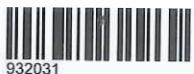


93203A



S

SUPERVISOR'S USE ONLY

SCHOLARSHIP EXEMPLAR



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

QUALIFY FOR THE FUTURE WORLD
KIA NOHO TAKATŪ KI TŌ ĀMUA AO!

Scholarship 2016 Accounting

9.30 a.m. Wednesday 30 November 2016

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.

Write your answers in this booklet.

Show ALL working. Start your answer to each question on a new page.
Carefully number each question.

If you need more room for any answer, use the extra space provided at the back of this booklet.

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.

Question two:

Natural capital, in isolation, represents the single most important form of our economic dependence. Whether it be exploitation of the environment as a whole, or the subsystems which constitute it, natural capital, encompassing all resources, both renewable and non-renewable, derived from the natural environment, are being depleted at an alarming rate.

(1)

Sanford Ltd is one of the few New Zealand reporting entities to include documentation about its' use of natural capital in their annual reports. With there not yet being a fully functioning and comprehensive framework which facilitates ~~acc~~ natural capital accountancy, Sanford Ltd has taken it upon themselves to document their use of natural capital, and environmental footprint. Documentation of "Biological assets" in the statement of financial position details the mussel and salmon supplies that sanford has on hand, and presents a unique example of how Sanford has ~~began~~ begun to account for their use of natural capital. Reported as a current asset, biological assets of salmon and mussels held as part of inventory acts to reconcile the natural resources Sanford held in 2015, with the profit they are capable of generating for the company through sales revenue. The natural resources held by Sanford for sale are not only representative of their ~~use~~ dependence on natural capital to

(3)

support their business model, but also of their desire to report such resources with transparency, to support and reinforce their position as a sustainable seafood company, with the long term goal of "being the best seafood company in the world." //

Sanford also shows a cooperation with ~~FishEye~~ Trident Ltd, a company which produces monitoring systems for fisheries, and ~~to~~ ~~do~~ supports

sampling of key fish species to ensure maximum efficiency in sustainability of fish stocks is attained. Holding a 43% stake in Trident, Sanford has shown in their 2015 report, a deeply held interest in preserving the natural resources that they depend upon to create value for their stakeholders.

Through advanced monitoring applications, Sanford can ensure maximum transparency and honesty when it comes to their activities regarding inshore and offshore fishing, and aquaculture activities around New Zealand. //

Sanford also documented in their 2015 annual report how they were cooperating with local Maori Iwi and government agencies to reduce the impact of their activities on

native and endangered species. Cooperation with Maori tribes around breeding and chick rearing areas of the Black Petrel (Taiko), shows that Sanford has a vested interest in preserving the wildlife that is both significant to Maori peoples, and the ecosystem as a whole. Such reporting of issues concerning their impact Documentation of natural capital has also been evidenced through the document at on native native species has also been extended and expanded upon in Sanford's 2016 annual report, which highlights medic training which can be used to preserve the lives of rare mammals, as a key priority for present accounting periods and beyond.

Accounting for natural capital has become one of the most important issues facing companies both nationally and abroad. In the words of Sanford administration, "The oceans; their temperature, chemistry, currents, and life - Drive global systems which support humankind's existence on earth. They are the natural capital that Sanford's business relies upon to deliver value to our stakeholders". Sanford has an ongoing interest in the conservation of natural environments and resources which are exploited to sustain our economic productivity.

as a species; a fact which is reflected in the expansive documentation of natural capital in both the 2015 annual report, and future publications. With present accounting models focussing ~~on~~ almost exclusively on cash and transaction based accounting, with little regard for the impact of economic activity on natural capital, it ~~is~~ can be said that Sanford is leading the way in the documentation of natural capital, and sustainability endeavours relating to its' preservation.

