

90501



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

For Supervisor's use only

Level 3 Accounting, 2010

90501 Process financial information for partnerships and companies

Credits: Three

9.30 am Thursday 25 November 2010

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

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 2–11 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.

<i>For Assessor's use only</i>		Achievement Criteria			
Achievement		Achievement with Merit		Achievement with Excellence	
Prepare and/or explain accounting entries correctly for partnerships and companies.	<input type="checkbox"/>	Prepare and/or explain a range of accounting entries correctly for partnerships and companies.	<input type="checkbox"/>	Prepare and explain a wide range of accounting entries correctly for partnerships and companies.	<input type="checkbox"/>
Overall Level of Performance <input style="width: 40px;" type="checkbox"/>					

You are advised to spend 30 minutes answering the questions in this booklet.

QUESTION ONE: PROCESSING FOR PARTNERSHIPS

On 1 April 2009, Antonio and Aroha agreed to form a partnership to expand Antonio's sole proprietor Italian pizza parlour to include the sale of gelato ice-cream.

They agreed to call their new business *AA's Pizza and Ice-cream*.

Antonio's pizza business has the following assets, liabilities, and equity on 1 April 2009:

Assets			Liabilities	
Bank		9 500	Accounts payable	1 900
Cooking supplies		1 500	GST payable	4 100
Cooking equipment (cost)	50 000		Mortgage (10 % due 2015)	200 000
Less accumulated depreciation	(9 000)	41 000		
Shop fittings (cost)	15 000			
Less accumulated depreciation	(3 000)	12 000	Equity	
Buildings (cost)	300 000		Capital	150 000
Less accumulated depreciation	(8 000)	292 000		
		\$356 000		\$356 000

The following are the terms of agreement between Antonio and Aroha:

- Antonio's bank account in his sole proprietor's business is not to be taken through to the partnership.
- Antonio will personally pay the GST owing.
- All other assets and liabilities are to be taken over at carrying amounts except for the following:
 - Cooking equipment has an agreed value of \$39 000.
 - Buildings has an agreed value of \$305 000.
- Antonio's contribution to the partnership has an agreed value of \$160 000.
- Aroha will invest refrigeration equipment and supplies valued at \$30 000 and sufficient cash to make her capital contribution 20 % of the **total capital** of the partnership.

- (a) (i) Show the general journal entries necessary to record the introduction of:
- Antonio's assets and liabilities at their agreed values
 - Aroha's refrigeration equipment and supplies and cash contribution.

**AA's Pizza and Ice-cream
General Journal**

01/04/09			
	<i>(to record Antonio's contribution)</i>		
	<i>(to record Aroha's contribution)</i>		

- (ii) Goodwill is included in the assets of AA's Pizza and Ice-cream. Explain what this goodwill represents for the new partnership. You are **not** required to discuss how goodwill is calculated.

(b) Antonio and Aroha included the following profit-sharing clauses in their partnership agreement:

- Salaries to partners: Antonio \$30 per hour, Aroha \$20 per hour
- Interest on capital: 8 % on opening balance
- Interest on current: 5 % charged / credited on opening balance
- Interest on drawings: 10 % per annum
- Bonus to Antonio: 20 % of the amount of pizza sales above \$180 000
- Bonus to Aroha: 15 % of the amount of ice-cream sales above \$45 000
- Residual profits and losses: to be shared between Antonio and Aroha in a ratio of 3:2, respectively.

The following are extracts from the accounting records of *AA's Pizza and Ice-cream*:

AA's Pizza and Ice-Cream
Trial Balance (extract)
as at 31 March 2010

Drawings – Antonio	45 000	Pizza sales	190 000
Drawings – Aroha	23 000	Ice-cream sales	50 000

AA's Pizza and Ice-Cream
General Journal (extract)

31/03/10	Profit distribution	71 600	
	Current – Antonio		46 800
	Current – Aroha		24 800
	(partner's salaries)		

- (i) Explain why in the Trial Balance of *AA's Pizza and Ice-cream* as at 31 March 2010 there will be **no** opening current account balances for either Antonio or Aroha.

- (ii) Calculate the total amount of hours that Aroha worked for the year ended 31 March 2010.

