

93203A



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# OUTSTANDING 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.**

Q1) A liability is a present obligation of the entity, in this case a friend, arising from a past event, the settlement of which is expected to be an outflow from my friend, in the form of resources embodying economic benefit. A liability is recognised in the balance sheet when it is probable that an outflow of future economic benefit will occur to settle the present obligation, and the amount at which the settlement takes place can be measured with reliability. My friend invoiced his client, Beth and received \$9500 before he completed the design and landscaping work. This transaction of \$9,500 is a past event, and as a result of this past event, my friend now has the present obligation to complete the landscaping work ~~and~~ for the client whom he now owes this to. By completing the work, my friend will need to purchase equipment and resources to complete the project, and will also need to put in his own time and work, thus it is probable that by settling the present obligation, ~~they'll~~ an outflow of future economic benefit will occur, in the form of landscaping and garden resources equipment and his own time and effort. The amount ~~of \$9500~~ can be measured reliably, as he knows the design his client would like, and ~~should~~ has an idea of the resource and time needed to be put into completing the project, hence is able to give an accurate estimate of ~~less~~ the amount at which the settlement will take place, hence charging his client \$9500, and will now need to produce a finished

How should have the journal entry?  
 Dr Revenue \$9500  
 Cr Income in advance <sup>3</sup> \$9500

project that is worth \$9,500 of resources. Thus, the amount of \$9500 should be debited from his revenue, and credited to income in advance <sup>income account current</sup> liability account.

An asset is a resource controlled by the entity as a result of a past transaction, from which future economic benefits

are expected to flow Income is an increase in economic benefit during the accounting period, in the form of inflow enhancement of assets or decreases in liabilities, other than those relating to contributions by equity participants recognised in the income statement when an increase in future economic benefit, relating to an increase in asset or a decrease in liabilities has arisen, and the amount can be measured reliably. As my friend fulfills his obligation and works for the client to ~~finish~~ finish the project, the liability amount of income in advance will be reversed, and ~~the~~ the \$9500 will be income, and he has fulfilled the obligation hence a decrease in liability has occurred, with the ~~\$~~ as an inflow of future economic benefit due to him receiving revenue, and this amount is reliable.

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Q3 Golden Limited Statement of Financial Position ~~for the~~

years <sup>a</sup> at 31 March 2016.	Note	NZ\$	NZ\$	NZ\$
<u>Current assets</u>				
Accounts receivable	1	444,030		
Cash		5,400		
Inventory	2	<u>435,710</u>		
Total current assets			885,150	
<u>Non-current assets</u>				
Property, plant and equipment	3	3,998,160		
Financial assets	4	<u>340,000</u>	<u>4338160</u>	
Total non-current assets			<u>4,338,160</u>	
Total assets				<u>5,223,310</u>
<u>Less liabilities</u>				
<u>Current liabilities</u>				
Accounts payable		143,340		
Bank overdraft		34,700		
Income tax payable		40,250		
Current portion of long-term loan		<u>103,200</u>		
Total current liabilities			321,490	
<u>Non-current liabilities</u>				
Long-term loan	5	<u>1,444,800</u>		
Total non-current liabilities			<u>1,444,800</u>	
Total liabilities				<u>1,766,290</u>
Net assets				<u>3,457,020</u>
<u>Equity</u>				
Contributed equity	6			2,322,000
Retained earnings				797,760
Revaluation surplus - land				<u>-337,260</u>
				<u>3,457,020</u>

## Note 1: Account receivable

Account receivable	\$467,400
Less allowance for doubtful debt	<u>23,370</u>
	<u>444,030</u>

(1)

## Note 2: Inventory

Raw materials	87,142
Work in progress	130,713
Finished goods	<u>217,855</u>
	<u>435,710</u>

## Note 3: Property, plant and equipment

	Land	Buildings	Plant and equipment	Total
<u>For the year ended 31 March 2016</u>				
Opening carrying amount	2,276,860	1,336,280	619,200	4,232,340
Additions	0	0	0	0
Disposals	0	0	0	0
Depreciation	0	(79,380)	(154,800)	(234,180)
Revaluation	0	0	0	0
Closing carrying amount	2,276,860	1,256,900	464,400	3,998,160
<u>As at 31 March 2016</u>				
Cost	2,276,860	1,587,600	1,032,000	4,896,460
Accumulated depreciation	0	(330,700)	(567,600)	(898,300)
Closing carrying amount	2,276,860	1,256,900	464,400	3,998,160

(1)

Note Depreciation is calculated at the following rates:

\* Buildings: 5% per annum straight line

\* Plant and equipment: 15% per annum straight line.