(3)

Question five:

2015 was a year of ~~the~~ rigorous restructuring and economic change for Sanford Ltd. Their transition from a "Volume to value" business model was reflected in their efforts to step away from business expansion into international markets, and have a more narrow focus on domestic expansion related to the distribution of fresh fish in New Zealand, and to our closest international neighbours, including Australia, and Asian countries such as Japan and China. cash flow from investing activities accounts for an increase in inflows of cash from the sale of property plant and equipment, which increased from \$6.7 million in 2014 to \$10 million in 2015. This could be accounted for by the sale of assets which were associated with unsustainable fishing operations, such as vessels, and plants associated with the processing of resources. The closure of a Christchurch based mussel processing facility also means Sanford holds an expansive property which is not being utilised for business productivity, as the plant is being held for sale. Once the sale of the christchurch processing plant is completed, this can be expected to greatly improve & cash flow from sale of property plant and equipment in the financial year ending 30/09/16, and this could translate to

greater cash flow in future accounting periods. Cash flow from operations was strong in 2015, and reflects, in the words of chairman, Paul Norling; "Fleet catcher that were "generally in line with expectations". This accounts for the increase in cash received from customers, which increased from \$469.7 million in 2014 to \$474.6 million in 2015. Such success in fishing activities and distribution and turnover of inventory also translated into a ^{net} cash flow from operations of \$55 m compared to \$32.5 m in 2014.

A decrease in overall expenses can also be attributed to ~~a~~^P departure from skipjack Tuna fishing in the South Pacific, which in the words of CEO Volker Kuntzsch, was both "Unprofitable, and challenging to align with our expectations regarding resource sustainability". Such a departure is reflected in the decrease in payments to employees, as employees were no longer being paid to carry out tuna fishing.

Purchases of New property plant and equipment, while setting Sanford up for a new business model in 2016 and beyond, compromised the cash position of Sanford with regard to

cash flows from investing activities, where net cash flow remained in the red for 2015, at a deficit of \$6.2 million. Aforementioned expected sales of plant and equipment in 2016 and beyond could remedy this, with numerous media estimates putting the valuation of assets held for sale by Sanford at nearly \$30 million for the year ended ~~to~~ 30th September 2015. If all sales were completed in 2016, this would translate to a vast cash surplus with respect to investing activities, assuming little change in other areas reported. //

Another compromising factor which limited potentially strong cash flow from Sanford was the repayment of the term loan to the degree of \$80 million in 2015. While necessary to facilitate future business activities including acquisition of new fishing vessels and business interests, the repayment strongly compromised Sanford's cash flow for 2015, taking net cash flow from financing activities into a deficit of \$50.2m for 2015, and increase of over \$35m in the deficit of \$15.8m in 2014. //

Overall, the cash position of Sanford Ltd for the year ended 30th September 2015 can be attributed to the restructuring efforts

undertaken by the company during the period. Sale of property plant and equipment, an ~~exist~~ exit from skipjack Tuna fishing operations, and the closure of a Christchurch mussel processing facility are all factors which have contributed to the unattractive decline in cash position from - \$15.8m in 2014, to - \$50.2 million in 2015. Future endeavours, such as entry into new markets (such as the pet food market realised in 2016), have already begun to remedy this, contributing to an increase in cash flows during the 2016 period, and will continue to do so moving forward.

(3)

Question three.

Statement of financial position as at 31st March 2016.

	Note	NZD \$	NZD \$
Current assets			
Cash		5410	
Accounts receivable	1	444 030	
Inventory	2	435 710	
Investment in Wools Ltd	3	340 000	
Total current assets			1225 150
Non current assets			
Property plant and equipment	4	4896 460	
Total Non current assets			4896 460
Total assets			6121610
Less Liabilities			
Current Liabilities			
Accounts Payable		1433 40	
Bank overdraft		34 700	
Income tax payable		40 250	
Total current liabilities			218290
Non current liabilities			
Long term loan		1548 000	
Total non current liabilities			1548 000
Total liabilities			1766290
Net assets			4355320
Equity			
Contributed Equity		2382 000	
Retained earnings		821 130	
Land revaluation surplus		337 260	
Total equity			3480390

Note one: Accounts receivable	NZD \$	Total NZD \$
Accounts receivable	467400	
Less allowance for doubtful debts	<u>23370</u>	
		444030

(3)

Note two: Inventory	NZD \$	NZD \$
Inventory comprises:		
Raw materials	87142	
Work in progress	130713	
finished goods	<u>277855</u>	
		435710

Note three: Financial assets

Financial assets comprise shares in Wools Limited that have not been revalued to fair market value. 100 000 outstanding shares are held by Holden Limited, with reported at \$340 000

~~No extra paper~~
~~extra paper~~
~~extra paper~~
~~extra paper~~
 See extra paper
 (last page) for
 narrative notes)

