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NEW ZEALAND QUALIFICATIONS AUTHORITY
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SUPERVISOR'S USE ONLY

Level 3 Accounting, 2016

91406 Demonstrate understanding of company financial statement preparation

2.00 p.m. Friday 18 November 2016
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 the 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.

Achievement

TOTAL

12

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QUESTION ONE

Superstrength House Removals Limited (SHR Ltd), a house moving business, has the following account balances on 31 March 2015.

	Debit	Credit
Land	450 000	
Yard buildings	21000 +111000 60 000	
Accumulated depreciation: yard buildings		13000 18 000

Dep on yard 3000

SHR Ltd depreciates the Yard Buildings at 5% using the straight-line method.

SHR Ltd has obtained a valuation as at 31 March 2016 for Land and Buildings from Notable Valuations, an independent valuer. The current market value for Land is \$570 000; the current market value for Yard Buildings is \$150 000.

- (a) Prepare the General Journal entry to record the revaluation of Land on 31 March 2016 by SHR Ltd.

**Superstrength House Removals Limited
General Journal**

31/3/2016	Land	120 000	
	Land Revaluation Surplus		120 000
	<i>To record land valuation by Notable Valuations</i>		

- (b) Show the revaluation of SHR Ltd's yard buildings on 31 March 2016 in the General Ledger account below. The opening balance has been entered for you.

**Superstrength House Removals Limited
General Ledger: Yard buildings**

31/3/2016	Balance				
			60 000	Dr	
	Accumulated Depreciation of Yard Buildings	21 000	39 000	Dr	
	Yard Buildings Revaluation Surplus	111 000	150 000	Dr	

- (c) Use the relevant information from above and the additional information below to prepare the Property, Plant and Equipment Note (Extract) to the financial statements for SHR Ltd as at 31 March 2016.

Additional account balances on 31 March 2016.

	Debit	Credit
Vehicles	950 000	
Accumulated depreciation: vehicles		1180 000 570 000

Dep on vehicles 180 000

Additional information:

- ✓ Depreciation on the vehicles for the year is \$180 000 and has yet to be recorded.
- ✓ During the year, vehicles that had cost \$210 000 were sold for \$190 000. These vehicles had a carrying amount of \$84 000.
- ✓ Replacement vehicles were purchased during the year.

Property, Plant and Equipment Note (Extract)

	Land NZ\$	Yard Buildings NZ\$	Vehicles NZ\$
For the year ended 31 March 2016			
Opening carrying amount	450 000		364 000
Additions	0	0	210 000
Disposals	0	0	210 000 84 000
Depreciation	0	3 000	180 000
Revaluation	120 000		0
Closing carrying amount	570 000	150 000	314 000 150 000
As at 31 March 2016			
Cost / Revaluation	570 000	150 000	200 000
Accumulated Depreciation	0	0	575 000
Closing Carrying Amount	570 000	150 000	314 000 150 000

- (d) SHR Ltd owns shares in Mainfreight Limited that were purchased for a fair value of \$10 000. These shares are designated as Financial Assets; and as at 31 March 2016, the current market value was \$15 000.

Identify how shares in Mainfreight Limited are reported in the financial statements of SHR Ltd, and justify the impact that this revaluation will have on Profit for the Year and Net Assets.

The increase in fair value of the Shares in Mainfreight Limited will cause SHR Ltd's to increase by \$5000 to become \$15,000 ^{in the trial balance (debit)} which will be reported in the Statement of Financial Position as a Investment Asset (Non-current Asset).

An account called increase in fair value of financial assets will also be created and credited \$5000 in the trial balance. This account is classified as Owners Equity, so therefore will be reported as owners equity in the Statement of financial position. This revaluation will therefore increase profit for the year by \$5000, to account for the Shares in Mainfreight Limited increasing. Then the Net Assets will increase by owners Equity will be added accounted for which will cause an additional \$5000 increase of \$5,000. ~~The net assets would have increased an additional \$10,000 in total~~

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QUESTION TWO

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

- (a) On the next page, complete Janet and John's Shoebox Limited's Statement of Cash Flows for the year ended 31 March 2016.

Show working in the space provided. This may be used for marking purposes.