If land not been revalued, the carrying amount under the cost model would be \$1,939,600.

Note 4: Financial assets

Balance at beginning of the year	340,000
Additions	0
Increase in fair value of financial assets recognised in profit or loss	0
Balance at end of the year	340,000
Financial assets comprise shares in Wools Limited (100,000)	

Note 5: Long-term loan

The long-term loan is to be repaid on a straight-line basis over 15 years, with the first payment to be made on 31 October 2016. Interest on the loan is charged at 9% per annum. The loan is secured over the company's land.

Note 6: Contributed equity

Opening balance	2,322,000
Share issue	0
Share repurchase	0
Closing balance	2,322,000

Q4)

Dr

Cr

31/5/16 Bad debts 7,800

Accounts receivable : 7,800

Write off of bad debt of \$7,800 due to bankrupt debtor

(1)

31/5/16 Doubtful debt 5,500

Allowance for doubtful debt 5,500

Creation of allowance for doubtful debt for accounts unlikely to be settled

1/8/15 Insurance 12,600

Cash 12,600

Purchase of insurance policy

4,200

Prepayments 4,200

Prepayment of a 12-month insurance policy

Cash 180,000

Loan 180,000

Borrowing of \$18,000 (loan from a bank)

Interest expense 2,700

~~Accrued~~ Interest payable 2,700

Interest ~~expense~~ ~~for~~ owing for the year

~~Inventory~~ ~~Change in~~  
~~(Increase in) inventories~~ Inventories 72,450

Inventory at 1 April 2015 72,450

Closing off opening inventory

Inventory on hand	58,990
Change in inventories	58,990
Fair value of closing inventory realised	

Rough - Home Limited ~~Statement of~~ Income statement (by function)

for the year ended 31 March 2016

	Note	NZ\$	NZ\$
Revenue	(1)		
Revenue	(1)	1,607,240	
Less Cost of goods sold		(1,144,311)	
Gross profit			462,929
Add other income	2		57,850
			520,779
<u>Less expenses</u>			
Administrative expenses		286,181	
Distribution costs		115,088	401,269
Operating profit before interest and tax	3,4		119,510
Less Finance costs	5		16,200
Profit before tax			103,310
Income tax expense			33,100
Profit for the year after tax			70,210

Note 1: Revenue

Sales	1607,240
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Note 2: Other income

Dividends received	26,870
Interest received	30,980
	57,850

Note 3: Operating profit

Operating profit was calculated after taking into account:

Auditors remuneration

Annual audit	16,800
Consulting services	5,300
Taxation service	11,590
	<u>33,690</u>