Note four: Property plant and equipment

	Land	Plant + equipment	total building	total
carrying amount at 31/03/15	2276860 1032000	619200 886400	1336280	29877
Additions	-	-	-	-
Disposals	-	-	-	-
Depreciation	-	(154800) (79380)	(234180)	(234180)
revaluation	-	-	-	-
carrying amount at 31/03/16	2276860 1032000	464400 7203200	1256900	27577
As at 31/03/16 : Cost or valuation	2276860 1032000	1632000 567600 3207400	1587600 330700	489 898
Accumulated depreciation	-	464400	70500	399
carrying amount.	2276860	1256900		

Question one:

- CR Income in advance \$9500
 DR Landscaping revenue \$9500

The IASB conceptual Framework for Financial reporting 2010 (New Zealand framework), defines a liability as a present obligation of the entity arising from past events; the settlement of which can be expected to result in outflows from the entity of resources embodying economic benefit. Based on the circumstances, my friend has received income prior to completing the work for which he is being paid. Under the conditions outlined by the New Zealand conceptual framework, this means that he is liable to provide the service for which he has been paid, to in this case, the design and landscaping work, and thus, the event should be recognised by the creation of a current liability account in the statement of financial position, named "Income in advance". The liability has arisen based on the transaction that occurred between my friend and his client whereby \$9500 was exchanged between parties in exchange for labour by my friend. My friend has a present obligation to provide labour and design services, having received \$9500 payment. The settlement of the liability will involve outflows of economic resources, as my friend will be busy fulfilling his obligations to his client, and thus, his ability to accrue income from other clients is compromised, and he is sacrificing

1

position, named "Income in advance". The liability has arisen based on the transaction that occurred between my friend and his client whereby \$9500 was exchanged between parties in exchange for labour by my friend. My friend has a present obligation to provide labour and design services, having received \$9500 payment. The settlement of the liability will involve outflows of economic resources, as my friend will be busy fulfilling his obligations to his client, and thus, his ability to accrue income from other clients is compromised, and he is sacrificing

2

position, named "Income in advance". The liability has arisen based on the transaction that occurred between my friend and his client whereby \$9500 was exchanged between parties in exchange for labour by my friend. My friend has a present obligation to provide labour and design services, having received \$9500 payment. The settlement of the liability will involve outflows of economic resources, as my friend will be busy fulfilling his obligations to his client, and thus, his ability to accrue income from other clients is compromised, and he is sacrificing

3

potential economic benefit from other clients in order to settle his liability with his present client. The event, and the receiving \$9500 in advance prior to work being completed, meets the recognition criteria of a liability as outlined in the IASB Conceptual framework, in that it is probable that the settlement of the liability will involve an outflow from my friend's business of resources embodying economic benefit; i.e; his time in ~~not~~ providing labour to settle the liability, which compromises his earning potential from other clients represents the outflow of resources embodying economic benefit. Also, the liability can be reliably measured, as my friend sent an invoice to his client requesting the payment for the design and landscaping work.

The aforementioned treatment of the transaction assumes that the client received the invoice and provided payment to the degree of \$9500. Had the client not paid the \$9500 yet, my friend is not yet liable to provide his services in settlement of the agreement, and thus the transaction would be considered a contingent liability, i.e; whether or not the liability eventuates depends on whether the client pays the \$9500 in advance of the work being completed. In this case however, the payment was received in advance, and thus, the liability is non-contingent, having become tangible and material upon the payment of \$9500.

If my friend is to report the transaction in the financial statements of his business, he must also recognise the decrease in the profit account "Landscaping revenue" as the \$9500 received in advance does not represent income until the work is completed.

As a result, the decrease in profit, which would be incurred in the reduction of the ~~profit~~ revenue account "Landscaping fees received" in the income statement, is characteristic of an expense. An expense is defined in the conceptual framework as a decrease in economic benefit resulting from depletions of assets or incurances of liabilities, resulting in reductions in equity other than those concerning distributions to equity participants. The reduction in income ~~also~~ is associated with the incurrence of the liability that has arisen from receiving the \$9500 income in advance, and has resulted in decreases in economic benefit through the reduction of the income account "Landscaping fees received". This reduced equity, as when ^{and if} the transaction was reported, net profit after tax ~~were~~ would be less, and the amount of profit attributable to retained earnings would be reduced. The reduction in income also meets the recognition criteria of an expense, in that it will result in decreases in economic benefit in the form of a reduction in the income account "Landscaping fees received" and can be reliably measured, with reference to the invoice provided to the client providing the necessary details to inform the reduction in income.

