

91406



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## 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.**

**Excellence**

**TOTAL**

**23**

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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                           | 60 000  |        |
| Accumulated depreciation: yard buildings |         | 18 000 |

SHR Ltd depreciates the Yard Buildings at 5% using the straight-line method. 2000

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 |
| To record land valuation by Notable Valuations |                          |         |         |

- (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     | 21 000  | 39 000  |        | DR |
|           | Building 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 |         | 570 000 |

**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<br>NZ\$ | Yard Buildings<br>NZ\$ | Vehicles<br>NZ\$ |
|---|--------------|------------------------|------------------|
| <b>For the year ended 31 March 2016</b> |              |                        |                  |
| Opening carrying amount                 | 450 000      | 42 000                 | 364 000          |
| Additions                               | 0            | 0                      | 850 000          |
| Disposals                               | 0            | 0                      | 84 000           |
| Depreciation                            | 0            | 3 000                  | 180 000          |
| Revaluation                             | 120 000      | 111 000                | 0                |
| Closing carrying amount                 | 570 000      | 150 000                | 950 000          |
| <b>As at 31 March 2016</b>              |              |                        |                  |
| Cost or valuation                       | 570 000      | 150 000                | 1 520 000        |
| Accumulated Depreciation                |              |                        | 570 000          |
| Closing carrying amount                 | 570 000      | 150 000                | 950 000          |

- (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 treatment of the shares in Mainfreight Limited from \$10 000 to \$15 000 is where shares is debited by \$5 000 (the difference between market value and value at purchase) and increase in fair value of financial assets is credited by \$5 000. This is to recognise the increase of shares to its fair value of \$15 000. Current asset Financial assets will increase by \$5 000 in SHR Ltd's Statement of Financial Position, thereby increasing total assets, and thus increasing net assets. At the same time, other income (increase in fair value of financial assets) will increase by \$5 000 in SHR Ltd's Income Statement, thereby increasing income (to be greater than total liabilities) and thus increasing the difference between income and expenses) and resulting in an increased / greater profit for the year. This is because the increase in fair value of \$5 000 represents the realised gain on shares due to the liquid nature of stock.

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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      | 12              | 12 000 |
| Interim Dividend    | 23              | 23 000 |
| Total Dividends     |                 | 35 000 |
| Share repurchase    |                 | 30 000 |
| Total Distributions |                 | 65 000 |

- (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.

On the 10 April, the directors of PPSL declared a final dividend of 20 cents per share, totalling \$16 000 to be paid 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 of \$16 000 is treated as a note because no accounting ~~treatment~~ <sup>distribution</sup> occurs as the ~~payment~~ <sup>distribution</sup> relates to the next accounting period and not this financial year. PPSL is under no obligation to pay the \$16 000 dividends on balance day of 2016, however, the note advises shareholders what dividends will be paid (how much) in the following financial year and when, as a reward and to provide return for the shareholders for investing in PPSL based on the number of shares they own. //

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

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| Excellence exemplar for 91406 2016 |             | Total score   | 23 |
|------------------------------------|-------------|---|----|
| Q                                  | Grade score | Annotation  |    |
| 1                                  | E7          | This is an E7 because it shows comprehensive understanding with minor errors in the Property, plant and equipment note. |    |
| 2                                  | E8          | This is an E8 because it shows comprehensive understanding with no errors.  |    |
| 3                                  | E8          | This is an E8 because it shows comprehensive understanding with minimal errors.   |    |