Donations	5950
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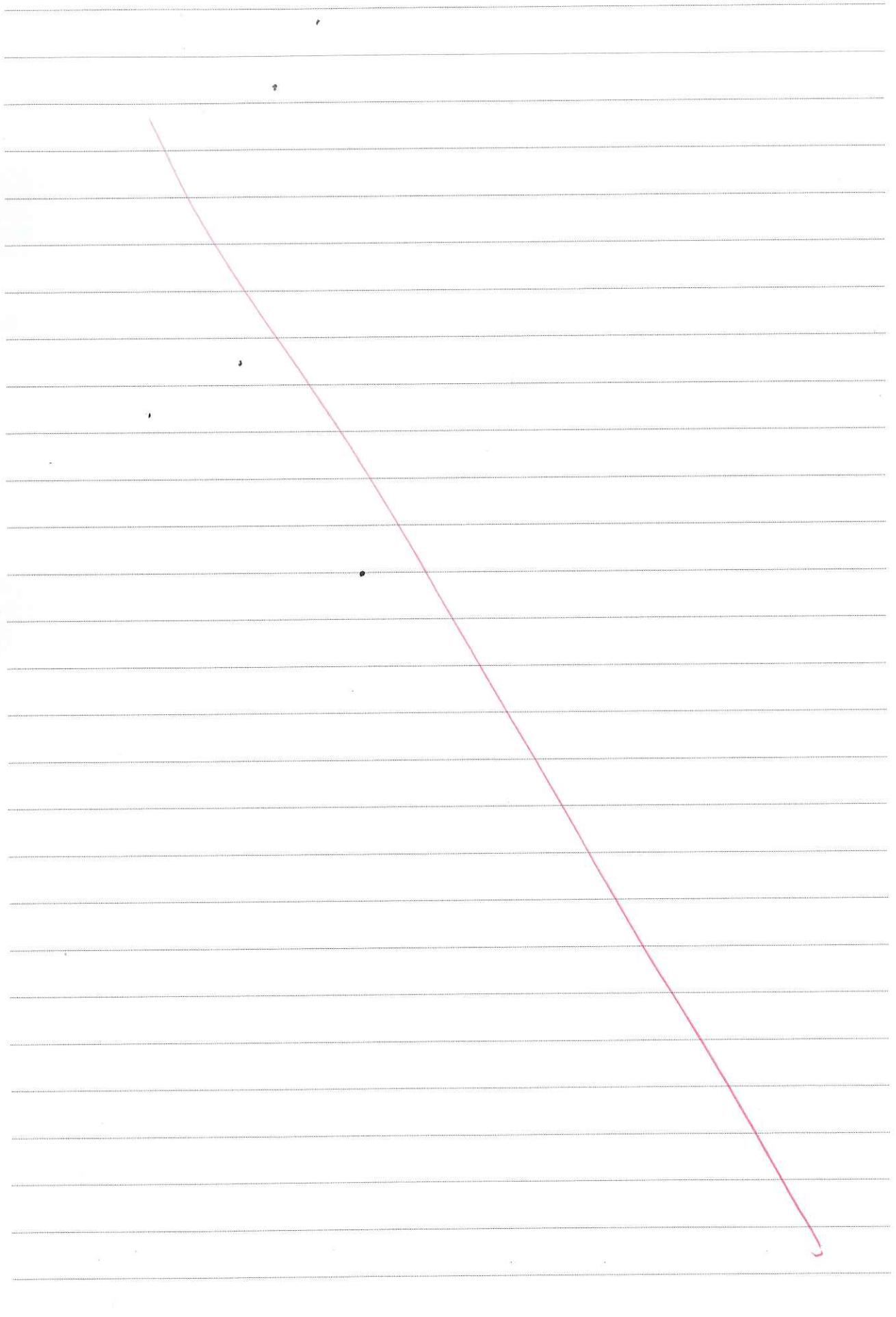
Note 4: Classification of expenses by nature

Advertising expense	25,950
Bad debts expense	15,460
Depreciation expense	54,800
Electricity expense	99,300
General expense	<sup>55,480</sup> <del>62,1430</del>
Insurance expense	8,400
Loss on sale of equipment	3,200
Purchases	741,660
Staff salaries expense	288,330
Doubtful debts	5,800
Change in inventories	13,460

Note 5: Finance costs

Interest expense	16,200
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8  
1 - 8

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Q5) It can be seen that for the 2015 reporting period, Sanford had cash and cash equivalents at 30 September of -\$5025800, showing a significant decrease from the 2014 restated figure of -\$15,821000, a decrease of \$34437000. ~~Bm~~

Sanford shows a significant increase in cash inflow from operating activities, with a strong cash flow from operations of \$54969000 compare to \$32478000 in 2014. This is largely due to Sanford's increase in sales, and good sales converted to cash, which would have allowed for an ~~significant~~ increase in ~~cash~~ receipts from customers, from \$469723000 in 2014 to \$474,618 in 2015. Sanford also improved their operating cash flow by significantly decreasing their payments to suppliers, ~~This is from~~ ~~\$424,653,000~~ to \$400,856,000.

