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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

Scholarship 2009
Accounting

9.30 am Monday 16 November 2009
Time allowed: Three hours
Total marks: 48

QUESTION BOOKLET

Pull out 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 2–5 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: NEW ZEALAND FRAMEWORK FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (8 marks)

*YOU SHOULD SPEND NO MORE THAN **30 MINUTES** ANSWERING THIS QUESTION.*

In January 2009, Manchester United announced that they had accepted an £80 million (NZ$190.4 million) bid for Cristiano Ronaldo from Real Madrid (a Spanish football club). Ronaldo's salary is expected to be £180 000 (NZ$430 000) a week.

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*, explain how a reporting entity such as a football club would account for the **purchase price** and the **weekly salary** paid to a player such as Ronaldo.

QUESTION TWO: COMPANY ACCOUNTING ISSUES (8 marks)

*YOU SHOULD SPEND NO MORE THAN **30 MINUTES** ANSWERING THIS QUESTION.*

A number of New Zealand reporting entities including Manaaki Whenua – Landcare Research (A Climate for Change), and Sanford Limited, a fishing company (Sustainability Development Report), have embraced the concept of sustainability reporting by producing stand-alone sustainability reports.

Required
(a) Describe the concept of sustainability reporting.

(b) Explain why it is important for reporting entities, including Manaaki Whenua – Landcare Research, and Sanford Limited, to report on sustainability issues.

QUESTION THREE: STATEMENTS OF COMPREHENSIVE INCOME (INCOME STATEMENT) AND ACCOMPANYING NOTES PREPARED FOR EXTERNAL REPORTING PURPOSES (8 marks)

*YOU SHOULD SPEND NO MORE THAN **30 MINUTES** ANSWERING THIS QUESTION.*

> NZ IAS 1 *Presentation of Financial Statements* paragraph 99 states "an entity shall present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity".

The Statements of Comprehensive Income (Income Statement) by nature and by function for Dustmite Limited are detailed in Resource One and Resource Two on pages 2 and 3 of the Resource Booklet.

Required
Evaluate the relative merits of preparing a statement of comprehensive income (Income Statement) classified by nature or by function.

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

*YOU SHOULD SPEND NO MORE THAN **30 MINUTES** ANSWERING THIS QUESTION.*

Study the information in Resources Three, Four, and Five on pages 4–7 of the Resource Booklet.

Required
(a) A number of entities disclose EBITDA. Explain what EBITDA stands for, and discuss whether the financial measure / ratio provides useful information to investors.

Study the information in Resource Three of the Resource Booklet, extracted from the 2008, 2007, and 2006 annual reports, specifically the segment report of Restaurant Brands Limited.

(b) Explain why an investor would make use of the segment report to analyse the financial performance and financial position of Restaurant Brands Limited.

(c) Calculate and use the following ratios to analyse and interpret the performance and position of the different segments of Restaurant Brands Limited over the three-year period:
- Return on total assets
- Return on equity
- Profit margin
- Asset turnover
- Total debt-to-equity ratio.

Use the information in the resource booklet to support your analysis.

QUESTION FIVE: STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AND ACCOMPANYING NOTES PREPARED FOR EXTERNAL REPORTING PURPOSES (8 marks)

*YOU SHOULD SPEND NO MORE THAN **30 MINUTES** ANSWERING THIS QUESTION.*

The following information was extracted from the financial records of Clown Limited at 31 March 2009.

	Dr	**Cr**
Accounts payable		20 160
Accounts receivable	77 880	
Buildings	864 000	
Accumulated depreciation – buildings		153 600
Cash	15 120	
Contributed equity		1 080 000
Income tax payable		18 720
Inventory	179 400	
Land	1 020 000	
Long-term loan		720 000
Plant and equipment	480 000	
Accumulated depreciation – plant and equipment		264 000
Retained earnings		223 920
Revaluation surplus		156 000

Additional Information

- Depreciation is calculated on the straight-line basis at the following rates:
  - Plant and equipment 15 per cent per annum
  - Buildings 2 per cent per annum
- Depreciation for the current year has already been correctly recorded and included in retained earnings.
- A long-term loan is to be repaid on a straight-line basis over 10 years with the first payment to be made on 31 December 2009. Interest on the loan is charged at 8% per annum. The interest expense for the current year was correctly recorded and included in retained earnings. The long-term loan is secured over the company's land.
- Inventory comprises 15% raw materials, 40% work in progress, and the rest in finished goods
- The directors of the company have decided to make an allowance for doubtful debts at 5% of the accounts receivable balance at the balance sheet date. This adjustment has yet to be made.
- Income tax payable has been calculated correctly.

Required

Prepare Clown Limited's Statement of Financial Position (Balance Sheet) at 31 March 2009. You should also provide the accompanying notes in a format suitable for external reporting purposes. You are NOT required to prepare an Equity Note or a Statement of Changes in Equity. Use only the information provided.

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

*YOU SHOULD SPEND NO MORE THAN **30 MINUTES** ANSWERING THIS QUESTION.*

Chris is currently working part time and looking into baking large, individually wrapped biscuits to sell to local cafes. Chris will make these biscuits from home after making some modifications to the kitchen. Chris notes that the fixed overheads per month will be $1 150 over a relevant range of production of 0–4 500 units per month.

The following information is also provided:

Direct labour per biscuit	$0.22
Direct material per biscuit	$0.63
Variable overheads per biscuit	$0.12
Selling price per biscuit	$1.50

Required

(a) Explain what is meant by the fixed overheads of $1 150 over a relevant range of production of 0–4 500 units per month.

(b) Explain what is meant by direct material cost per biscuit. Include examples from Chris's biscuit venture in your answer.

(c) Prepare a cost-volume-profit graph for the biscuits. The graph should clearly show the break-even point.

(d) Chris has researched the market and determined that at a selling price of $1.50, the number of biscuits sold per month could be 2 800. Calculate the following:

(i) margin of safety. Explain what the figure represents for Chris's biscuit venture
(ii) expected profit for the month.

(e) Chris would like to make a profit of at least $720 per month. Calculate the minimum number of biscuits that would need to be sold per month to achieve this.

(f) Chris has been advised that a decrease in selling price would probably mean selling more than 4 500 biscuits per month. Explain the factors that Chris would have to consider before deciding whether or not to produce more than 4 500 biscuits per month. You are NOT required to perform any calculations.