of~~
^{flow from} the new shopping centre being across the road
 is unknown. Thus, as all financial elements
 need to be able to be reliably measured
 before being included in the ^{financial} records by the
 NZ framework — the treatment of the goodwill
 in the ~~to~~ 3rd Journal entry is not the best
 accounting treatment. As ~~the~~ the goodwill generated
 from the shopping centre being close is ~~unknown~~,
 unclear — it should be omitted. Potentially
 if it is material, so could be disclosed
 in the notes to the financial statements/reports
 somewhere, instead.

QUESTION 4

(KIR?)

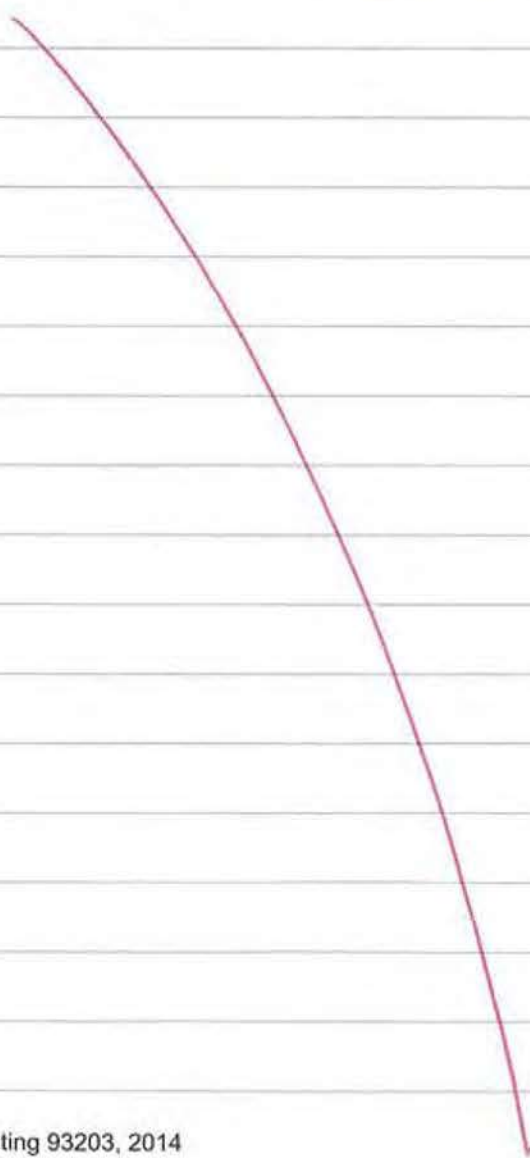
Integrated Reporting is based on the idea that a business cannot be seen in a holistic and accurate light, ~~with~~ ^{with} only financial information. To truly understand a business, the impacts of the business must be understood - and hence the "six capitals" ^{and their linking it's} a ~~central~~ ^{central} part to ~~the~~ <IR>, these being Social ~~Relationships~~, Natural, Financial, Manufactured, Intellectual and Networks/Relationships. The inclusion of these is intended that all 'stakeholders' in the business get a ~~say~~ say. ~~The~~ The 'stakeholder' is used in a general sense, with the employees, shareholders, the environment and community, all being 'stakeholders' in the business. What is included in the <IR> report, is what is considered "material" to the business' creation of value ~~to~~ over the short term, ^{and} long term. What is concerning ~~about~~ this however, is that what one person considers material to ~~that~~ ^{the} creation of value, others may not agree. This means that by this, not all stakeholders and ~~the~~ ^{all perceivable} impacts of the business on the six capitals may not be taken into account. Thus, ~~some aspects of the environment~~ ^{an abortion clinic} may

not include their impact ^{with} 'Social Capital' in terms of the people that do not agree with abortion. By neglecting to include the ~~external~~ standpoints of these people and the impact the business has on them ~~or~~ ~~the~~ - as the abortion clinic CFO doesn't consider it material - then the people against abortion, ~~the~~ ^{representing} the social capital, are ignored. Thus, the difficulty ~~is~~ in deciding what is material derives from all individuals' different view on what is material.

<IR> means including all 'material' information on value creation, ~~for~~ an important part of this being the business model and future outlook of the business. In an increasingly competitive business environment, ~~this may mean~~ the disclosure of a business' business model and goals may compromise them - in terms of their competition. By disclosing these, the competition is aware of their strategy, goals and model ~~and~~ which may remove and compromise the competitive edge of the company using <IR>.

<IR> is also about ~~also~~ forming a concise and simple report that anyone can understand. This is meant to be ~~is~~ happening, with the inclusion of everything material to value creation.

This poses a concern, as the integrated report ~~is~~ ~~no~~ when including everything material ~~is~~ to understand the business, and its creation of value - is no longer concise. Complex ~~comp'~~ concepts and information must also be included sometimes to understand the business wholly, so the 'easy to understand' part goes out the window as well. Thus, the inclusion of everything material to understanding the business' creation of value of time - while being concise ~~as~~, clear and easy to understand - is very idealistic.