WORKING

<p><u>Operating</u> <u>Acc Rec</u></p> <p>OB 125000 + Sales 890000 - Dis - EB 132150 <hr/>1147150</p>	<p><u>Tax</u></p> <p>3000 + 105000 - 5500 <hr/>102500</p>	<p><u>Acc Payable</u></p> <p>OB 55000 + COGS 365000 - Dis 2500 - EB 44000 <hr/>365000</p>
<p><u>Investing</u></p>	<p><u>Inventory</u></p> <p>80000 + 355000 - 90000 <hr/>365000</p>	
<p><u>Financing</u></p>		

Janet and John's Shoebox Limited
Statement of Cash Flows for the year ended 31 March 2016

	NZ\$	NZ\$	NZ\$
Operating			
INFLOW of Cash			
Accounts Receivable	1147150		
Other Income Total Inflow		1147150	
OUTFLOW of Cash			
Accounts Payable	100000		
Other Expenses	125000		
Interest	12000		
Tax	102500		
Employment Benefit			
Total Outflow		239500	
Total Cash from Operating			907650
INVESTING			
Inflow of Cash			
Decrease in <u>Equipment</u>	9000		
OUTFLOW of Cash			
Increase in <u>Vehicles</u>	59000		
FINANCING			
FINANCING			
INFLOW of Cash			
OUTFLOW of Cash			
Share Repurchase			
Dividends Paid			
As ...			
Opening Balance			
Closing Balance			

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(b) Explain, with detailed reasons, why the cash figure you have entered for Dividends Received in the Statement of Cash Flows is different from the figure reported in the Income Statement for Janet and John's Shoebox Limited (JJS Ltd) for the year ended 31 March 2016.

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QUESTION THREE

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

(a) Complete the Income Statement for Permanent Pest Solutions Limited for the year ended 31 March 2016.

Note: You are NOT required to produce any supporting Notes to the Income Statement.

Permanent Pest Solutions Limited
Income Statement for the year ended 31 March 2016

	NZ\$	NZ\$
Revenue		
Fees Received	4	425000
OTHER INCOME		
Discount Received		1000
Total Income		426000
EXPENSES		
Auditors Remuneration	6500	
Bad Debts	2475	
Cost of Chemicals used	100250	
Employment Benefit	135500	
Finance Costs	12900	
Office Expenses	45000	
Phone and internet Charges	8500	
Rent of depot	37500	
Vehicle Expenses	19845	
Depreciation	16100	
Income tax Expense	13050	
Doubtful Debts	225	
Total Expenses		397845
Profit before tax		28155
Income Tax Expense		13050
		\$15105

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(b) Complete the Distributions Note to the Financial Statement.

Permanent Pest Solutions Limited
Notes to the Financial Statement for the year ended 31 March 2016

Distributions	Cents per share	NZ\$
Final Dividend (2015)	12¢	12000
Interim Dividend (2016)	23¢	23000
Total Dividend		35000
Share Repurchase		20000
Total Distributions		55000

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(c) On 10 April, directors of Permanent Pest Solutions Limited (PPSL) declared a final dividend of 20 cents per share for the year ended 31 March 2016 on all shares held at this date, to be paid on 20 May 2016.

(i) Complete the Final Dividend note for the year ended 31 March 2016.

~~A final dividend~~ The directors of PPSL declared a final dividend of 20 cents per share for the year ended 31 March 2016 on all shares held at this date, to be paid on 20 May 2016. PPSL will pay out \$24000 of shares on 20 May 2016.

(ii) Explain why the final dividend for the 2016 financial year is treated as a note in the Financial Statements of Permanent Pest Solutions Limited.

The Final Dividend for the 2016 financial year is ~~paid~~ treated as a note because ~~it is to be paid in the next financial year~~ this financial year was from the 1 April 2015 to the 31 March 2016. ~~Due to the final dividend~~ being paid on 20 May 2016, that puts it in the next financial year. Therefore it is to be

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~~paid~~ ^{paid for and recorded} in the next financial year. ~~However~~ Therefore the note is only to alert shareholders of when ~~it~~ and how much the next dividend paid out will be.

M5

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

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QUESTION NUMBER

Achievement exemplar for 91406 2016		Total score	12
Q	Grade score	Annotation	
1	M5	This is an M5 because it shows understanding in Q1(d) and sufficient understanding of processing and the format of a property, plant and equipment note. It is not sufficient for an M6 because Q1(d) is not at an in-depth understanding.	
2	N2	This is an N2 because the candidate made no attempt to answer Q2(b) and showed understanding only of how to complete most of the operating activities section of the Statement of Cash Flows.	
3	M5	This is an M5 because it shows understanding in Q3(c) and sufficient understanding of the Income Statement and Distributions note. It is not sufficient for an M6 because Q3(c) is not at an in-depth understanding.	