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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

Scholarship 2012
Accounting

9.30 am Friday 23 November 2012
Time allowed: Three hours
Total marks: 40

QUESTION 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 2–8 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)

Part A

The following items can be found in the financial statements of companies:

- trade payables
- accruals
- provisions.

Required
Explain what each of the above means. Your explanation should include an example of each term. You should also indicate how and where each item would be disclosed in the financial statements.

Part B
Required
Explain what a contingent liability is. Using your explanation, discuss whether a contingent liability meets the definition and recognition criteria of a liability.

QUESTION TWO (8 marks : 30 minutes)

Annual reports frequently contain images in the form of photographs, graphs, and tables. The following photographs have been extracted from the annual reports of three iconic New Zealand companies.

For copyright reasons, this resource cannot be reproduced here.

Source: *Pumpkin Patch Limited* 2011 Annual Report, p 2.

For copyright reasons, this resource cannot be reproduced here.

Source: *Sky Network Television Limited* 2011 Annual Report, p 6.

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Source: *The Warehouse Limited* 2011 Annual Report, p 2.

Required

Explain to a classmate why firms such as *Pumpkin Patch Limited*, *Sky Network Television Limited*, and *The Warehouse Limited* include photographs in their annual reports.

QUESTION THREE (8 marks : 30 minutes)

The following information has been extracted from the financial statements of *Rihanna Limited* for the reporting period ending 31 December 2012.

Rihanna Limited
Statement of Financial Position
at 31 December 2012

	2012	**2011**
	NZ$000	**NZ$000**
Non-current assets		
Land at cost	936	220
Plant and equipment at cost	396	326
Less: Accumulated depreciation – plant and equipment	(124)	(67)
	272	259
Total non-current assets	1 208	479
Current assets		
Inventory	522	336
Accounts receivable	486	343
Less: Allowance for doubtful debts	(44)	(32)
	442	311
Prepaid administration expenses	28	22
Cash	698	560
Total current assets	1 690	1 229
Total assets	2 898	1 708
Non-current liabilities		
Loan payable	420	60
Current liabilities		
Accounts payable	324	299
Accrued selling expenses	43	38
Income tax payable	81	62
Total current liabilities	448	399
Total liabilities	868	459
Net assets	2 030	1 249
Equity		
Contributed equity	1226	900
Retained earnings	804	349
	2 030	1 249

Rihanna Limited
Statement of Comprehensive Income (extract)
at 31 December 2012

	2012	2011
	NZ$000	NZ$000
Sales	3 990	2 622
Cost of sales	(1 986)	(1 547)
Administration expenses	(855)	(665)
Selling and distribution expenses	(285)	(221)
Finance costs	(29)	(15)
Profit before tax	835	174
Tax expense	(250)	(52)
Profit for the year	585	122

Additional information

- *Rihanna Limited* issued 300 000 fully paid shares for cash.
- Seventy percent of *Rihanna Limited*'s sales during the 2012 reporting period were on credit. An amount of $24 000 excluding GST is to be written off as bad debts.
- The 'Depreciation expense' charged to the statement of comprehensive income for the reporting period is shown in 'Administration expenses'. Various items of Plant and equipment with an original cost of $57 000 were sold for $32 000. The carrying value of the items of plant and equipment was $14 000 at the date of the sale. The gain on the disposal of the plant and equipment is included in 'Administration expenses'.
- There is no accrued interest at 31 December 2012.

Required

Recreate the 'Accounts receivable' and 'Allowance for doubtful debts' ledger accounts in 'T' format that clearly show all transactions for the reporting period ending 31 December 2012.

Prepare *Rihanna Limited*'s Cash Flow Statement for the reporting period ending 31 December 2012.

Show ALL your workings.
Ignore GST.

QUESTION FOUR (8 marks : 30 minutes)

The following information has been extracted from the financial records of *Gurnard Limited* for the reporting period ended 31 March 2012.

	Dr	**Cr**
	NZ$	**NZ$**
Accounts payable		896 540
Accounts receivable	1 021 020	
Allowance for doubtful debts		36 000
Bank overdraft		3 610
Buildings	3 605 250	
Accumulated depreciation – buildings		831 600
Cash	24 810	
Contributed equity		6 494 000
Debentures		3 135 000
Financial assets	3 502 760	
Interim dividends paid	150 000	
Inventory	726 820	
Land	5 144 700	
Long-term loan		1 386 000
Profit for the year		452 750
Plant and equipment	471 240	
Accumulated depreciation – plant and equipment		62 370
Retained earnings		1 105 330
Revaluation surplus		234 300
Taxation payable		9 100
	14 646 600	14 646 600

Additional information

On 1 April 2011, the equity of *Gurnard Limited* was as follows:

	Number of shares	NZ$
Contributed equity	1 730 000	4 844 000
Revaluation surplus – Land		234 300
Retained earnings		1 105 330

- On 30 June 2011, *Gurnard Limited* issued a further 300 000 shares for $1 652 000. All cash had been received by 18 August 2011.
- On 31 March 2012, *Gurnard Limited* bought back 180 000 shares at $4.10 per share. This entry has yet to be made in the accounting records.
- The long-term loan represents a mortgage bond of $1 386 000, taken out on 1 April 2011 and secured over the company's land. The mortgage bond is repayable in equal instalments of $138 600 commencing on 15 September 2012. The interest rate is 9 per cent per annum. At the reporting date, the interest on the mortgage bond and the principal repayment has not been taken into account. Ignore any tax effect on the interest.
- The debentures, which are due for repayment on 30 November 2020, have been secured by a floating charge over the remainder of the company's assets. Interest of 6 per cent is payable on the debentures and has been included in the 'Profit for the year' figure.
- During the current reporting period, *Gurnard Limited*'s land was revalued to $5 100 000.
- Income in advance of $21 400 has been included in profit.
- Accruals of $12 100 have been omitted from the trial balance.

Required

Prepare the current and non-current liabilities sections of *Gurnard Limited*'s Statement of Financial Position at 31 March 2012 together with any accompanying notes necessary for external reporting purposes.

Prepare *Gurnard Limited*'s Statement of Changes in Equity for the year ending 31 March 2012 together with any accompanying notes necessary for external reporting purposes.

QUESTION FIVE (8 marks : 60 minutes – including 30 minutes of reading time)

Note: You should spend at least 30 minutes reading **Resources One–Eight** before answering this question.

The following information has been extracted from the investor relations section of the *Pumpkin Patch Limited* website:

For copyright reasons, this resource cannot be reproduced here.

Source: http://www.pumpkinpatch.biz/ (accessed 13 January 2012).

The following additional information has been extracted from the annual report of *Pumpkin Patch Limited*.

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Source: *Pumpkin Patch Limited* Annual Report (2011, p. 11).

Required
Using the above information, as well as **Resources One–Eight** in the resource booklet, critically evaluate *Pumpkin Patch Limited* as an equity investment.

Your answer should include but not be limited to an evaluation of *Pumpkin Patch Limited*'s operating, investing and financing activities, as well as relating to management strategies and operations.

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