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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

QUALIFY FOR THE FUTURE WORLD
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Scholarship 2018
Accounting

9.30 a.m. Tuesday 27 November 2018
Time allowed: Three hours
Total marks: 32

QUESTION BOOKLET

There are FOUR questions in this booklet. Answer ALL questions.

Write your answers in Answer Booklet 93203A.

Pull out Resource Booklet 93203R from the centre of this booklet.

Check that this booklet has pages 2–7 in the correct order and that none of these pages is blank.

YOU MAY KEEP THIS BOOKLET AT THE END OF THE EXAMINATION.

Note: All questions in this booklet have equal importance, but you should allow more time for Question Four because you will need to read the resources in the resource booklet to answer that question.

QUESTION ONE

Rally-O Limited is a company that manufactures widgets. The following information has been provided to you by the management accountant for the six months ending 30 June 2018.

	Per unit	6-month total
	$	$
Sales	465	4 464 000
Less Direct costs		
Materials	158	1 516 800
Direct labour	70	672 000
Less Indirect costs		
Variable cost	42	403 200
Factory fixed costs (half of $2 400 000)	125	1 200 000
Other fixed costs (half of $345 600)	18	172 800
Total costs	413	3 964 800
Net profit	52	499 200

Additional information

1. For the six months ending 30 June 2018, *Rally-O Limited* produced and sold 9 600 widgets.
2. The company is currently operating at 75 per cent capacity, and production was expected to occur evenly over the year.
3. On 1 July 2018, the company received a special order for 3 200 widgets at $310 each from a large listed company in Nigeria. Shipping these units to Nigeria will cost *Rally-O Limited* $35 200. Although this is the first time that an order has been received from Nigeria, the management of *Rally-O Limited* is keen to accept this order as they believe that, as one of the largest countries in Africa, it has potential for future sales and growth.

REQUIRED

(a) Using the information above, explain to a salesperson with no knowledge of accounting, why a product's contribution margin is important for management decision making.

(b) Calculate *Rally-O Limited*'s annual break-even point in sales units and dollars before taking into account the special order.

(c) From the above information calculate the margin of safety before taking into account the special order. Explain why the margin of safety is important to *Rally-O Limited*'s management.

(d) Explain with reasons and supporting calculations whether *Rally-O Limited*'s management should accept the special order.

(e) Explain whether *Rally-O Limited* should accept the Nigerian order at $310 per widget if the company is operating at full capacity.

Note: Use only the information provided. Ignore GST.

QUESTION TWO

The following information was extracted from the financial records of *Mealworks Limited* at 31 August 2018.

	Dr	Cr
	NZ$	NZ$
Accounts payable		603 200
Accounts receivable	1 024 000	
Allowance for doubtful debts		32 000
Buildings	8 640 000	
Accumulated depreciation – buildings		1 790 500
Cash / Bank	1 630 600	
Contributed equity		7 287 500
Dividends paid	220 000	
Income tax expense	103 200	
Income tax payable		35 800
Inventory	1 229 200	
Land	7 774 000	
Revaluation surplus – land		2 943 500
Long-term loan payable		4 052 500
Plant and equipment	4 110 000	
Accumulated depreciation – plant and equipment		1 695 500
Rent expense	96 000	
Retained earnings		5 175 900
Income summary		1 210 600
	24 827 000	24 827 000

Additional information

1. On 1 September 2017, contributed equity comprised 2 500 000 ordinary shares. During the current reporting period, *Mealworks Limited* issued an additional 250 000 ordinary shares at $3.65 each. The adjustment to take this entry into account has been made.
2. On 31 August 2018, management decided to buy back 500 000 shares at $3.10 each. This adjustment for this entry has <u>not</u> been made.
3. *Mealworks 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: 10 per cent per annum
   - Buildings: 5 per cent per annum.

   On 1 April 2018, the land and buildings were revalued by T Flight, an independent valuer. The revaluation of $7 925 400 for the land and $7 392 000 for the buildings was based on the market value of the surrounding properties.

   Depreciation and revaluation adjustments for all items of property, plant and equipment have yet to be made for the current reporting period.

4. The directors require that the allowance for doubtful debts be 5.0 per cent of the accounts receivable balance at the reporting date.
5. On 1 June 2018, *Mealworks Limited* entered into an agreement to rent a building to store its excess inventory. As required by the landlord, *Mealworks Limited* paid the first year's rent expense of $96 000 in advance.
6. 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.
7. The income tax expense and income tax payable have been correctly calculated.

REQUIRED

(a) Prepare the asset and liability sections of the Statement of Financial Position as at 31 August 2018.

(b) Prepare the appropriate accompanying Property, plant and equipment disclosure note in a format suitable for external reporting purposes.

(c) Prepare the Statement of Changes in Equity for the reporting period ending 31 August 2018. Accompanying notes to the statement of changes in equity are not required.

Note: Use only the information provided. Ignore GST.

QUESTION THREE

On 30 November 2017, your friend completed training as a dog groomer at New Zealand's premier pet grooming school. After undertaking some market research, your friend realised that they could charge $80 per dog grooming session. Your friend formed a company and started their own business on 1 January 2018.

To establish themselves in the local area, your friend came up with the following initiative. They would sell books of vouchers for $500 each that would entitle the purchaser to 10 individual pet grooming sessions. This initiative proved popular with your friend's pet grooming clients, and in the three months to 31 March 2018, the end of the financial year, they sold 48 books of vouchers. The vouchers have no expiry date.

Although only 24 individual vouchers had been redeemed by the 31 March 2018 reporting date, your friend planned to disclose income from dog grooming of $24 000 in the company's financial statements.

REQUIRED

Making specific reference to the financial statement elements definition and recognition criteria contained in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010 (NZ Framework), explain to your friend how the above transactions should be recognised in their financial statements.

QUESTION FOUR

Refer to **Resource Booklet 93203R** to answer this question.

Over the past two decades, accounting as a discipline has become increasingly criticised in certain circles as lacking relevance. In spite of rapidly changing social and economic conditions, business models, and the advent of new technologies, accounting as a discipline has not substantially evolved over the last 100 years.

REQUIRED

Describe the steps the accounting profession can take to remain relevant beyond 2025. Your answer should contain a critical evaluation of the resources provided in the resource booklet.

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