Assessment Schedule – 2017

Scholarship Accounting (93203)

Evidence

Question One

Suggested solution

New Zealand Framework and materiality

Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity.

New Zealand Framework primarily focuses on existing and potential investors, lenders, and other creditors as users of financial statements.

Materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report; and the implication is that it is a financial measure.

Integrated annual report

Materiality:

- is a structured process
- is an internal process that is entity-specific, so it is in line with the NZ Framework
- commences with the previous year and is adjusted for new information
- is based on stakeholder engagement, rather than being imposed by an non-democratically elected body such as the IASB.

Sanford Limited argues that the process is open and transparent but does not provide evidence to support this.

Invite stakeholders to engage in the process

This assessment of material issues was carried out in accordance with the International Integrated Reporting Council (IIRC) <IR> Framework and the Global Reporting Initiative (GRI) G4 Guidelines. However, this is also a body that can be criticised for its lack of democratic input.

All issues in the matrix (Figure 1) are important to *Sanford* and its stakeholders. The issues placed in the top right of the matrix, the red bubbles, are considered to be most material and, accordingly, receive more focus.

The size of the bubbles reflects the performance rating per issue, whereby larger bubbles indicate that additional focus is required to enhance the performance going forward.

This materiality radar, often called a "spider diagram", presents the results of the materiality process in a different way. The red and blue lines show the external stakeholder and business view, respectively, and demonstrate the synergy for most of the issues, where stakeholder views align with the business view. However, issues where there is some divergence between the external stakeholder and business view require more attention, in particular where they are more important to external stakeholders than they are to the business.

In 2016, these issues included product traceability, community engagement, and partnership and collaboration.

Question Two

Clearly, *Cosmetic1* could be described as an asset, as it is a resource controlled by the entity as a result of past events, and from which future economic benefits are expected to flow to the entity.

However, an asset is recognised in the Statement of Financial Position when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

Expenses are recognised in the Statement of Comprehensive Income when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Candidate looks at each item separately in the light of definitions and comes up with a figure.

- Patent cost – Asset
- Research costs
- Business plan
- Value of product

Question Three

Suggested solution

Weatherbomb Limited

Statement of Financial Position as at 30 June 2017

	Notes	2017
		NZ$
ASSETS		
Non-current assets		
Property, plant and equipment	1	12 573 260
Current assets		
Inventory		1 024 300
Trade and other receivables ($444 600 – ($13 900 + $19 445))		411 255
Cash		618 900
Total current assets		2 054 455
TOTAL ASSETS		14 627 715
LIABILITIES		
Non-current liabilities		
Long-term loan ($3 710 400 – $247 360)		3 463 040
Current liabilities		
Trade and other payables		243 100
Current portion of long-term loan		247 360
Income tax payable		106 900
Total current liabilities		597 360
Total liabilities		4 060 400
NET ASSETS		10 567 315
EQUITY		
Contributed equity		5 395 200
Retained earnings		2 024 015
Revaluation surplus		3 148 100
TOTAL EQUITY		10 567 315

Statement of Changes in Equity for the year ended 30 June 2017

	Contributed equity	Revaluation surplus – land	Revaluation surplus – buildings	Retained earnings	Total
	NZ$	NZ$	NZ$	NZ$	NZ$
Balance at 1 July 2016	5 179 200	2 880 000	–	1 925 800	9 985 000
Changes in equity 2017					
Total comprehensive income		(823 000)	1 091 100	194 215	462 315
Contribution from owners	216 000				216 000
Distributions / Dividends paid				(96 000)	(96 000)
Balance at 30 June 2017	5 395 200	2 057 000	1 091 100	2 024 015	10 567 315

Notes to the 2017 financial statement

1. Property, plant and equipment

	Land	Buildings	Plant and Equipment	Total
	NZ$	NZ$	NZ$	NZ$
Balance at 1 July 2016				
At cost or valuation	7 976 000	4 624 000	2 740 200	15 340 200
Accumulated depreciation		839 500	1 412 900	2 252 400
Net book value	7 976 000	3 784 500	1 327 300	13 087 800
Year ending 30 June 2017				
Opening book value	7 976 000	3 784 500	1 327 300	13 087 800
Additions	–	–	–	–
Revaluation (deficit) surplus	(823 000)	1 091 100	–	268 100
Disposals	–	–	–	–
Depreciation	–	(234 600)	(548 040)	(782 640)
Net closing book value	7 153 000	4 641 000	779 260	12 573 260
Balance at 30 June 2017				
Cost or valuation	7 153 000	4 760 000	2 740 200	14 653 200
Accumulated depreciation	–	119 000	1 960 940	2 079 940
Balance at 30 June 2017	7 153 000	4 641 000	779 260	12 573 260

Depreciation is calculated on the straight-line basis at the following rates:

- Plant and Equipment 20% per annum
- Buildings 5% per annum

The company's land and building were revalued on 1 January 2017 by K Williamson, an independent valuer.

