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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.**

Merit

TOTAL

19

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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	570 000	450 000
Yard buildings	60 000	
Accumulated depreciation: yard buildings		21 000

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
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 on Yard Buildings	21 000	39 000	Dr	
	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		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	Yard Buildings	Vehicles
	NZ\$	NZ\$	NZ\$
<b>For the year ended 31 March 2016</b>			
Opening carrying amount	450 000	42 000	364 000
Additions	0	0	100 000
Disposals	0	0	84 000
Depreciation	0	3 000	180 000
Revaluation	120 000	111 000	0
Closing carrying amount	570 000	150 000	200 000
<b>As at 31 March 2016</b>			
Cost or valuation	570 000	150 000	950 000
Accumulated Depreciation	-	-	750 000
Closing carrying Amount	570 000	150 000	200 000

- (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 current market value of SHR Ltd's shares in *Mainfreight Limited* is \$5 000 more than the purchase price (\$15 000 - \$10 000 = \$5 000). This increase will be reported in the Income Statement as an 'Increase in fair value of financial assets'. This will have an impact on the profit for the year of SHR Ltd because it is classified as an 'Other Income' which increases the total income of SHR Ltd and therefore increases profit for the year. The Net Assets will be increased as the increase in fair value of the shares increases the *Mainfreight Ltd* share value in the Statement of Financial Position. The shares in *Mainfreight Ltd* will be reported as \$15 000 and therefore increasing Total Assets which increases Net Assets //

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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.

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WORKING

LY = Last Year TY = This Year

Cash from customers

- + 125 000 LY Accounts Rec
- + 890 000 Sales
- 3000 Bad Debts
- 132 150 TY Accounts Rec
- = 879 850

Other Income - Dividends

- + 500 LY Accrued Inc
- + 2500 Dividends Received
- 1000 TY Accrued Inc
- = 2000

Payments to suppliers

(Purchases = COGS - <sup>TY</sup> Inventory + <sup>LY</sup> Inventory)

- 350 000 - 80 000 + 40 000
- = 310 000

- + 55 000 LY Accounts Pay
- + 345 000 Purchases
- 40 000 TY Accounts Pay
- = 360 000

General expenses

- + 125 000 general expenses

Interest

- + 12 000 Interest on loan

Taxation

- + 3000 LY Tax Payable
- + 105 000 Tax expense
- 5500 TY Tax Payable
- = 102 500

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

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	NZ\$	NZ\$	NZ\$
Cash From Operating			
Cash was provided from:			
Cash Received from customers	879 850		
Other Income - Dividends Received	2000	881 850	
Cash was applied to:			
Payments to Suppliers	360 000		
General expenses	125 000		
Interest	12 000		
Taxation	102 500	599 500	
Net inflow of cash from operating			282 350

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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.

The cash figure in the Income Statement for Janet and John's Shoe Box Limited is ~~426000~~ for finance costs for other income is \$4000 which is different

The figure for Dividends Received in the Note 3 (Finance costs) to the Income statement for JJS Ltd for the year ended 31 March 2016 is \$2500 but the Dividends Received in the cash Flow Statement is \$2000. This is because JJS Ltd have accrued income for Dividends Received of \$500 in 2015 and \$1000 in 2016. The income statement shows the inflow and outflow of income whereas a cash statement shows the inflow and outflow of cash. The Accrued Income - Dividends Received in 2015 is added to the Dividends received amount (\$2500 + \$500) because the income owing will be paid during this accounting period. The accrued income - Dividends received for 2016 is then subtracted from the figure because it is still owing and therefore the cash has not been received by JJS Ltd (\$2500 + \$500 - \$1000). The cash figure for dividends received then ~~total~~ totals \$2000 which is the figure shown in the Statement of Cash Flows for 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	425000	
Other Income	1000	
Total Income		426000
Less expenses:		
Auditor's Remuneration	6500	
Bad Debts	2475	
Cost of Chemicals Used	99000	
Employee Wages	135500	
Office Expenses	45000	
Phone and Internet Charges	8500	
Rent of Depot	7500	
Vehicle expenses	19845	
Doubtful Debts Expense	225	
Depreciation	16100	
Finance Costs	12900	
Total expenses		353545
Profit Before Tax		72455
Income Tax expense		13050
Profit for the Year		59405

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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 Dividends		35000
Share Repurchase		30000
Total Distributions		65000

- (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 10 April 2016, the directors approved a final dividend of 20 cents per share, totalling ~~160~~ \$16000 ( $0.2 \times 80000$ ) to be paid to the shareholders 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 treated as a note to the Financial Statements of *Permanent Pest Solutions Limited* because the dividends have not been paid to the shareholders yet. They are declared to be paid on 20 May 2016 which is after the reporting date of 31 March 2016 and therefore does not relate to the current accounting period. It is included in the notes to the current Financial Statements because it relates to all the shareholders holding shares as at 31 March 2016, and therefore must be declared in the current statements that relate to 31 March 2016.

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

QUESTION  
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<b>Merit exemplar for 91406 2016</b>			<b>Total score</b>	<b>19</b>
<b>Q</b>	<b>Grade score</b>	<b>Annotation</b>		
1	E8	This is an E8 because it shows comprehensive understanding with no errors.		
2	A3	This is an A3 because the candidate demonstrated comprehensive understanding of why dividends figure differed between the Statement of Cash Flows and Income Statement but completed only the operating activities section with errors in the Statement of Cash Flows. The candidate showed no understanding of how to complete the investing and financing sections.		
3	E8	This is an E8 because it shows comprehensive understanding with minimal errors.		