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TOP SCHOLAR

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	324570				324570					
Bank charges	2040				2040					
Depreciation – buildings	41000				41000					
Depr. – property, plant and equipment	–		95560		95560					
Dividends paid	80980						80980			
Interest paid on long term loan	165750		33150		198900					
Interest received		53960		13540		67500				
Purchases	1808160				1808160					
Sales		4628190				4628190				
Wages and salaries	1117500				1117500					
Auditor's remuneration – audit fees	107970				107970					
Contributed equity (5420250 shares) $0.40		2168100						2168100		
Retained earnings – 1 April 2013		766680						766680		
Revaluation surplus – 1 April 2013		1210450						1210450		
Cash	229570			210125					19445	
Accounts receivable	786000								786000	
Accounts payable		455140								455140
Inventory – 1 April 2013	153330			153330						
Prepaid insurance – 31 March 2014	86640								86640	
Term loan		2210000								2210000
Savings account	1500000								1500000	
Land	2859600		240400						3100000	
Buildings	2050000								2050000	
Balance c/f	11313110	11492520								

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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								390730
Property, plant and equipment – cost	1 008 600			53 000					955600	
Property, plant and equipment – accum. depr. – 31 March 2013		438 460		95560						342900
Loss on sale of property plant & equipment			53 000		53000					
~~Depreciation – property, plant & equipment~~			~~95560~~		~~95560~~					
Accrued interest expense				33150						33150
Share repurchase ~~revalue~~ - contributed equity			168 100				168100			
Share repurchase - retained earnings			42025				42025			
Inventory -31 March 2014			172400						172400	
Change in inventories			15330	172400		19070				
Income tax expense			280 500		280 500					
Tax payable				280 500						280 500
Accrued interest - income			13 540						13540	
Land revalue				240 400				240400		
Allowance for doubtful debts				39 300						39300
Doubtful debts.			39300		39 300					
Balance c/f					646320		474085	646320		474085
	12 321 710	12 321 710	1291305	1291305		4714760	5031950	5031950	8683625	8492565

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.*

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QUESTION FOUR

Integrated reporting <IR> is a concise communication about how an organisations strategy, governance, performance and prospects in the context of its external environment, lead to creation of value over the short, medium and long-term. Although <IR> reporting has obvious benefits in enabling stakeholders to evaluate value creation across a broad range of areas other than simply financial, <IR> also has some concerns associated to it. Even its creators the IIRC concede that <IR> is by no means perfect and is a process of continual development. To help 'iron out' these concerns the IIRC used over 100 Pilot companies such as Micro-soft, Coca-Cola and NZ Post and an extensive discussion paper to evaluate feed back when developing the <IR> Framework that was released in December 2013.

One of the concerns raised was the idea of confidentiality. In light of the increasingly competitive global market place, the information disclosed in an <IR> is likely to be of far greater strategic significance than a set of historic financial statements. Successful companies may feel reluctant to share their strategic successes for competitors to take

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advantage of. The question must be asked What is the right balance between disclosure and a loss of competitive edge.

Another potential concern associated with <IR> is its future orientation. Transitioning from ~~re~~ merely reporting historic financial information to more future orientated information could pose some difficulties. Forecasts are inevitably wrong – no one can predict the future – and are based on assumptions about the future. Conflicts of interest could occur, where organisations ~~chooses~~ to only include positive future outlooks. If these are wrong, or negative events that were intentionally not disclosed in the <IR> arise, then there will be a loss in confidence ~~by~~ by stakeholders both in the organisation and the format of <IR> itself.

The qualitative nature of much of the non financial information disclosed in an <IR> is also of potential concern. As it cannot be valued numerically, it makes comparisons between key performance indicators (KPIs) difficult between organisations. This will also pose a challenge to the auditing process which is essential to the readability of <IR>.

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Finally from the discussion paper it was evident that many organisations ~~were confused~~ interpreted key terms in different ways. For example, there was some confusion over the idea of materallity. Many organisations were confused as to what information was materal and what was immateral, as an <IR> is supposed to include materal information only. Materiality may be differnt for different organisations, so how will this be assessed?

Finally, as already alluded to, <IR> could pose some challenges to accountants. Accountants will be inexperenced with the process, may be confused between <IR> and sustainability reporting, or may lack support from senior manggement. The transition from historic financial data to coherant forward focused information could be a challenge to accountants and auditors alike.

