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91406



914060



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

SUPERVISOR'S USE ONLY

Level 3 Accounting, 2014

91406 Demonstrate understanding of company financial statement preparation

9.30 am Friday 21 November 2014
Credits: Five

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of company financial statement preparation.	Demonstrate in-depth understanding of company financial statement preparation.	Demonstrate comprehensive understanding of company financial statement preparation.

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

Pull out Resource Booklet 91406R from the centre of this booklet.

You should attempt ALL parts of all questions in this booklet.

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 2–10 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.

Merit

TOTAL

15

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QUESTION ONE

Refer to Resource One in Resource Booklet 91406R to answer this question.

- (a) Prepare the General Journal entries indicated by the narrations in the General Journal below, using relevant information from Resource One.

Colin's Construction Company Limited
General Journal

		NZ\$000	NZ\$000
31/3/2014	Land	5000	
	Land revaluation surplus		50
	To record the revaluation of land to fair value		
31/3/2014	Shares	8	
	Increase in fair value of financial asset		8
	To record the revaluation of shares in A1 Building Supplies Ltd to fair value		
31/3/2014	tax expense	70	
	Income tax payable		70
	To record income tax expense of \$70 000		

- (b) Prepare the General Ledger accounts indicated using relevant information from Resource One.

Colin's Construction Company Limited
General Ledger
Buildings

		NZ\$000	NZ\$000	NZ\$000	
1/3/14	Opening Balance			500	DR
	Depreciation on Buildings	15		515	DR
	Accumulated depreciation Buildings		65	450	DR

Buildings Revaluation Surplus

		NZ\$000	NZ\$000	NZ\$000	
1/3/14	Balance			40	CR
	Buildings		15	55	CR

- (c) Complete the Statement of Comprehensive Income (extract) for Colin's Construction Company Limited.

Colin's Construction Company Limited
Statement of Comprehensive Income (extract)

	NZ\$000
Profit before taxation	250
Other comprehensive income Less tax expense	70
Gain in revaluation of land Building = Profit after tax	180 115
Gain in revaluation of Land + other comprehensive income	80
Total comprehensive income gain in revaluation land	50 345
Gain in revaluation Buildings	15
Total Income	245

- (d) Explain the accounting treatment of the revaluation of land in the financial statements of Colin's Construction Company Limited. You can use the abbreviation CCCL in your answer.

The revaluation of land is treated as a comprehensive income in the income statement. The difference between the original amount and new valuation is recorded. In the journals the account land is debited and Land revaluation surplus is credited.

QUESTION TWO

Refer to Resource Two in Resource Booklet 91406R to answer this question.

(a) Complete Rock Gymnasiums Limited's Statement of Cash Flows (extract).

Notes:

- You are not required to complete the Operating Activities of the Statement of Cash Flows, as the Net Cash Inflow from operating activities has been calculated for you.
- Space has been provided below for your working. This may be used for marking purposes.

WORKINGS

Term deposit:
opening Bal 633

PPE

loans

loan OB - er

loan increased \$100 000

Mortgage decreased 150 000

Shares:

CE 500 000

RE 750 000

Bank

125 000

Rock Gymnasiums Limited Statement of Cash Flows (extract) for the year ended 31 March 2014

	NZ\$000	NZ\$000	NZ\$000
Net cash inflow from operating activities			3537
CASH FROM INVESTING ACTIVITIES			
From:			
⑨ Sale of Property plant and equipment	35		
⑩ Decrease in term deposit	633	668	
TO:			
⑪ Purchase of Property plant and equipment	0		
⑫ Increase in TD	0		
		0	
Net cash inflow from investing activities		668	668
CASH FROM FINANCING ACTIVITIES			
From:			
⑬ Sale of Shares	250		
⑭ loan increase	100 000	350	
TO:			
⑮ Share repurchase	75 000		
⑯ Mortgage decrease	150 000		
⑰ Dividends paid	0		
Net cash		225	
Net cash inflow from financing activities			125
add Bank balance			4380 983
+ Bank balance beginning			25
Net cash inflow			4355

- (b) Explain, providing detailed reasons, why depreciation on property, plant and equipment should not be included in *Rock Gymnasiums Limited's* Statement of Cash Flows.

Depreciation on property plant in equipment is not a cash expense. It is recorded as an expense to the business in the income statement as it acknowledges the decrease in the valuation of the ~~Asset~~ Non-Current Asset but shows the business isn't loosing any cash to cover the expense.

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QUESTION THREE

Refer to **Resource Three** in **Resource Booklet 91406R** to answer this question.

- (a) Complete the Income Statement for *Christina Diory House of Fashion Limited* for the year ended 31 March 2014.

Christina Diory House of Fashion Limited
Income Statement
for the year ended 31 March 2014

	NZ\$000	NZ\$000
Revenue		6500
+ Other Income		300
= Total Income		6200
Less Expenses:		
Cost of Goods sold	1600	
Auditors remuneration	26	
Bad debts	25	
Communication Expenses	129	
Directors fees	500	
Donations	10	
Other Expenses	1138	
Doubtful debts	10(1)	
Depreciation	33	
Finance costs	147	1660
Total Expenses		3607
Profit before tax		2593
tax expense		980
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Profit for the year		1613

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- (b) Complete the Distributions note to the financial statements.

Christina Diory House of Fashion Limited
Notes to the Financial Statements (extract)
Distributions

	Cents per share	NZ\$000
Opening Balance		
interim dividend	10c	200 000
Final dividend	20c	30 000
Dividends declared after reporting date:		
On April 2014 a final dividend of 20c per share was announced by directors, to be paid on 28 May 2014.		

- (c) Identify and explain in detail, ONE temporary current liability that will be created from the list of items in the additional information.

A temporary current liability that will be created is income in advance. Christina Diory House of Fashion has received \$5000 of rent in advance. This is temporary because they face the liability to continue providing the service of rent for another month that has been paid in advance. Once this month is up it will no longer be a liability.

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

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Merit exemplar for 91406 2014			Total score	15
Q	Grade score	Annotation		
1	M6	The candidate provides enough evidence for an M6 because they have shown sufficient understanding of the processing of journals to ledgers, and understanding of the Statement of Comprehensive Income. They do not reach an E7 because the explanation in Q1(d) is not comprehensive and there are some errors in their processing.		
2	A4	This is an A4 because they comprehensively understood why depreciation was not reported in the cash flow statement but they made too many stem and calculation errors in the reporting of the Statement of Cash Flows.		
3	M5	This is an M5 because they showed enough evidence in the Income Statement for an E7 but they showed little understanding of a Distribution note and its format.		