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91406



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## Level 3 Accounting, 2015

### 91406 Demonstrate understanding of company financial statement preparation

2.00 p.m. Monday 30 November 2015  
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.

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

Pull out Resource Booklet 91406R from the centre of 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 2–12 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

16

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# QUESTION ONE

- (a) *Fashnz Limited*, a supplier of designer clothing, has the following equity account balances on 1 April 2014.

Contributed equity (400 000 fully paid shares)	1 280 000
Retained earnings	230 000

Prepare the General Journal entry to record the payment of the 2014 final dividend of 12 cents per share on 15 May 2014 by *Fashnz Limited*.

## *Fashnz Limited* General Journal

15/5/2014	Final dividend 2014	48 000	
	Bank		48 000
	Payment of 2014 final dividend		

- (b) The General Journal entry below shows the repurchase of shares by *Fashnz Limited* at a fair value of \$5 per share.

## *Fashnz Limited* General Journal

19/8/2014	Contributed equity	32 000	
	Retained earnings	18 000	
	Bank		50 000

Explain the effects of this transaction on both the contributed equity and retained earnings ledger accounts. In your answer, explain how the figures were calculated, including the number of shares repurchased by *Fashnz Limited*.

Contributed equity would decreased by \$32 000 and retained earnings by \$18 000. The repurchases of shares means *Fashnz limited* buys back 10 000 shares ( $\frac{50\ 000}{5} = 10\ 000$ ) which were issued at an original fair value of \$3.2. ( $\frac{32\ 000}{10\ 000} = 3.2$ ).  $50\ 000 - 32\ 000 = 18\ 000$  which is the retained earnings, it has been decreased by \$18 000 because the business need to pay \$18 000 more money to repurchase these 10 000 shares.

- (c) On 1 September 2014, *Fashnz Limited* employed a share broker to manage offering the public 100 000 shares in the company at \$6 per share. On 1 October 2014, the share broker issued the 100 000 shares, and the net proceeds of the share issue were given to *Fashnz Limited*, after deducting 5% for brokerage fees.

Prepare the journal entry to record this transaction.

## *Fashnz Limited* General Journal

1/10/2014	Bank	570 000	
	Contributed equity		570 000
	Net proceeds of share issue received from share broker		



- (d) On balance day, *Fashnz Limited*'s accountants recorded the following general journal entry.

***Fashnz Limited***  
**General Journal**

31/3/2015	Income summary	140 000	
	Taxation payable		140 000

**Additional information**

- An interim dividend (2015) of \$73 500 was paid on 1 November 2014.
  - Profit before tax is \$510 000 for the year ended 31 March 2015.
  - An independent revaluation of *Fashnz Limited*'s land was received on 31 March 2015 that determined a fair market value for land of \$900 000. The ledger account balance for land at 1 April is \$750 000 DR.
- (i) Complete the General Ledger – Retained Earnings account from 1 April 2014 to 31 March 2015, using the General Journal entry and additional information above, and other relevant information from (a), (b), and (c). The opening balance has been entered.

***Fashnz Limited***  
**General Ledger – Retained Earnings**

1/4/2014	Balance			230 000	CR
15/5/2014	Final dividend 2014	48 000		182 000	cr
01/11/2014	Interim dividend 2015	73 500		108 500	cr
31/3/2015	<del>Taxation payable</del>	<del>140 000</del>		31 500	Dr
31/3/2015	Income summary		<del>510 000</del>	478 500	cr

- (ii) Complete the Shareholders' equity section of the Statement of Financial Position (extract) as at 31 March 2015, using the additional information above, and other relevant information from (a), (b), and (c).

***Fashnz Limited***  
**Statement of Financial Position (extract) as at 31 March 2015**

Shareholders' equity	
Contributed equity	1818 000
Retained earnings	478 500
Land revaluation surplus	150 000
Total equity	2446 500

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The examination continues on the following page.

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E8

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## QUESTION TWO

Refer to **Resource A** in Resource Booklet 91406R.

- (a) Prepare *Green's Green Waste Collection Limited* Statement of Cash Flows for the year ended 31 March 2015 on the next page.

Note:

- The company did not undertake any investing activities during the year.
- Show your working, which may be marked.