This is due to Sanford making the decision to ~~exit the~~ ① close down the Christchurch mussel plant, reducing expenses, as well as the exit of ~~the~~ International Purse Seining (IPS) (skipjack tuna), reducing operating loss incurred by approximately \$8 million, halving the loss from the IPS business. These measures taken, along with an overall lower spend, allowed for Sanford to successfully lower their expenses, helping

contribute to a strong operational cash flow. The movement of the USD FX rates ~~also~~ was also in favour of Sanford, and the weakening NZD and strengthening USD allowed for Sanford to increase revenue through their large amount of exports, as ~~approximately~~ a large amount of their sales are to international customers, hence this will also have contributed to an increase in receipts from customers, hence improving cash flows from operating activities. A newly introduced supply chain and

procurement disciplines also improved efficiency and reduced costs. Hence, Sanford was able to manage their operating cash flow well.

Sanford also showed an improvement in cash flow from investing activities, as the closing of the Christchurch plant resulted in selling of property plant and equipment, as well as the sale of fund vessels after exiting the unpredictable fund market, thus increasing their cash flow from sale of property plant and equipment ~~rose~~ to \$10,045,000 from \$6714,000 in 2014. Sanford also greatly reduced their outflows of cash related to purchase of business from -\$13,870,000 in 2014 to -\$1940,000 in 2015. These improvements made to cash flow from investing activities enabled an overall improvement from -\$13,882,000 in 2014 to \$62,086,000 in 2015, an increase in cash flow of \$76,74,000.

~~Similarly~~, the main reason for Sanford's decrease in cash and cash equivalents for the 2015 period, in comparison to the previous accounting period, is due to a large decrease in cash flows from financing activities, from -\$23,766,000 in 2014 to -\$83,284,000 in 2015. This is due to Sanford making the decision to pay off ~~a~~ significant amount of their term loan, as this repayment increased from -\$26,243,000 in 2014 to \$80,003,000 in 2015, a \$53760,000 increase. This decision ~~resulted~~ is largely what resulted in the decrease in ~~the~~ overall cash and cash equivalents for the 2015 period. However, ~~despite this~~ Sanford was able to significantly reduce their debt by 15.4%, ~~as~~ with a 27.6% reduction in EBITDA cover ratio. Their

net ~~borrowings~~ decreased from \$176 million to \$149 million, and this will benefit Sanford in the long-term. Although they did not improve their cash flows, the reduction of debt is beneficial, as decreasing liabilities enables for the stability of the business to increase, and less debt is desirable for a business to improve their financial position and continue operations. In the 2015 reporting period,

Sanford made a large number of restructuring decisions, by addressing multiple issues through the exit of the IP, selling San Nanumea, which incurred a cost of \$6.7 million, as well as addressing the inefficiency of their quota in the Australian fishing market, as this quota was inefficient to be economic, with the decision made to focus on a market penetration strategy, and on beautiful NZ seafood, hence incurring a cost of \$6.5 million. The closing down of the Christchurch mussel operation, ~~which~~ due to an impacted mussel growth and supply levels, resulted in redundancies and integration to combine with the Havelock plant, thus resulting in \$2.8 million of costs. This totals to \$16.0 million non-recurring cost, thus will have negatively impacted ~~the~~ Sanford's cash flows. However, this restructuring has put the business in a better position for expansion and future growth as they move into the next accounting period. Along with a large reduction of Sanford's debt, the company has also invested in multiple areas to lay foundations for future growth. Sanford has invested in <sup>\$2.2m in</sup> a new structure, <sup>\$1.6m in</sup> rebranding and communication, <sup>\$1.2m in</sup> their IT platform and <sup>\$0.7m in</sup> other factors, which will enable Sanford to expand their business.

The restructuring of the business has also enabled Sanford to form a better company structure, and by reducing the inefficiencies in their operations, Sanford has been able to open up the company to more opportunities, and their focus on their future operating plans has enabled Sanford to grow and expand further.