The valuation was based on the market value of surrounding properties.

The revaluation surplus was credited to revaluation surplus in equity.

If the land and buildings were stated on the historical cost basis, the carrying amounts would be as follows:

	NZ$
Land – carrying amount	5 096 000
Buildings	
At cost	4 624 000
Accumulated depreciation ($839 500 + $231 200)	1 070 700
	3 553 300

Acceptable alternative note disclosure:

- Had land not been revalued, the carrying amount under the cost model would be $5 096 000.
- Had buildings not been revalued, the carrying amount under the cost model would be $3 553 300.

The land is mortgaged as detailed in Note 5.

Note: Workings not requested.

Journal Entries:

Dr		Bad debts	19 445	
	Cr	Allowance for doubtful debts		19 445
Recognising allowance for doubtful debts @ 7.5% of accounts receivable				
Dr		Long-term loan	247 360	
	Cr	Current portion of long-term loan		247 360
Recognising portion of loan due in next 12 months as a current liability				
Dr		Depreciation	115 600	
	Cr	Accumulated depreciation		115 600
Recognising depreciation to date of revaluation				
Dr		Revaluation surplus	823 000	
	Cr	Land		823 000
Recognising revaluation of land to fair value				
Dr		Accumulated depreciation	955 100	
	Cr	Buildings		955 100
Recognising reversal of accumulated depreciation on revaluation of buildings				
Dr		Buildings	1 091 100	
	Cr	Revaluation surplus		1 091 100
Recognising revaluation of buildings to fair value				
Dr		Depreciation	667 040	
	Cr	Accumulated depreciation – building		119 000
	Cr	Accumulated depreciation – plant & equipment		548 040
Recognising depreciation on items of property, plant, and equipment for year				
Dr		Cash	216 000	
	Cr	Contributed equity		216 000

Question Four

Suggested solution

Discuss: A written debate using skill at reasoning, backed up by carefully selected evidence to make a case for and against an argument, or point out the advantages and disadvantages of a given context. Remember to arrive at a conclusion.

Examine: Look in close detail and establish the key facts and important issues surrounding a topic. This should be a critical evaluation and you should try to offer reasons as to why the facts and issues you have identified are the most important, as well as explain the different ways they could be construed.

Critically evaluate: Give your verdict as to what extent a statement or findings within a piece of research are true, or to what extent you agree with them. Provide evidence taken from a wide range of sources which both agree with and contradict an argument. Come to a final conclusion, basing your decision on what you judge to be the most important factors, and justify how you have made your choice.

Note: The answer for this question will depend on the approach taken by the candidate. However, one approach would be to consider the usefulness of financial information provided by reporting entities.

Examination

The information provided by the two companies is substantially different – both the nature of the information provided and the form in which it is provided – so comparability is potentially compromised.

Volume of information provided by both companies is extensive – understandability issues.

Numeric forms of financial information can be complex, so non-institutional investors need to use alternative or narrative forms.

Both companies are trying to provide a favourable outlook on their past and future performances.

Discussion

The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity.

General purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders, and other creditors need. Information from other sources – for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks – needs to be considered.

Non-institutional investors generally do not have the same level of access to management as institutional investors, so would rely more on the information provided by companies in the form of annual reports and by media such as newspapers.

Individual primary users have different, and possibly conflicting, information, needs, and desires.

Non-institutional investors may not have the same level of understanding of the information contained in the financial statements (general purpose financial reports) and so may rely more on narratives and media.

How a non-institutional investor uses the information will depend on how they view their investments.

Examine the role of social media in annual reports: If they favour socially responsible investments, they may consider the different corporate social responsibility positions taken by the individual company – for example, guaranteed hours by *Restaurant Brands*.