

93203Q



932032



NEW ZEALAND QUALIFICATIONS AUTHORITY  
MANA TOHU MĀTAURANGA O AOTEAROA

## Scholarship 2008 Accounting

2.00 pm Monday 24 November 2008

Time allowed: Three hours

Total marks: 48

### QUESTION BOOKLET

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

You should answer all questions from this booklet.

Write your answers in 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 2–9 in the correct order and that none of these pages is blank.

**YOU MAY KEEP THIS BOOKLET AT THE END OF THE EXAMINATION.**

**QUESTION ONE: COMPANY ACCOUNTING ISSUES (8 marks)**

You should spend no more than 30 minutes on this question.

- (a) Explain why it is important that listed companies, such as *Fletcher Building Limited*, disclose their transactions with related parties.
- (b) The annual report of *Fletcher Building Limited* has a section entitled "Corporate Governance". Explain to a potential investor why reporting entities, whose shares are listed on the New Zealand stock exchange, disclose this information.

**QUESTION TWO: ANALYSIS AND INTERPRETATION OF ANNUAL REPORTS (8 marks)**

You should spend no more than 30 minutes on this question.

To answer this question, refer to Resources One, Two and Three in Resource Booklet 93203R.

One of your classmates, who is struggling with Scholarship Accounting, is uncertain as how to use the information provided in the Resource Booklet on *Fletcher Building Limited*. Your classmate wants you to perform a financial analysis on *Fletcher Building Limited*.

Your analysis and interpretation should take into consideration any additional information provided.

- (a) Using the 2002 to 2007 information extracted from the 2007 annual report of *Fletcher Building Limited*, provide a detailed financial analysis and interpretation of the following:
  - (i) return on average shareholders' funds
  - (ii) financial stability
  - (iii) dividends and earnings returns.

**Show all relevant workings.**

- (b) To answer this question, refer to Resource Two in Resource Booklet 93203R, the Consolidated Statement of Cash Flows extracted from the 2007 annual report of *Fletcher Building Limited*.

The statement shows that for the year ending 30 June 2007 *Fletcher Building Limited* increased its cash position from \$49 million to \$332 million.

Evaluate the three areas of operating, investing and financing activities to assess how well *Fletcher Building Limited* managed its cash flows. You should also take into consideration any additional information provided in the Resource Booklet.

### QUESTION THREE: PREPARATION AND INTERPRETATION OF ACCOUNTING INFORMATION FOR MANAGEMENT DECISIONS (8 marks)

You should spend no more than 30 minutes on this question.

*Newage Fruit Juices Limited* manufactures and distributes an organic feijoa and apple fruit juice called Naturally Wild. The juice is sold in 500 ml bottles to retailers for \$2.80 per bottle, who in turn sell it to customers for \$4.20 per bottle. At current plant capacity, the manager estimates the following revenue and costs for 2008.

	NZ\$
Net sales	5 208 000
Direct materials	1 505 000
Direct labour	1 147 400
Manufacturing overheads – variable	902 000
Manufacturing overheads – fixed	749 000
Selling expenses – variable	241 600
Selling expenses – fixed	295 000
Administration expenses – variable	110 000
Administration expenses – fixed	156 000
Financial expenses – fixed	65 000

Show all relevant workings for parts (a), (b), (c), (d) and (e).

- (a) Prepare a Cost Volume Profit (CVP) income statement for 2008 based on the manager's estimates. Your statement should clearly show the contribution margin.
- (b) Calculate the break-even point in:
  - (i) units and
  - (ii) dollars.
- (c) Calculate:
  - (i) the contribution margin ratio per unit and
  - (ii) the margin of safety.
- (d) Explain how the manager would use the margins calculated in part (c) to aid in decision-making.
- (e) Calculate the sales required to earn a profit of \$350 000 in:
  - (i) units and
  - (ii) dollars.
- (f) Explain the likely effects on the cost of producing Naturally Wild if *Newage Fruit Juices Limited* modernised its production facilities and reduced the number of employees. You are NOT required to perform any calculations.

**QUESTION FOUR: NEW ZEALAND FRAMEWORK FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS AND ACCOUNTING POLICIES (8 marks)**

You should spend no more than 30 minutes on this question.

The managing director of *Homestrength Limited*, a gym and supplier of home fitness equipment, is looking at the accounting treatment of advertising and rent expenditures for the business.

He wants to capitalise the advertising expenditure of \$235 500 that the business incurred during March 2008. The advertising has been included in the Income Statement as an expense. The managing director believes that as the benefits associated with the advertising campaign will be seen during the next three years through increased gym membership and sales of equipment, the expenditure should be capitalised and written-off over the life of the campaign.

As there had been an increase in cash flow during March 2008, the managing director paid four months' rent in advance, amounting to \$21 600, which he recorded as an expense in the current period's Income Statement. He says as the rent was paid in this financial period, it should be allocated against this year's income.

The balance sheet day is 31 March 2008.

Using the New Zealand Framework for the Preparation and Presentation of Financial Statements (NZ Framework), explain whether the managing director's proposed accounting treatment of advertising and rent is **reasonable** or not.