_____ hours

- (iii) Use the profit-sharing clauses and the extracts from the accounting records of AA's *Pizza and Ice-cream* to complete Antonio's current account for the year ended 31 March 2010.

**AA's Pizza and Ice-cream
General Ledger
Current – Antonio**

31/03/10	Interest on capital		12 800	12 800	Cr
	Share of profit		15 600	28 400	Cr

- (iv) Calculate the **total amount of residual profit** for the year ended 31 March 2010 that was shared to the partners, after all other profit-sharing clauses had been accounted for.

\$ _____ residual profit

QUESTION TWO: PROCESSING FOR COMPANIES

Dress U Well Ltd is a retailer of designer fashion clothing. At 1 April 2009, *Dress U Well Ltd's* contributed equity consists of 400 000 shares, with a total value of \$1 280 000.

- (a) Show the General Journal entry to record the payment of the 2009 final dividend of **12 cents per share** on 15 May 2009 by *Dress U Well Ltd*. A narration is not required.

Dress U Well Ltd
General Journal

15/05/09			

On 26 June 2009, the directors of *Dress U Well Ltd* entered into an agreement for the purchase of *Trenz Clothing Ltd*, an online clothing company. *Trenz Clothing Ltd* has accounts receivable with a historical cost of \$30 000 and an allowance for doubtful debts of \$750. It has been determined that:

- *Trenz Clothing Ltd's* accounts receivable has an agreed fair value of \$29 100.
- The purchase price of *Trenz Clothing Ltd* will be at an agreed fair value of \$350 000.

- (b) **Complete** the General Journal entry below by entering the missing figures to show the takeover of *Trenz Clothing Ltd* by *Dress U Well Ltd*.

Dress U Well Ltd
General Journal

26/06/09	Inventory	325 000	
	Accounts receivable		
	Goodwill		
	Allowance for doubtful debts		
	Accounts payable		31 100
	Vendor – <i>Trenz Clothing Ltd</i>		350 000

- (c) Explain why accounts receivable has been recorded at its agreed fair value.

The takeover settlement of *Trenz Clothing Ltd* is by the issue of 100 000 shares at a fair value of \$3.30 each on 26 June 2009, with the remaining balance payable in cash on 1 July 2009.

- (d) Show the **takeover settlement** of *Trenz Clothing Ltd* on 26 June 2009 and 1 July 2009 in the General Ledger account below.

Dress U Well Ltd
General Ledger

Vendor – *Trenz Clothing Ltd*

26/06/09	Inventory/Accounts receivable/Goodwill		350 000	350 000	Cr

- (e) The General Journal entry below shows the repurchase of shares by *Dress U Well Ltd* at a fair value of \$4.00.

Dress U Well Ltd
General Journal

19/08/09	Contributed equity	32 000	
	Retained earnings	8 000	
	Bank		40 000

State the number of shares repurchased by *Dress U Well Ltd*.

_____ shares

On 1 January 2010, a public issue of 70 000 *Dress U Well Ltd* shares at a fair value of \$3.80 per share was undertaken by *Sharecorp*. The brokerage fee was agreed at 4.5% of the total value of the shares issued.

By 31 January 2010, all 70 000 shares were fully paid for on application. On 2 February 2010, *Sharecorp* paid *Dress U Well Ltd* the agreed amount for the share issue.

- (f) Use the share issue information above and any other **relevant** information from (a) to (e) to show the Contributed Equity account from 1 April 2009 to 31 March 2010. The opening balance has been entered for you.

Dress U Well Ltd
General Ledger
Contributed Equity

01/04/09	Balance			1 280 000	Cr

- (g) On balance day, 31 March 2010, the following General Journal entry occurred for *Dress U Well Ltd*. Describe what this transaction represents.

Dress U Well Ltd
General Journal

31/03/10	Income summary	300 000	
	Retained earnings		300 000

Description of transaction:

An independent revaluation of *Dress U Well Ltd's* Land was received on 31 March 2010 which determined the land to have a fair market value of \$1 500 000.

- (h) Show the **revaluation** of *Dress U Well Ltd's* land on 31 March 2010 in the General Ledger account below.

Dress U Well Ltd
General Ledger
Land

31/03/10	Balance			1 400 000	Dr

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