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Q2) Natural capital refers to the renewable and non-renewable factors of the environment that are used by businesses to ~~make~~ increase and create value. This includes air, water, soil, minerals, and many other factors. Natural capital is the principle on which all other aspects of business capital are built. This stock of natural resources and environmental assets, which provides Sanford with current and future goods and services, is a big part of Sanford, and the company has recognized this by ~~dedict~~ dedicating a large amount of their <sup>2015</sup> Annual report to Natural capital. Sanford uses integrated reporting, which is a more cohesive approach than traditional reporting methods, and ~~it~~ covers multiple factors of the business, with ~~the guiding principles being strategy and~~ <sup>relating to</sup> future focus, connectivity, covering financial capital, human capital, intellectual capital, social and relationship capital, manufacturing capital, and ~~most~~ importantly, natural capital. Sanford is one of the leading companies in using integrated reporting, and has received recognition for this through various awards. A big part of Sanford is sustainability, and this is the principle upon which the ~~the~~ company is built. Sanford recognises that access to natural resources is not a right, but a privilege, and realise that in order for the company to continue operation in the future, they must be sustainable, especially as they are a fishing company, so are heavily dependent on natural capital, ~~and~~ thus are focussing on long-term <sup>main</sup> rather than short-term profit. Sanford has four focus areas; ~~water, land, and value~~, and value is one of these. In this section, Sanford details the ~~measures the~~ goals of the business.

in terms of sustainability, and illustrates the measures they have and are taking to achieve these sustainability goals.

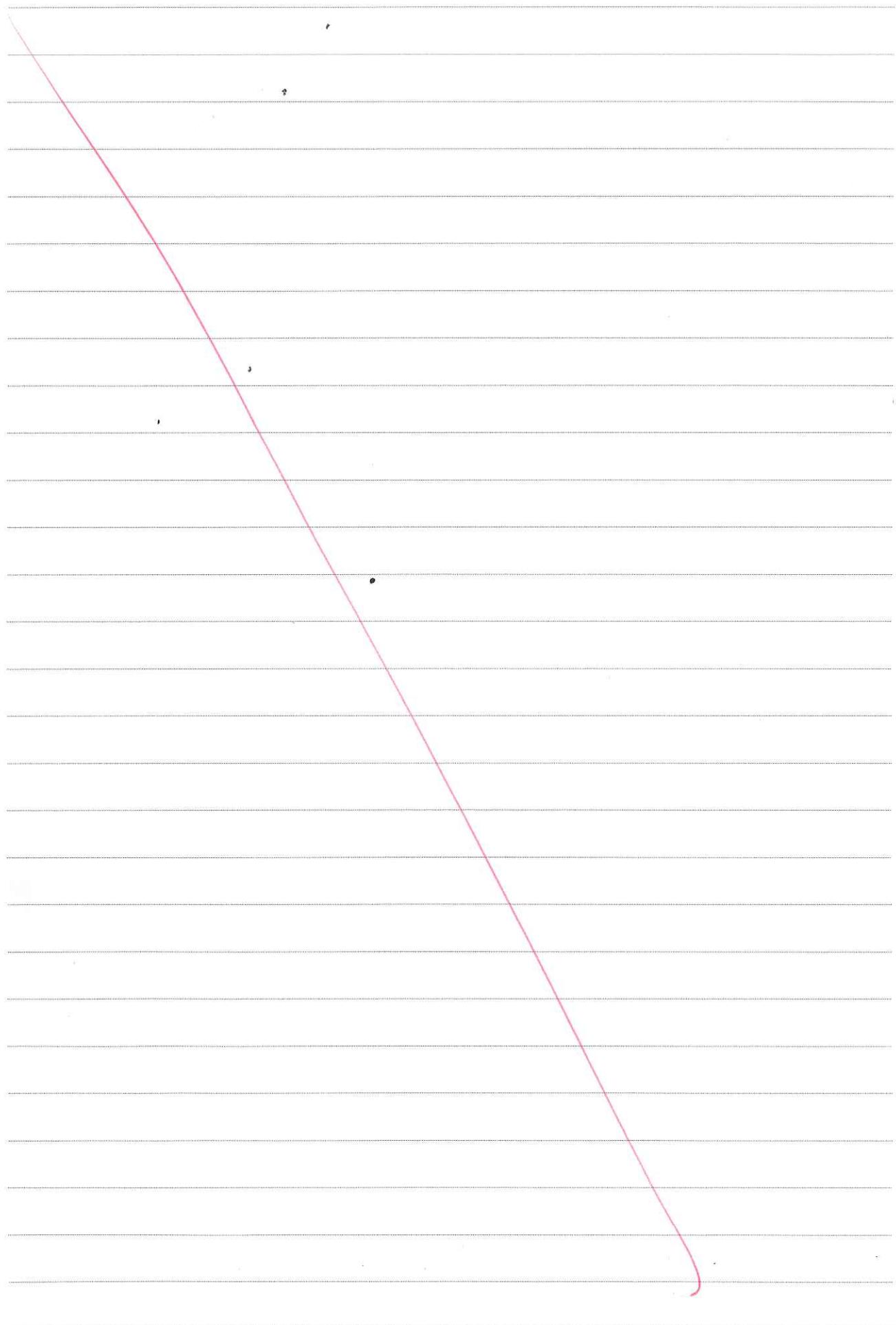
Sanford has detailed their ~~partner~~ partnerships, and also their involvement in Trident electronic monitoring, precision seafood harvesting, and aquaculture, to help with more sustainable fishing. Sanford has reinforced the importance of sustainability numerous times, with the formation of a sustainability ~~and product~~ team, working ~~with~~ made up of 5 members each working with areas of the business, such as ~~the~~ operation, and supply chain ~~and~~ finances, ~~to~~ to help increase the sustainable harvesting ~~at the~~ storage, and transportation of goods. Sanford shows a high amount of transparency when reporting for natural capital, including both the successes and failures. Sanford has reported ~~the~~ how sustainable their catches were, and the amount that was caught as well as the amount of stock provided by aquaculture. The amount of aquaculture stock is increasing to meet increasing demand, however catch levels remain constant, showing that Sanford is working towards being able to only take from the marine environment what they can replenish. Sanford also shows transparency in reporting the number of oil spills occurred in the reporting period, and have stated their goal of reaching zero oil spills, achieving this through improving their training of staff and operating processes. With such a large amount of their 2015 Annual report dedicated to sustainability and value, Sanford has ~~not~~ successfully addressed the reporting for natural capital, and were able to demonstrate a high ~~quality~~ standard of integrated reporting, and have been