Your explanation should refer to the appropriate definitions of financial statement elements contained in the NZ Framework.

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**QUESTION FIVE: BALANCE SHEET AND ACCOMPANYING NOTES PREPARED FOR EXTERNAL REPORTING PURPOSES (8 marks)**

You should spend no more than 30 minutes on this question.

Use the following information extracted from the financial records of *Foamcannon Limited* to prepare the **liability** and **equity** sections of *Foamcannon Limited's* balance sheet at 31 March 2008, together with accompanying notes in a format suitable for external reporting purposes, for the year ended 31 March 2008. **Show all relevant workings.**

	Debit (NZ\$)	Credit (NZ\$)
Accounts payable		234 900
Accounts receivable	310 500	
Allowance for doubtful debts		10 800
Bank overdraft		4 700
Buildings	3 104 350	
Accumulated depreciation – buildings		450 600
Cash on hand	450	
Contributed equity		4 343 000
Debentures		1 600 000
Employee benefits expense payable		2 500
Financial assets	790 000	
Inventory	378 500	
Land	3 900 000	
Long-term loan		1 800 000
Profit for the year		375 800
Plant and equipment	856 800	
Accumulated depreciation – plant and equipment		126 400
Retained earnings	339 900	
Revaluation surplus		708 000
Tax payable		23 800
	9 680 500	9 680 500

### Additional information

- The long-term loan represents the mortgage bond of \$1 800 000, secured over the company's land. The loan was granted on 15 June 2002. The mortgage principal is repayable in 20 annual equal instalments, commencing on 5 April 2008. The interest rate is 9 per cent per annum. At balance sheet date, the three months' interest owing on the mortgage loan and the principal repayment had not been taken into account. Ignore any tax effect on interest.
- The debentures, which are due for redemption on 30 June 2020, have been secured by a floating charge over the remainder of the company's assets. Interest is charged on the debentures at 7 per cent and has been accounted for in the "Profit for the year" figure.
- On 1 April 2007, the equity of *Foamcannon Limited* was as follows:

	No. of shares	NZ\$
Contributed equity	1 600 000	3 040 000
Revaluation surplus		708 000
Retained earnings		(339 900)
Total		3 408 100

- On 12 September 2007, *Foamcannon Limited* issued a further 550 000 shares for \$1 303 000. All cash had been received by 2 October 2007.
- On 31 March 2008, the company bought back 200 000 shares at \$2.90 per share. The effects of this transaction have yet to be recorded.
- On 17 February 2008, the land had been revalued to \$4 500 000. This entry has yet to be made in the accounting records. Ignore any possible tax effects on this transaction.
- No dividends were paid or declared during the year.

**QUESTION SIX: INCOME STATEMENT AND ACCOMPANYING NOTES PREPARED FOR EXTERNAL REPORTING PURPOSES (8 marks)**

You should spend no more than 30 minutes on this question.

Prepare the Income Statement classified by **function** and provide the relevant accompanying notes for *Refugeone Limited*, for the year ended 31 March 2008. The income statement should be prepared in a manner suitable for external financial reporting purposes.

To answer this question use the following trial balance that has been extracted from the accounting records of *Refugeone Limited* for the year ended 31 March 2008.

Ignore GST. You are NOT required to provide a tax note.

**Clearly show and label all relevant workings.**

	Debit (NZ\$)	Credit (NZ\$)
Advertising expenses	12 070	
Auditors' remuneration	15 670	
Bad debts	3 560	
Depreciation	25 500	
Dividends received		12 500
Electricity	46 200	
Interest paid	6 890	
Interest received		14 410
Inventory at 1 April 2007	33 700	
Loss on sale of equipment	1 500	
General expenses	28 570	
Purchases	344 960	
Rent paid	90 400	
Sales		747 460
Staff salaries	134 100	
Tax expense	15 380	
Net assets	15 870	
	774 370	774 370



### Additional information

- Auditors' remuneration comprises \$9 440 for the annual audit, \$4 340 for consulting services, with the balance paid for taxation services.
- A debtor who owed *Refugeone Limited* \$3 610 on 31 March 2008 was declared bankrupt on 23 April 2008. The auditors have advised the directors that under New Zealand equivalents to International Financial Reporting Standards, this amount should be written off at balance sheet date.
- Interest of \$1 680 is owed by *Refugeone Limited* at balance sheet date. This amount has not been provided for.
- Inventory on hand at 31 March 2008 was \$27 440.
- The loss on the sale of equipment arose from the disposal of computer equipment used for processing accounting information.
- In the "General expenses" account, \$5 950 is included for donations made to the RNZSPCA. The balance of "General expenses" should be allocated to Administrative expenses.
- At 31 March 2008, \$3 800 was still owing for rent.
- Management allocates company expenditure as follows:

	Cost of sales	Distribution costs	Administrative expenses
Staff salaries	80%	5%	15%
Rent	60%	15%	25%
Electricity	10%	20%	70%
Depreciation	40%	10%	50%

- The tax charge has been correctly calculated.