## WORKING

Cash received from customers.	Rent received 1175	Cash paid to suppliers.
Opening accounts receivable 15900	+ opening accrued income 600	Acc Payable 27700
plus sales +24000	- closing accrued income 800	+ purchase 121000
less bad debts - 500		- discount received 2000
less discount allowed 0		- closing Acc Payable 32400
less closing accounts receivable - 12900		114300
242500	Purchase	
	cost of goods sold 120000	
	- opening inventory 59000	
	+ closing inventory 60000	
	121000	
Op taxation payable 1000	other expenses 115575	interest 4000
* closing	- op prepayment 800	
	+ closing prepayment 400	
Contributed equity	Dividend	
opening	opening retained earnings 81300	
+ closing 15000	+ profit (6000)	
- opening 10000	- closing 56300	

*Green's Green Waste Collection Limited*  
Statement of Cash Flows for the year ended 31 March 2015

	NZ\$000	NZ\$000	NZ\$000
<u>Operating activities</u>			
Cash was provided from		<del>242500</del>	
Cash received from customers		242500	
Rent received.		975	243475
Cash was provided to			
Cash paid to suppliers		114300	
Other expenses		115175	
Interest		4000	
Taxation payable		1000	234475
Net cash inflow(outflow) from operating activities.			9000
<u>Financing activities</u>			
<del>Contributed equity</del> Cash was provided from		5	
Contributed equity		5000	
Mortgage		3100	
Cash was provided to			
Loan repayment		200	
Dividend paid.		<del>19000</del>	
Net inflow/(outflow) from financing activities			(11600)
Net cash inflow/(outflow) for the year			(2100)



- (b) Explain, with detailed reasons, the cash figure you have entered for Other expenses in Green's Green Waste Collection Limited's Statement of Cash Flows for the year ended 31 March 2015.

The cash figure for other expenses in Green's Green Waste Collection Limited's Statement of Cash Flows for the year ended 31 March 2015 is \$115175.

I used 'Other expense' from the income statement, and then less the opening prepayment (\$800) and plus the closing prepayment of \$600. This is because ~~prepayment is a current asset~~.

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## QUESTION THREE

Refer to **Resource B** in Resource Booklet 91406R.

- (a) Complete the Statement of Comprehensive Income for Antiques Online Limited for the year ended 31 March 2015. You are not required to prepare the Notes to this statement.

**Antiques Online Limited**  
**Statement of Comprehensive Income for the year ended 31 March 2015**

	NZ\$	NZ\$
Sales	586 000	
less expenses:		
Auditor's remuneration	3 500	
Directors fees	25 000	
Electricity	7 400	
other expenses	4 6950	
Interest on loan	10 500	
Salaries	77 000	
Depreciation on buildings	7 500	
Depreciation on equipment	4 320	180 170
Profit for the year before tax		405 830
income tax expenses	25 000	
Profit for the year after tax		403 370
Add other comprehensive income		
Land revaluation surplus	65 000	
Building revaluation surplus	36 500	
Total comprehensive income		1015 00
Total profit for the year.		504 830

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- (b) The following totals were reported in *Antiques Online Limited*'s financial statements after the additional information was taken into consideration:

• Current assets	\$133 760
• Current liabilities	\$26 275
• Non-current assets	\$485 080
• Non-current liabilities	\$150 000

The company declared a dividend of 5 cents per share from 2015 profits at the Annual General Meeting on 25 June 2015.

Explain, using the totals above, how the directors of *Antiques Online Limited* satisfied either the Liquidity Test OR the Balance Sheet Test requirement of the Solvency Test when making the dividend declaration.

Liquidity Test means the business is ~~able~~ able to pay its debts in a normal course of a business before and after dividend paid. This requires the business to have a current assets that is greater than current liabilities, ~~which~~ in this case, *Antiques Online Limited* is satisfied for liquidity test as it has a current assets of \$133 760, which is \$107 485 greater than current liability of \$26 275.

Balance Sheet Test means the business assets are greater than the business's liability. *Antiques Online Limited* obviously meets the test as it has both current and non current assets that is greater than liability. Having a solvency test would protect shareholders from directors paying dividends when the business is not able to afford. Giving shareholders false impression of the financial position of the business.

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

QUESTION  
NUMBER

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Merit exemplar for 91406 2015			Total score	16
Q	Grade score	Annotation		
1	E8	This is an E8 because it shows minimal errors in the processing and reporting. It also demonstrates comprehensive understanding in question 1 (b) by giving the effect of the transaction on both accounts and how both the Contributed Equity and Retained Earnings figures were calculated.		
2	M5	This is an M5 because it shows minimal errors (1 incorrect stem) in the preparation of the Statement of Cashflows, but the candidate was not able to explain in question 2 (b) why the \$800 prepayment is subtracted and the \$400 prepayment is added.		
3	A3	This is an A3 because it shows understanding in the preparation of the Statement of Comprehensive Income but has a significant number of incorrect stems. Candidate showed in-depth understanding of both the liquidity and balance sheet test but did not link these to the \$5000 dividend payout.		