Overall, athough <IR> does have significant benefits, ~~thee~~ it is by no means perfect. Some concern is associated to confidentiality, its forward focused ~~nat~~ and qualitive nature. The challenges posed to accountants is also of some concern. It must be remembered that <IR> is a process of continual development, and many of these issues can be overcome through a sound understanding of the <IR> Framework.

QUESTION TWO

~~Statement~~ Oblivious Limited

Statement of financial position as at 31 March 2014

	Notes	NZ$
Assets		
Non-current assets		
Savings		1500000
Property, Plant and Equipment	1	5180850
Total Non-current assets		6680850
Current assets		
Cash		19445
Trade and other ~~Accounts~~ receivables	2	760540
Inventory closing		172400
Prepaid insurance		86640
Total current assets		1038725 ~~866325~~
Total assets		7719575 ~~7547175~~
Liabilities		
Non-current liabilities		
Term loan	3	2210000
Total non current liabilities ~~Accrued interest~~		2210000 ~~33 150~~
~~Accounts payable~~ current liabilities		~~455 140~~
~~to~~ Accrued interest		33 150
Tax payable		280 500
Accounts payaple		455 140
total current liabilites		768790 ~~488290~~
Total liabilities		2978790 ~~2698290~~
Net assets		4740785 ~~4848885~~

	Notes	NZ$
Equity		
Contributed equity	4	2 000 000
Retained earnings	5	1289995 ~~643675~~
Revaluation surplus - land		1450850
Total equity		4740845 ~~4094525~~

Notes to the financial statements

1. Property, plant and equipment

	Land	Buildings	Property, plant and equipment	Total
	NZ$	NZ$	NZ$	NZ$
Balance at 1 April 2013	~~[illegible]~~			
At cost or valuation	2 859 600	2050 000	1183600	6013200
Accumulated depreciation	-	(349730)	(438460)	(788190)
Net book value	2 859 600	1700 270	745140	5305010
Year ended 31 March 2014				
Opening net book value	2859600	1700270	745140	5305010
Additions				
Disposals			~~135000~~ (228 000)	(228 000)
Depreciation		(41 000)	(95560)	(136560)
Revaluation	240 400			240400
Net book value	3 100 000	1659270	421 580 ~~612700~~	5180850
Balance at 31 March 2014				
Cost or valuation	3 100 000	2050 000	955600	6105600
Accumulated depreciation	-	(390730)	534020 (~~6342400~~)	(924750) (~~934020~~)
Net book value	3100 000	1659270	421580 ~~612700~~	5180850

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Depreciation was calculated on a straight line basis at the following rates:

- Buildings - 2% pa.
- Property, plant and equipment - 10% p.a

Land and buildings are mortgaged to the value of $2210000 (see note 3)

Land was revalued by Sherlock Watson, and independent registered valuer, on 18 January 2014. The valuation was based on the valuation of surrounding properties. The gain on revaluation ~~surplus was~~ was credited to equity. If land was not revalued under the historical cost method it would be valued at $2859600.

2. Trade and other receivables

Accounts receivable	786 000
Allowance for doubtful debts	39 300
	746 700
Accrued interest	13 540
	760 240

3. Term loan

long term loan	2210 000

The long term loan is secured over land and buildings at a rate of 9% pa. The mortgage bond is repayable in equal instalments of $110500, commencing on 31 October 2015.

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4. Contributed equity

	no. shares	NZ$
Balance at 31 March 2013	5420 250	2168100
Share repurchase	(420250)	(168100)
Balance at 31 March 2014	5000 000	2000000

5. Retained earnings

Balance at 31 ~~March~~ April 2013	766680
Dividends paid	(80980)
Share repurchase	(42025)
Income summary	646320
Balance at 31 March 2014	1289995

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QUESTION THREE

An asset is a resource controlled by the entity as a result of a past event, and from which future economic benefits will flow to the entity. An asset should be recognised if ~~the amount of future~~ it is probable that future economic benefits will flow to the entity, and the economic benefits with can be reliably measured. The purchase of the brand name is a past event, ~~however~~ and economic benefits are likely to flow to the entity from the acquisition of. However If the economic benefits from the brand name cannot be measured with reliability, ~~so~~ it should not be recognised as an asset in the statement of financial position, ~~but instead be recordeda as an expense in the statement of comprehensive~~ and as a reduction of the asset cash Hence the first journal entry is correct. In saying that, if the economic benefits cannot be measured with reliability the purchase should be recorded as an expense, which still meets the given journal entry. Providing the brand name is an asset as explained above, the amotisation journal entry is valid if the amotisation of the asset can be measured with reliability and it is appopriate to not use thee historical cost method. The size of the