Question four:

	DR	CR
a. Bad debts	7800	
Accounts receivable		7800
31/03/16 - To show the reduction in accounts receivable when the \$7800 owed by a debtor was written off		
31/03/16 Allowance for doubtful debts		5500 1
Doubtful debts	5500	
- Creation of allowance for doubtful debts account based on existing debtors who are thought to be "doubtful" to the degree of \$5500 worth of repayments		
01/08/15 Prepayment	12600	
Insurance expense		12600
- To show the decrease in insurance expense incurred when 12 months of insurance was prepaid.		
31/03/16 Prepayment		7350
Insurance expense	7350	
- To show the reduction in the prepayment, and increase in insurance expense as the benefits from the prepaid insurance are incurred. This is based on 7 out of 12 months of the prepaid insurance having been incurred as at 31/03/16		

DR

CR

~~01/01/13~~ Bank
Loan

- To show the incurrence of the loan

180 000

180 000

Bank

Interest on loan

16200

16200

- To show the interest expense on the loan based on a straightline interest rate of 9% per annum

Accrued expense

2700

Interest expense

2700

- To show the interest owing on the loan at balance day.

Change in inventory

13460

Inventory

13460

- To show the decrease in inventory between 01/04/15 and 31/03/16.

Income statement by function:

Account	Logs	Finance costs	Distribution costs	Administrative expenses	Total
Change in inventory	13460				13460
General expenses				55480	55480
General expenses - donation				5950	5950
Auditor's remuneration				33690	33690
Loss on sale - equipment	3200				3200
Advertising expenses			25950		25950
Bad debts expense				7660	7660
Depreciation expense	21920		5480	27400	54800
Electricity expense	39720		24825	34755	99300
Insurance expense	5145		735	1470	7350
Rent expense	116640		29160	48600	194400
Interest expense		16200	2000		16200
Bdg Staff salaries expense	201831		28833	57666	288330
Purchases	741660				741660
Total	1143576	16200	114983	272671	1547430

Income statement by function:

Note

NZD \$

NZD \$

③

Roach home Ltd as at 31/03/16

Revenue	1	1607240
Other income	2	57850
Total income		1665090
Less		
Administrative expenses		(272671)
Distribution costs		(114983)
Operating profit before interest and tax	3,4	1277436

	Note	NZD \$	NZD \$
Finance costs	5	(16200)	
Profit before tax		1261236	
Income tax expense		(33100)	
Net profit after tax for the period		1228136	

Notes to the financial statements:

Note one: Revenue	NZD \$	
- Sales	1607240	
Note two: Other income		
- Dividends received	26870	
- Interest received	30980	
- Total	57850	

Note three: Operating profit

Operating profit has been determined after taking into account the following:

Auditor's remuneration	NZD \$	
- Annual audit	16800	
- Consulting services	5300	
- taxation services	11590	
Total	33690	