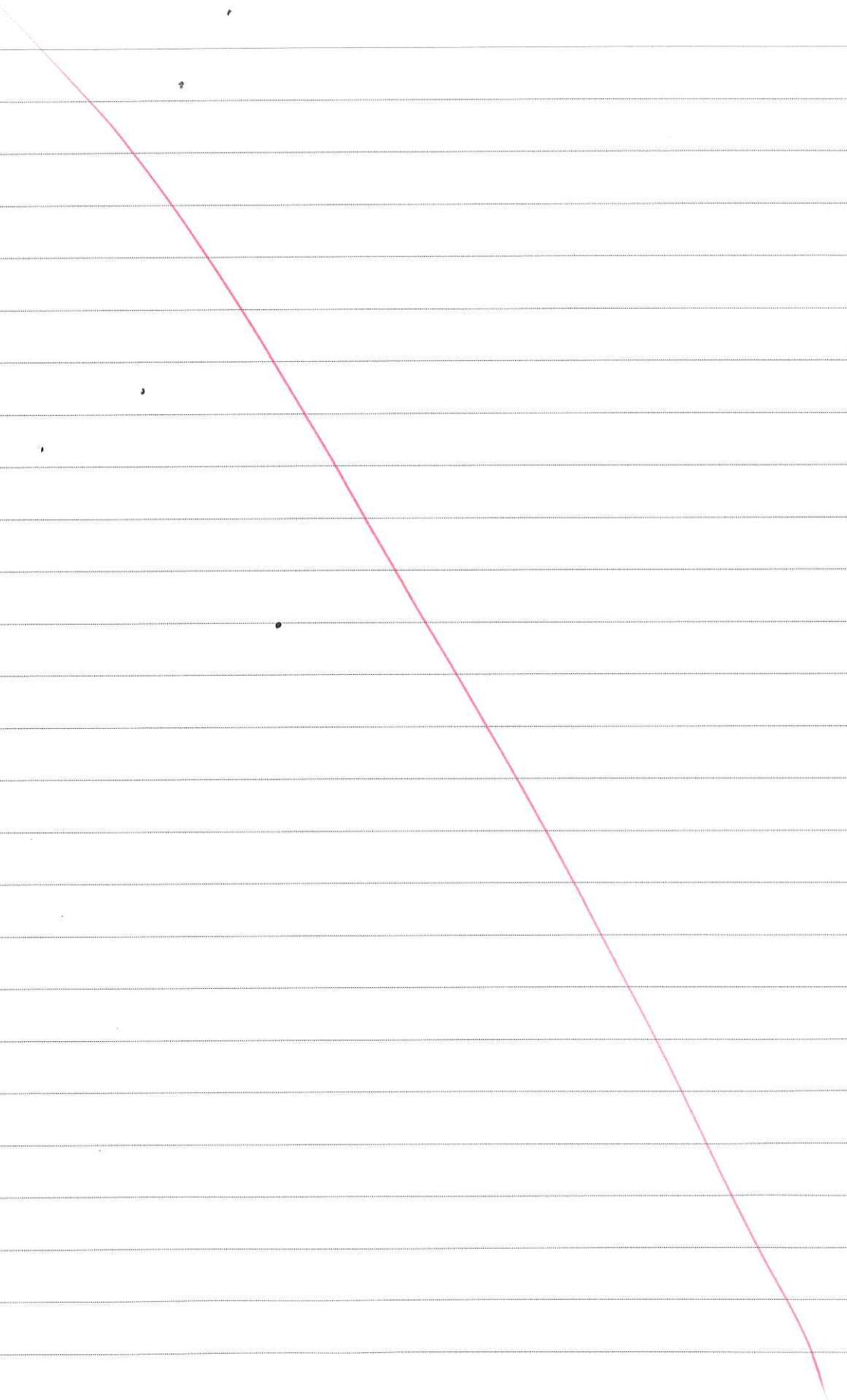
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