Achieved Paper 2 **FG 4**

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

A Overall

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

Dr Cr

Current – Charlie Rivers	3000	Capital – Charlie Rivers	140000
Drawings – Charlie Rivers	40000	Capital – Holly Todman	125000
Drawings – Holly Todman	50000	Current – Holly Todman	7000

Additional information

1. On 1 October 2005, Holly transferred $10000 from her current account to her capital account.
2. On 1 January 2006, Charlie contributed an additional $20000 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 $40000, Holly Todman $30000.
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	Bank	20 000		S
	Capital - Charlie Rivers		20 000	S
	Charlie Rivers' contribution of $20000 cash to the partnership			
31/03/06	Current Account - Charlie Rivers	300		S
	Interest on Current Account		300	S C
	Transfer Charlie Rivers' interest on current account to his current account			

(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.

Assessor's use only

Rockmusic
General Ledger
Current – Holly Todman

		Dr	Cr	Bal	Dr/Cr	
1/4/05	Balance			7 000	cr	S
	Salarie		30 000	37 000	cr	S
	Interest on Capital		11 750	48 750	cr	S
	Interest on Current A/C		1700	51 450	cr	SC
	Interest on Drawings	2000		49 450	cr	SC
	Profit Share		9 050	58 500	cr	S
						—
						—
						—

the balance grade is not awarded as only 5 entries are in correct DR/CR columns

(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".

As a dissinentive to withdraw too ~~much~~ ~~money~~ many funds from the partnership, above an agreed amount, else the partners will be charged interest. (must be in context for C) S

(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.

"The profit of Rockmusic will be distibuted 2/3 to Charlie and 1/3 to Holly" // Not a clause —

11s 3c

lacks C grades
can process (debits/credits) but not able to correctly calculate the amounts to record when these are not specifically provided

A

QUESTION TWO: PROCESSING FOR COMPANIES

Assessor's use only

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

	Debit	Credit
	$000	$000
Contributed Equity		3240
Buildings Revaluation Reserve		151
Retained Earnings		2150
Buildings	950	
Accumulated Depreciation on Buildings		38

At 1 July 2005, contributed equity comprises 1400000 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, $420000 was received and banked for the issue of an additional 100000 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 $990000. Depreciation on buildings is 2% per annum straight line.
4. Profit after tax for the year ended 30 June 2006 amounted to $670000.
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	Bank	420		S
	Contributed Equity		420	S

(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)

no S so no C
can't get C if didn't get S

		$000	$000	$000	
30/6/05	Retained Earnings	280		280	Dr
17/8/05	Bank	280	~~280~~	560	Dr
30/6/06	Income Summary		280	280	Dr

wrong stem, doesn't close the account

while second entry is correct the first makes it wrong - can't have 2 goes at entering the $280

Assessor's use only

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

Wrong number and no ft - 280 is in Final Dividend A/c

Aria Music Ltd
General Ledger
Retained Earnings

		$000	$000	$000	
01/07/05	Balance			2150	Cr
30/06/06 Final	Dividend	~~280~~ 450		~~1870~~ 1700	Cr
30/06/06	Income Summary		670	2370	Cr S

(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	Depreciation- Buildings	19	S C
	Accumulated Depreciation - Buildings		19 S
	Record depreciation expense on buildings for the year		
30/06/06	Accumulated Depreciation - Buildings	170	S
	Buildings		170 S
	wrong figure correct	stems/columns	
	Transfer accumulated depreciation on buildings to buildings	so only	lose C
30/06/06	Buildings	210	S
	Buildings Revaluation Reserve		210 S
	Revalue buildings to their current independent fair value		

Again student can process but can't calculate correct figures.

This makes for an Achieved student.

such an amount would only [6] makes answer wrong exist if the building was sold

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

Assessor's use only

To ensure that buildings are reported at their correct market value, and to get a qualified registered valuer to make the estimate based upon their professional judgment. //

no reference to fair value / reliable measure

(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.

So as to have to a separate record of the earnings Aria Music Ltd has generated to the records of shares issued to the owners. //

In (f) could only get SC or nothing so this is nothing

retained profit or retained earnings

earnings implies all revenue or all profit not just retained profit

Q2

9S 1C

A.