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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

Scholarship 2011
Accounting

9.30 am Wednesday 23 November 2011
Time allowed: Three hours
Total marks: 48

QUESTION BOOKLET

Pull out Resource Booklet 93203R from the centre of this booklet. Refer to it when answering Question Six.

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 2–11 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)

The following information has been extracted from the statement of financial position of *Knight Limited* for the reporting period ending 30 June 2011:

Knight Limited **Statement of financial position (Extract)** **at 30 June 2011**	
	NZ$
Current liabilities	
Accounts payable	10 168
Accrued expenses	703
Provision for repairs and maintenance	4 150
GST payable	33
Taxation payable	1 546
	16 600

The managing director is concerned that the level of current liabilities has a negative impact on *Knight Limited*'s current ratio. He has therefore asked you to review the current liabilities.

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 to the managing director which of the item(s) listed under current liabilities should be excluded from the statement of financial position.

Your answer should also indicate how any errors should be corrected, and provide an indication of the impact this correction would have on the overall financial performance and position of the company.

QUESTION TWO (8 marks : 30 minutes)

In the article "Crisis of accounting's double standards", Brian Gaynor – writing in the *New Zealand Herald* – describes how a number of companies whose shares are traded on the *New Zealand Exchange* have rejected many of the new international financial reporting standards (IFRS). He also says they are "declaring 'adjusted', 'underlying', 'operating', 'excluding non-trading' and 'from continuing operations' profits that vary significantly from audited IFRS-compliant profits".

Some of the differences are shown in the following table:

Company	**Company profits($m)**	**Difference**	**IFRS audited profits ($m)**
Air New Zealand	92.0	+12%	82.0
Total	1 140.0	+35%	846.0

Source: *New Zealand Herald*

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To support their position, these companies argue that financial results reported under IFRS do not provide adequate insight into an entity's operational performance.

Required
Discuss the benefits and risks associated with companies providing this additional information in their annual reports.

QUESTION THREE (8 marks : 30 minutes)

The following information has been extracted from the financial statements of *Illberight Limited* for the reporting period ending 31 December 2011:

Illberight Limited **Statement of financial position** **at 31 December 2011**		
	2011 NZ$000	**2010 NZ$000**
Non-current assets		
Land at cost	520	300
Plant and equipment at cost	220	90
Accumulated depreciation – plant and equipment	(69)	(48)
	151	**42**
	671	**342**
Current assets		
Inventory	290	240
Accounts receivable	270	245
Prepaid administration expenses	12	16
Cash	436	404
	1 008	**905**
Total assets	**1 679**	**1 247**
Non-current liabilities		
Loan payable	180	30
Current liabilities		
Accounts payable	195	210
Accrued selling expenses	24	31
Income tax payable	45	31
	264	**272**
Total liabilities	**444**	**302**
Net assets	**1 235**	**945**
Equity		
Contributed equity	900	700
Retained earnings	335	245
	1 235	**945**

Illberight Limited **Statement of comprehensive income (extract)** **For the year ending 31 December 2011**	
	2011 **NZ$000**
Sales	1 910
Cost of sales	(1 105)
Administration expenses	(475)
Selling and distribution expenses	(158)
Finance costs	(12)
Profit before tax	160
Tax expense	40
Profit for the year	120

Illberight Limited **Statement of changes in equity** **For the year ending 31 December 2011**			
	Contributed equity **NZ$000**	**Retained earnings** **NZ$000**	**Total** **NZ$000**
Balance 1 January 2011	700	245	945
Issue of additional equity	200		200
Profit for the year		120	120
Distributions – Dividends		(30)	(30)
Balance 31 December 2011	**900**	**335**	**1 235**

Additional information

1. Land costing $220 000 was purchased during the year.

2. *Illberight Limited* issued 200 000 fully paid $1.00 shares for cash.

3. Depreciation expense of $45 000 charged to the statement of comprehensive income for the reporting period is shown in administration expenses. Plant and equipment with an original cost of $87 000 was sold for $51 000 during the reporting period. The carrying value of the plant and equipment was $63 000 at the date of the sale. The loss on the disposal of the plant and equipment is included in administration expenses.

4. There is no accrued interest at 31 December 2011.

Required

- Prepare *Illberight Limited*'s cash flow statement for the reporting period ending 31 December 2011.
- Prepare a note to reconcile profit for the year to net cash from operating activities.

QUESTION FOUR (8 marks : 30 minutes)

Richardson Limited makes one-person canoes to order. Each canoe goes through two departments, Machining and Finishing.