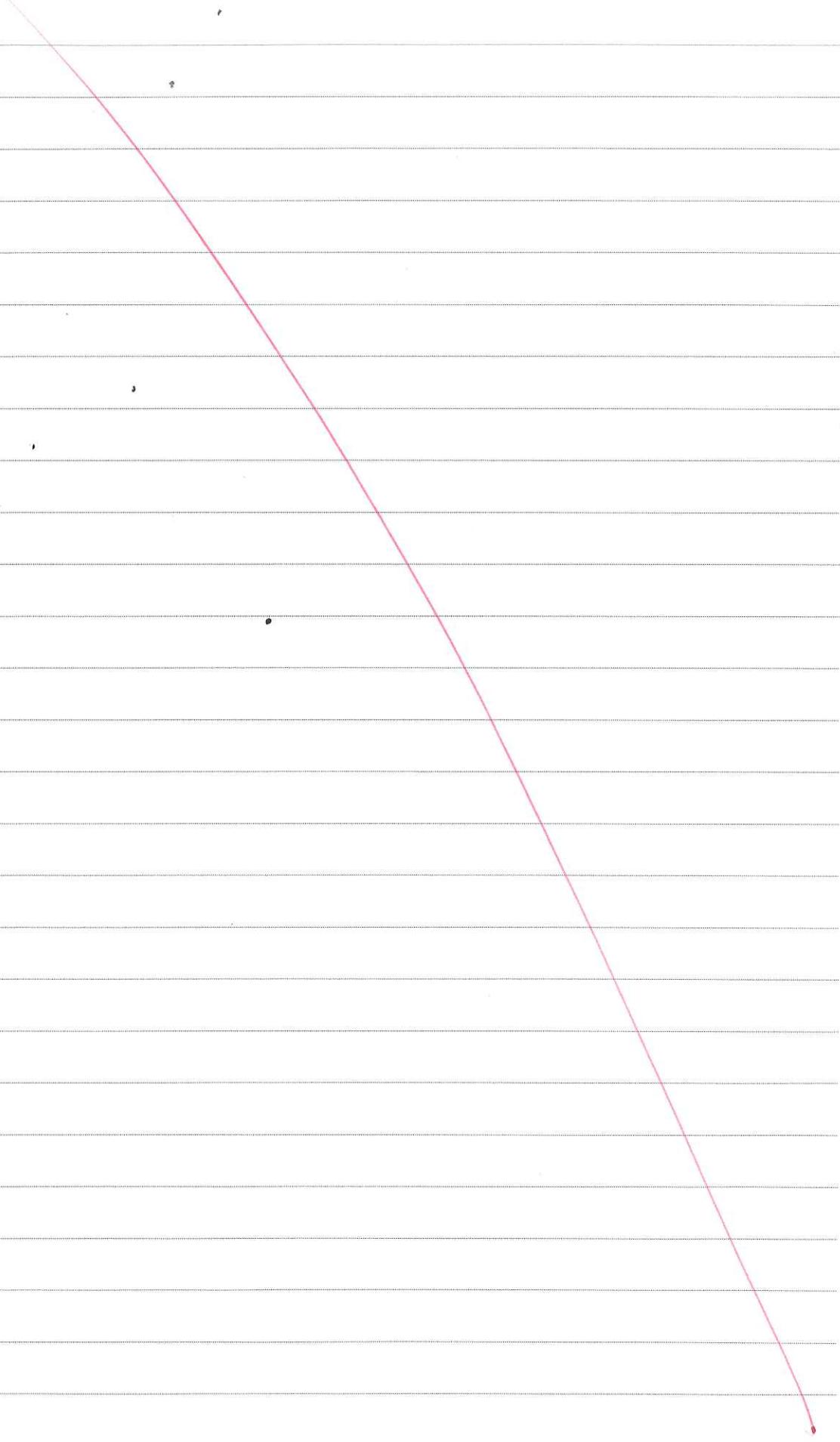