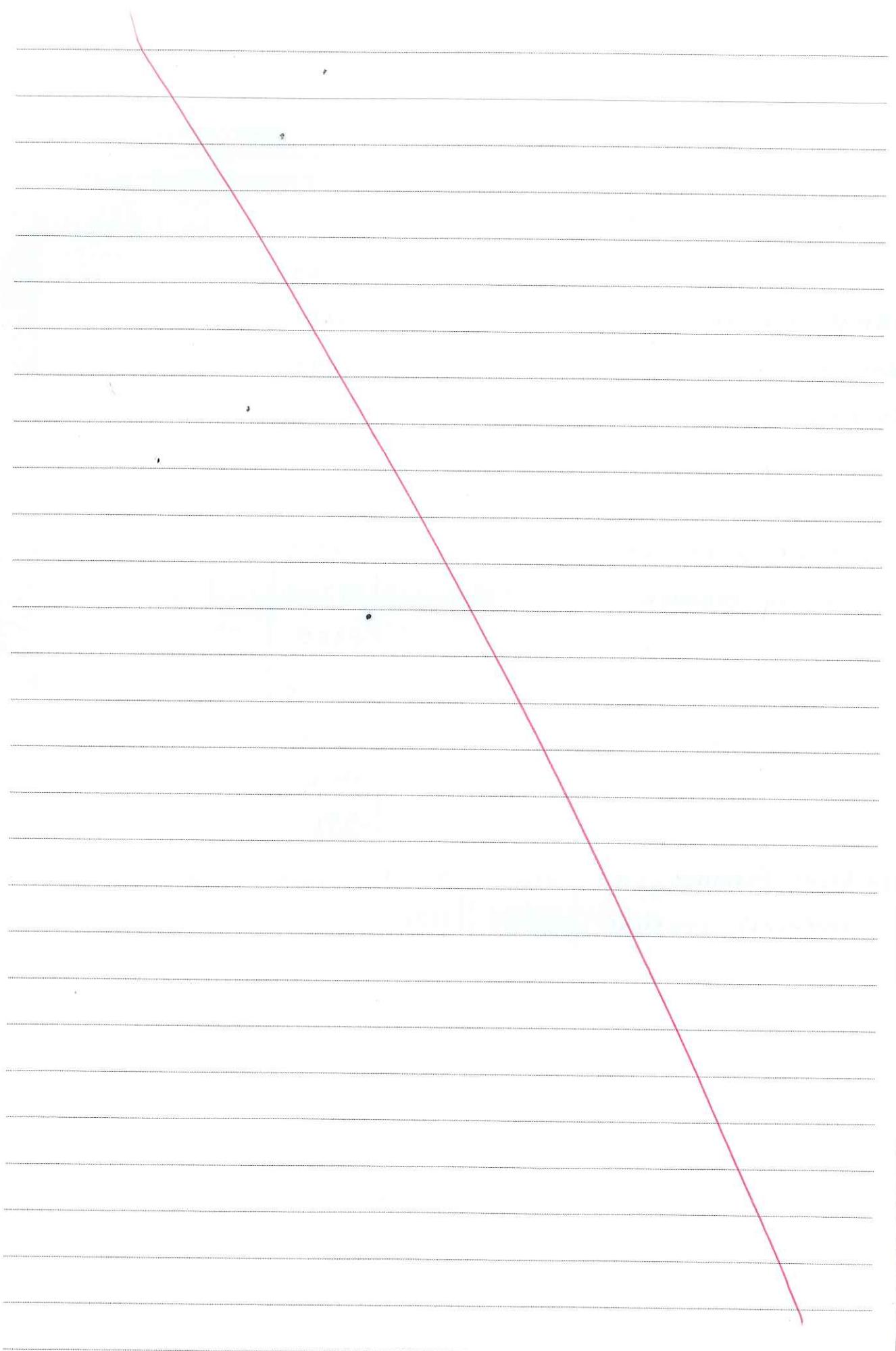
	NZD\$
Donations: Donations to project jonah:	5950

