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90501

NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

National Certificate of Educational Achievement
TAUMATA MĀTAURANGA Ā-MOTU KUA TAEA

Level 3 Accounting, 2006

90501 Process financial information for partnerships and companies

Credits: Three
2.00 pm Thursday 23 November 2006

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 answer ALL the questions in this booklet.

If you need more space for any answer, use the page(s) provided at the back of this booklet and clearly number the question.

Check that this booklet has pages 2–7 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.

For Assessor's use only	Achievement Criteria	
Achievement	**Achievement with Merit**	**Achievement with Excellence**
Prepare and / or explain accounting entries correctly for partnerships and companies.	Prepare and / or explain a range of accounting entries correctly for partnerships and companies.	Prepare and explain a wide range of accounting entries correctly for partnerships and companies.
Overall Level of Performance		

You are advised to spend 25 minutes answering the questions in this booklet.

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QUESTION ONE: PROCESSING FOR PARTNERSHIPS

Charlie Rivers and Holly Todman own *Rockmusic* in partnership. *Rockmusic* offers lessons for guitar and drums, and has a recording studio for musicians to record CDs. The business is registered for GST on the invoice basis.

The following trial balance extract and additional information relate to *Rockmusic* for the year ended 31 March 2006.

Rockmusic
Trial Balance (extract)
as at 31 March 2006

Current – Charlie Rivers	3 000	Capital – Charlie Rivers	140 000
Drawings – Charlie Rivers	40 000	Capital – Holly Todman	125 000
Drawings – Holly Todman	50 000	Current – Holly Todman	7 000

Additional information

1. On 1 October 2005, Holly transferred $10 000 from her current account to her capital account.
2. On 1 January 2006, Charlie contributed an additional $20 000 cash to the partnership.

Charlie Rivers and Holly Todman have the following profit-sharing **clauses** in their Partnership Agreement.

1. Salaries to partners: Charlie Rivers $40 000, Holly Todman $30 000.
2. Interest on drawings: 10% of the amount above agreed salaries.
3. Interest on current accounts: 10% per annum on opening balances.
4. Interest on capital accounts: 10% per annum on average monthly capital balances.
5. Equal share of residual profit.

(a) Complete the General Journal entries indicated by the narrations in the General Journal below.

Rockmusic
General Journal

01/01/06			
	Charlie Rivers' contribution of $20 000 cash to the partnership		
31/03/06			
	Transfer Charlie Rivers' interest on current account to his current account		

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(b) Complete Holly Todman's current account in the General Ledger **from 1 April 2005 to 31 March 2006**. Record Holly's share of the residual profit as $9 050.

Rockmusic
General Ledger
Current – Holly Todman

(c) Explain why Charlie and Holly have included the following profit sharing clause in their partnership agreement:
"Interest on drawings: 10% of the amount above agreed salaries".

(d) Charlie is the main provider of drum lessons. As these generate a significant portion of the total revenue of *Rockmusic,* Charlie and Holly have agreed that Charlie should be rewarded for his contribution to lesson revenue.

Write a suitable one-sentence **profit sharing clause** to achieve this. You are NOT required to explain your clause.

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QUESTION TWO: PROCESSING FOR COMPANIES

Aria Music Ltd had the following account balances on 1 July 2005.

	Debit	Credit
	$000	**$000**
Contributed Equity		3 240
Buildings Revaluation Reserve		151
Retained Earnings		2 150
Buildings	950	
Accumulated Depreciation on Buildings		38

At 1 July 2005, contributed equity comprises 1 400 000 fully paid shares.

The following information relates to the year ended 30 June 2006.

1. A final dividend of 20c per share for the year ended 30 June 2005 was paid to shareholders on 17 August 2005.
2. On 31 October 2005, $420 000 was received and banked for the issue of an additional 100 000 shares.
3. On 30 June 2006, the company's buildings were valued by KR Olsen MIVNZ, an independent registered valuer. The valuation determined the fair market value of the buildings to be $990 000. Depreciation on buildings is 2% per annum straight line.
4. Profit after tax for the year ended 30 June 2006 amounted to $670 000.
5. On 31 July 2006, directors declared a final dividend of 30c per share for the year ended 30 June 2006, to be paid on 16 August 2006.

(a) Show the General Journal entry necessary to record the issue of shares on 31 October 2005. A narration is not required.

Aria Music Ltd
General Journal

		$000	**$000**
31/10/05			

(b) Complete the General Ledger account for the final dividend for 2005 including the closing entry. **Dates are required**.

Aria Music Ltd
General Ledger
Final Dividend (2005)

		$000	**$000**	**$000**	

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(c) Complete the Retained Earnings General Ledger account from 1 July 2005 to 30 June 2006. The opening balance has been entered for you.

Aria Music Ltd
General Ledger
Retained Earnings

		$000	**$000**	**$000**	
01/07/05	Balance			2150	Cr
30/06/06					

(d) Complete the General Journal entries relating to the buildings, indicated by the narrations in the General Journal below. **Do not abbreviate account names**.

Aria Music Ltd
General Journal

		$000	**$000**
30/06/06			
	Record depreciation expense on buildings for the year		
30/06/06			
	Transfer accumulated depreciation on buildings to buildings		
30/06/06			
	Revalue buildings to their current independent fair value		

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(e) Explain why it is necessary for *Aria Music Ltd* to get an independent registered valuer to revalue their buildings.

(f) Equity is simply the difference between assets and liabilities.

Explain why *Aria Music Ltd* has chosen to keep a Contributed Equity account separate from the Retained Earnings account, even though this is not required by the Companies Act 1993.

Extra paper for continuation of answers if required.
Clearly number the question.

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Question number