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QUESTION  
NUMBER

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

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## **Outstanding Scholarship**

Taken as a whole, this paper provides evidence of meeting the Outstanding performance descriptors. It meets all four performance descriptors.

### **Question 1 - 6**

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 two of the financial elements (liability and income) 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 has 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. The candidate has also applied the definition of income to communicate an understanding that revenue will be recognised as the work is completed.
Notwithstanding the fact that the candidate did not consider the initial transaction – namely the invoicing of the client and the recognition of cash first in the framing of their answer overall – a sufficiently sophisticated analysis has been provided to reach the standard for Scholarship.	

### **Question 2 - 4**

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 an understanding that natural capital is one of a number of different capitals that impact an organisation.
3.	The candidate has made a clear link between natural capital and sustainability.
4.	This paragraph demonstrates the candidates understanding of the importance of natural capital to <i>Sanford Limited</i> .
Although there is some evidence of independent research, the candidate has not provided the depth of analysis and critical thought necessary to achieve Outstanding Scholarship level. The answer is largely descriptive and does not provide the in-depth critical analysis expected. This answer meets the Scholarship criteria.	

### **Question 3 - 7**

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.

- |    |   |
|----|---|
| 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. All the figures are technically correct, and the accompanying notes are provided. Appropriate terminology used. |
| 2. | Evidence of sophisticated integration and abstraction or evidence of critical thinking in that the candidate was able to include the correct amounts in the Statement of Financial Position after making the necessary adjustments to them from the additional information provided.  |

Other than very minor technical issues, the candidate has effectively communicated a Statement of Financial Position, including accompanying notes, in a format suitable for external reporting purposes. Appropriate terminology used. This is at an Outstanding Scholarship level.

### **Question 4 - 8**

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.

- |    |  |
|----|--|
| 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 correctly carry forward the adjustments made in part one through to the completed Statement of Comprehensive Income.  |

Overall, this candidate has provided a competent solution to a technical question. By providing the correctly journal entries and narrations, the candidate has been able to effectively communicate their knowledge of processing. The candidate has effectively communicated a Statement of Comprehensive Income (classified by function) including accompanying notes in a format suitable for external reporting purposes. Appropriate terminology used. This is at an Outstanding Scholarship level.

**Question 5 - 8**

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 show sophisticated integration and synthesis of the resource material, information 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. This is at an Outstanding Scholarship level.