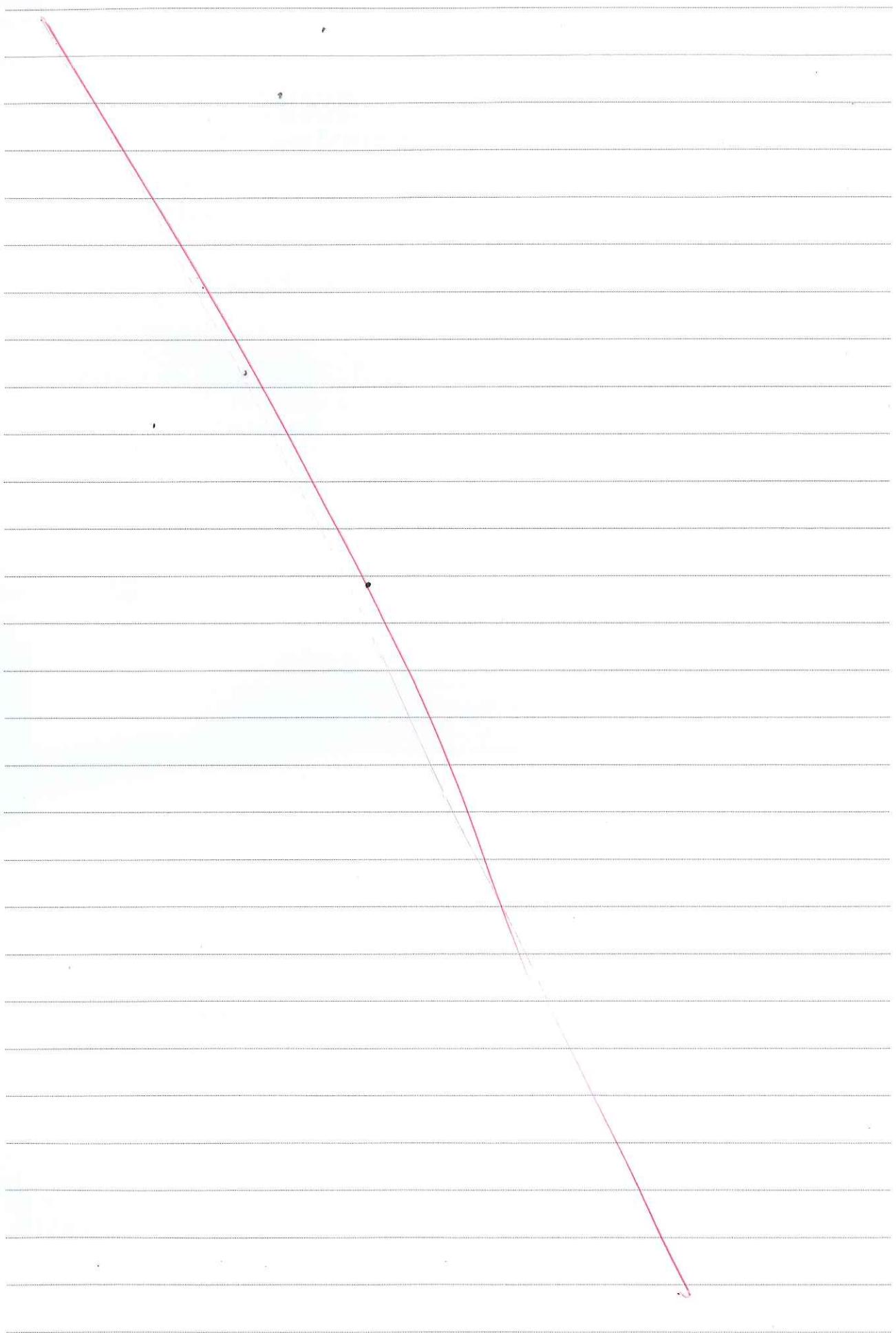
Note four: Classification of expenses by nature:

	NZD\$
Change in inventory	13460
General expenses	55480
Loss on sale of equipment	3200
Advertising expenses	25950
Bad debts expense	7660
Depreciation expense	54800
Electricity expense	99300
Insurance expense	7350
Rent expense	194400
Staff salaries expense	288330
Purchases	<u>741660</u>
	1491590

Note five: Finance costs

	NZD\$
Interest expense	16200





QUESTION
NUMBER

Extra space if required.
Write the question number(s) if applicable.

ASSESSOR'S
USE ONLY

3. Narrative notes to the property plant and equipment note:

- Depreciation was calculated at the following rates on a straightline basis:

- Plant and equipment: 15% per annum
Buildings: 5% per annum

93203A

Scholarship

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

Question 1 - 3

This is a concepts question that required candidates to explain how a friend should recognise the invoicing of a client and receiving the funds before the work was completed. Reference was needed to the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010 (NZ Framework).

1.	This paragraph provides some evidence of an understanding of the definition and recognition criteria of one of the financial elements (liability in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010 (NZ Framework)).
2.	This paragraph provides some evidence of an understanding of the definition of a liability contained in NZ Framework. The candidate had made a reasonable attempt to apply the three key characteristics of the definition as well as the recognition criteria to the liability, revenue received in advance.
By providing the first journal entry, the candidate has recognised that revenue cannot be recognised until it has been earned. The candidate has, however, not considered the initial transaction. The candidate has correctly recognised that revenue received in advance is a liability. However, the candidate has incorrectly recognised the Dr to Landscaping revenue as an expense, and somehow established a contingent liability. Overall, the candidate has failed to provide a competent solution to the concepts question. This solution does not reach the standard for Scholarship.	