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amortisation should reflect the fair value of the decrease in value of the asset. An expense is a reduction in economic benefits during the accounting period as a result of outflows or depletions of assets or ~~inflows of~~ incurrances of liabilities ~~other than those rela~~ that result in decreases in equity, other than those relating to distributions by equity participants. The amortisation is a decrease in the asset of the brand, so should be recorded in the income statement providing it is probable their will be a reduction of economic benefits from the brand and the reduction can be measured with reliability.
In the third entry, the asset goodwill is increased. Although it may meet the definition of an asset previously stated, the size of the goodwill cannot be measured with reliability, hence this journal entry should not be included. Goodwill can only be changed/revalued when the business is sold, as only then can the true amount of goodwill be measured with reliability.

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QUESTION FIVE

As evident in resource one, MRP's share price has shown a relatively consistent decline from its IPO of $2.73 per share ~~on~~ until reaching $2.025 by 20 January, 6 months later. In saying that, ~~there was a~~ the share price did initially exceed the IPO of $2.73 immediately after their issue, however this was simply due to the 'hype' surrounding the first state owned asset being listed on the stock market.

However, MRP faced several significant challenges in the first half of FY13 that have also contributed to this fall in share price.

* One factor that may have contributed to this decline was that the initial issue price of $2.73 exceeded the fair value of the shares

The first of these challenges was the 2013 drought. ~~The~~ which ~~drought~~ saw record low levels in the Waikato River. ~~whose~~ 40% of MRP's electricity production is generated from its 9 hydro dams situated along the Waikato river, thus it is vulnerable to dry weather. The drought resulted in a 9% fall in electricity production, ~~an~~

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although the fall was partially offset by the use of the flexible Southdown gas fired station. Consequently sales fell in FY13, compounded by stagnating residential demand. This effect would have likely contributed to a loss of investor confidence, hence the fall in share price.

The IPO itself also posed a substantial challenge to MRP. Infact, ~~at~~ the IPO, along with international geothermal costs caused \$69 million of one-off costs in FY13, resulting in a \$71 million fall in EBITDA, the primary measure of operating performan, from \$461million to \$390million. The reduction in ~~of~~ apparent operating performance would have also resulted in a loss of confidence by investors, contributing to the fall in share price.

The general election also posed a risk to MRP. If the Labour/Greens were to be elected, they ~~woul~~ proposed to form a single buyer and seller of electricity called NZ power. NZ power would set prices at more affordable levels, cutting MRP's profits. Although election polls showed it was highly likely labour would be elected, the political uncertainty was forecasted to be

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holding MRP's share price ~~back~~ down by 9% according to Craig's Investment Partners.

Another risk that could have deterred investors was the potential closure of the Tiwai Point Aluminium smelter. The smelter uses 13% of NZ's total power, all provided by Genesis energy so if it was to close, the national grid would be effectively flooded. Although MRP would not be as detrimentally effected as Genesis Energy, MRP would suffer from lower electricity prices.

Residential electricity is somewhat stagnating in the NZ market. Consumers are constantly seeking to reduce power use and technological developments are also helping in this aspect including some of MRPs own products such as Smart-meters. The electricity market is also somewhat oversupplied, especially considering MRP had just finished its Ngatamariki Power station which had yet to reach full production. These two supply and demand forces saw electricity prices rise at a slower rate than inflation in FY13, squeezing electricity generators profit margins. With no substantial increase in demand likely in the foreseeable future, investors would have lost some confidence in electricity companies, further contributing to the slide in MRP's share price.

MRP also announced that CEO Doug Heffernan would be ~~standing down from his~~ leaving the company in the near future. Doug has ~~h~~ over 40 years experience in the electricity market and had been with MRP right from its inception in 1998. His loss could have caused some uncertainty to investors with current General manager Frase Whineray stepping in to replace him.

MRP had a dividend yeild of 3.59% in FY13, calculated for the closing share price of $2.23. When the share price was at higher levels, such as $2.73, the yeild at the time would have been lower than this. Thus investments could have been made in other, more safer institutions, such as banks, where similar if not greater returns. As a result, demand for MRP shares would have fallen, and so would have the share price.

It is evident that numerous factors contributed to MRP's share price slide over the six months after it was first floated, not just that it may have been overvalued at the initial offering. With many of these risks now

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negotiated, and MRP completing its growth and development phase, then MRP is placed strategically well, and there will likely be a reverse in the share price trend seen in the resource.