Richardson Limited allocates overhead to jobs from the Machining Department using a machine-hour overhead rate and jobs from the Finishing Department using a direct labour-hour overhead rate.

The total overhead for 2011 is budgeted to be $3 million. Two-thirds of this is budgeted for the Machining Department, and one-third is budgeted for the Finishing Department.

The following information is also budgeted for 2011:

	Machining Department	**Finishing Department**
Direct Labour costs	$18 000	$800 000
Direct Labour hours	6 000	25 000
Machine hours	40 000	6 600

Actual amounts at the end of 2011 are as follows:

	Machining Department	**Finishing Department**
Overhead incurred	$2 240 000	$980 000
Direct Labour costs	$19 000	$820 000
Direct Labour hours	6 300	26 000
Machine hours	44 000	6 400

During the month of January 2011, the job cost card for Job 228 showed the following:

	Machining Department	**Finishing Department**
Direct Materials used	$2 800	$600
Direct Labour costs	$120	$250
Direct Labour hours	3	6
Machine hours	12	2

Required

(a) Calculate the overhead rate that will be used in the Machining Department.

(b) Calculate the overhead rate that will be used in the Finishing Department.

(c) Fully explain why machine hours is used as the cost driver in the Machining Department.

(d) Prepare the journal entries, with narrations, for Job 228 to show:
   (i) the transfer of the job from the Machining to the Finishing Department
   (ii) the transfer of the job from the Finishing Department to Finished Goods.

(e) Calculate the under- or over-applied overhead for the:
   (i) Machining Department
   (ii) Finishing Department.

(f) Prepare the Overhead Control Account for 2011.

(g) *Richardson Limited* prepared a detailed factory overhead budget at the beginning of 2011. Fully explain how they would then use this budget at the end of 2011 to assess their performance in 2011, and to prepare for 2012.

QUESTION FIVE (8 marks : 30 minutes)

The following information has been extracted from the financial records of *Brilliant Limited* at 31 July 2011:

	Dr	**Cr**
Accounts payable		151 900
Accounts receivable	277 900	
Allowance for doubtful debts		8 680
Buildings	2 890 000	
Accumulated depreciation – buildings		524 700
Cash	386 790	
Contributed equity		3 372 000
Dividends paid	60 000	
Income tax payable		66 800
Inventory	640 160	
Land	4 985 000	
Revaluation surplus – land		1 800 000
Long-term loan payable		2 319 000
Plant and equipment	1 712 600	
Accumulated depreciation – plant and equipment		883 100
Retained earnings		1 203 600
Profit for the year		622 670
	10 952 450	**10 952 450**

Additional information

1. During the current reporting period, *Brilliant Limited* issued an additional 50 000 ordinary shares at $3.50 each. The adjustment to take this entry into account has been made.

2. *Brilliant Limited* initially records all items of property, plant and equipment at cost. Depreciation is calculated on the straight-line basis at the following rates:
   - Plant and equipment 20 per cent per annum
   - Buildings 2 per cent per annum.

3. On 1 August 2010, the land and buildings were revalued by *R. R. Towes*, an independent valuer. The revaluation of $4 769 000 for the land and $2 800 000 for the buildings was based on the market value of the surrounding properties. Depreciation and revaluation adjustments have yet to be made for the current reporting period.

4. The directors have decided to make an allowance for doubtful debts at 5 per cent of the accounts receivable balance at the reporting date. This adjustment has yet to be made.

5. The long-term loan payable is secured over the company's land. The loan is to be repaid on a straight-line basis over 10 years.

6. Income tax payable has been correctly calculated.

Required

- Prepare the asset and equity sections of the statement of financial position as at 31 July 2011.
- Prepare the appropriate accompanying property, plant and equipment disclosure note in a format suitable for external reporting purposes.
- Prepare the statement of changes in equity for the reporting period ending 31 July 2011.

QUESTION SIX (8 marks : 30 minutes)

The following financial and non-financial information and ratios have been extracted from the financial information contained in the annual reports of *Pumpkin Patch Limited*:

	2010	**2009**	**2008**	**2007**
Earnings per share	15.3	(16.0)	10.3	14.1
Interest cover ratio	17.0×	3.2×	4.7×	10.9×

Required
Using the information in the table on page 10, and in **Resources One to Four** in Resource Booklet 93203R, evaluate *Pumpkin Patch Limited* as an equity investment.