Question 2 - 6

This was a current issues question that required candidates to critically evaluate how well *Sanford Limited* has addressed the reporting for natural capital in its 2015 Integrated Annual Report. There was a number of different ways that this question could have been approached.

1.	This paragraph demonstrates understanding of the concept of natural capital.
2.	This paragraph demonstrates that the candidate recognises some of the deficiencies with the current accounting system, which is transactions-based.
2.	This paragraph provides some evidence of independent research and critical thinking in that it illustrates the candidate's ability to link natural capital with biological assets and the role they play in the company's success.

There is some evidence of independent research. Overall, the candidate has effectively communicated a competent overview of how *Sanford Limited* has addressed the reporting for natural capital in its 2015 Integrated Annual Report. Although a more in-depth critical analysis would have been desirable, this answer meets the scholarship level.

Question 3 - 5

<p>This is a technical disclosure question. It required candidates to prepare a Statement of Financial Position together with accompanying notes in a format suitable for external reporting purposes. Candidates needed to make a number of adjustments from information provided in the question.</p>	
1.	Candidate provides evidence of convincing communication of accounting information in the format of a statement of financial position together with accompanying notes in a format suitable for external reporting purposes. Appropriate headings used and reporting currency disclosed.
2.	There is some evidence of a lack of analysis and critical thinking in that the candidate failed to correctly adjust for the current portion of long-term loan or make the adjustment to retained earnings for the allowance for doubtful debts that they had correctly adjusted under the asset section.
3.	Evidence of convincing communication through the correct provision of the majority of the accompanying Statement of Financial Position notes.
<p>Notwithstanding a number of technical issues associated with this answer, overall the candidate has effectively communicated a Statement of Financial Position and accompanying notes in a format suitable for external reporting purposes. Appropriate terminology used. This is at Scholarship level.</p>	

Question 4 - 6

<p>This is a technical disclosure question comprising two parts. Candidates were first required to prepare the journal entries and narrations necessary to correctly account for a number of transactions included in the additional information. Candidates were then required to prepare a Statement of Comprehensive Income (classified by function) in a single statement format together with accompanying notes in a format suitable for external reporting purposes.</p>	
1.	The candidate's answer provides some evidence of highly developed knowledge, skills and understanding in that the candidate was able to correctly provide the majority of the adjusting journal entries and narrations from the additional information provided in the question.
2.	There is some evidence of analysis and critical thinking in that the candidate was able to carry forward the adjustments made in part one through to the completed Statement of Comprehensive Income.
3.	Candidate provides some evidence of convincing communication of accounting information in the format of a Statement of Comprehensive Income (classified by function) together with accompanying notes in a format suitable for external reporting purposes. Appropriate headings used and reporting currency disclosed. Some of the figures are technically correct, and the accompanying notes are provided. Appropriate terminology used.
<p>Although there are a number of technical issues associated with this answer, overall, this candidate has provided a competent solution to a technical question. By providing a number of correct journal entries and narrations, the candidate has been able to communicate their knowledge of processing. Although errors have been made in the journal entries, there is some evidence of a logical development and clarity shown in the set out of the answer in that they are able to correctly carry forward their workings. The candidate has effectively communicated a Statement of Comprehensive Income (classified by function) including accompanying notes in a format suitable for external reporting purposes to reach the standard for Scholarship.</p>	

Question 5 - 7

In this question a *Sanford Limited* consolidated Statement of Cash Flows for the reporting period ending 30 September 2015 was provided. Candidates were required to critically evaluate the three areas of operating, investing and financing activities to assess how well *Sanford Limited* had managed its cash flows for the 2015 reporting period and future operating plans. Additional resources were provided.

- | | |
|----|---|
| 1. | This paragraph shows sophisticated integration and synthesis of the resource material, as well as sophisticated analysis and extrapolation. |
| 2. | Candidate draws on the resources to provide a sophisticated analysis of <i>Sanford Limited's</i> operating, investment, and financing activities. |
| 3. | The candidate's provides an assessment of the future operations of the company. |

Overall, the candidate has effectively communicated a critical evaluation of the operating, investing and financing activities of *Sanford Limited's* cash flows. There is evidence of convincing communication in the answer in that the candidate has clearly positioned their answer in the introduction as well as demonstrating a competent level of integration and synthesis of some of the resource material. The candidate clearly communicates some of the future operating plans. This is at an Outstanding Scholarship level.