15

QUESTION 5

 ASSESSOR'S
USE ONLY

The Mighty River Power (MRP) initial public offer ~~was~~ sold out in less than 5 hours when opened up for sale on the 10th May 2013. The mass ~~buying~~ purchase of shares could be attributed to the confidence that people had in MRP at this point. It is relatively low risk, being a ~~a~~ power company, as the demand for electricity is relatively stable, ~~even~~ dropping slightly ~~to~~ according to a recent industry ~~news~~ report. This has its benefits as it means that sales cannot drop by any very-considerable amount, as electricity is a central need for all NZers. Thus, there is essentially no risk ~~in~~ in the investment. Stable increases in dividends per share ^{from 2010} up until the ~~share~~ IPO would have also encouraged the initial purpose.

The share price, after IPO, saw an immediate dive from a \$2.73 at 10th May to a far lower \$2.17 in late August. This may be because of a decrease ~~by~~ investors' confidence, as the Waikato drought's effects on the finances of MRP become more apparent. However, the financial ~~news~~ statements of MRP for the FY2013 show ~~a well-handled~~ good handling of the drought situation, with sales only dropping by 9.1%, despite Waikato

hydro catchments being an all time low since over 3 decades ago. As noted in Resource 5, the ~~share~~ selling of shares by speculative investors left the buy-and-hold investors - however may have caused a massive drop in share price due to the volume of shares being sold. ~~Over~~ This occurred over the first few months after the IPO, ^{and} may give insight into the decrease in share price until September. There is a large spike in share trading around the middle of August which supports this. Selling shares also self-accelerated itself in a way, with further investors selling before losing any more value. ~~The~~ * (points)

The dividends declared around the 5th September instilled confidence in investors, ~~a~~ being an increase of 3.4 cps to 12 cps. The return from investment increasing thus supported an increase in share price, peaking at ~~the~~ the ^{end} of September. The annual reports of MRP also may have come out around here, with the 70% increase in net profit ~~gained~~ prompting a confidence boost in investors.

Shares saw a decrease around the time that MRP bought back a whole lot of shares.

✓ This may explain the spikes upwards around ~~mid~~ mid to late October.

A) the share peaked at late November, this saw a massive selling of shares by investors. This would be individuals looking to ~~gain~~ make a ~~gain~~ as ~~invest~~ gain on the high-share price after a steep drop. This then prompted another massive decrease to an all-time low on around 5 December at less than \$2. To

The share price saw an increase ~~as~~ after it was announced that Dr Patrick Strange, a very-experienced electricity industry leader was joining the MPP team again as a director, after leaving in 2007. This instilled massive confidence in investors, and also saw a massive increase by 15¢ to ~~20~~ a peak.

The share price after the 2013 year saw a steady increase from the early 2014. Stating at around \$2, the share price picked up momentum and ~~peaked~~^{is} at around \$3 as at today (November 2014). This can be attributed to another very successful increase in net profit, increasing by 85% on 2013's \$114.8m. Also, an ^{significant} increase in ~~higher~~ ~~current~~ ~~retro~~ ~~change~~ ~~at~~ ~~change~~ of ~~current~~ ~~ratio~~ ~~change~~ in the current ratio ~~would~~ instilled further confidence in investors.

* the leaving of long-time CEO Ding
Hoffman on the 31 August 2013 may have
caused a drop in share price, as
investors are not confident in the replacement.
~~In the FY14 however, the old General Manager~~

Scholarship

Taken as a whole, this paper is an example of Scholarship performance. It meets all three responses.

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. | Some evidence of analysis and critical thinking provided in this journal entry. The candidate recognised that the building needed to be removed from the accounting records. |

Overall, this candidate has provided a competent solution to a technical question. They have been able to effectively communicate their knowledge of processing. However, from the answer provided and the workings there is some evidence of a logical development and clarity shown in the set-out of the answer. However, the candidate was unable to demonstrate the technical skills necessary to correctly calculate the loss on disposal of the item of property, plant and equipment. The candidate has produced a sufficiently sophisticated analysis to reach the standard for Scholarship.

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 financial position 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 have been clearly transferred to the statement of financial position, which provide some evidence of sophisticated integration in that the candidate has some insight into how the worksheet in Question 1 can be used to facilitate the preparation of financial statements. |

Overall, although the answer is incomplete, the candidate has nevertheless communicated a competent statement of financial position which meets the performance descriptors for scholarship.

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 in the NZ Framework. |
|----|---|

Overall, this answer is at a Scholarship standard. In general, it is competent in its application of the definition and recognition criteria of an asset in the NZ Framework. However, there are areas where the candidate fails to provide evidence of depth of analysis and critical thought and in places is incorrect.

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. |

Overall, the candidate has effectively communicated a competent overview of some of the concerns or issues surrounding integrated reporting. However, although 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. | Candidate recognises the nature of the risks associated with this particular industry and is able to integrate them into the answer |
| 2. | This paragraph shows sophisticated integration and synthesis of the resource material as well as sophisticated analysis and extrapolation. |
| 3. | Evidence of independent research being undertaken as recent trends in the share price beyond those provided in the resources have been incorporated into the answer. |

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.