Excellence Paper[2] QP1B

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

QUESTION ONE: PROCESSING FOR PARTNERSHIPS

E overall

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	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.

opening Charlie

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

Rockmusic
General Journal

Date	Particulars	Dr $NZ	Cr $NZ
01/01/06	Bank	20000	
	Capital - Charlie Rivers		20000
	Charlie Rivers' contribution of $20000 cash to the partnership		
31/03/06	Current - Charlie Rivers	300	
	Income Summary		300
	Transfer Charlie Rivers' interest on current account to his current account		

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loses S so can't get C (can only get C if both S correct)

(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 $9050.

Assessor's use only

Rockmusic
General Ledger
Current – Holly Todman

Date	Particulars	Dr $NZ	Cr $NZ	Balance		
1/4/05	Balance			17000	Cr	SC
1/10/05	Capital - Holly Todman	10000		7000	Cr	SC
31/3/06	Salaries		30000	37000	Cr	S
	Interest on drawings	2000		35000	Cr	SC
	Interest on ~~capital~~ current		1700	36700	Cr	SC
	Interest on capital		12000	48700	Cr	SC
	~~Drawings~~ Share of residue		9050	57750	Cr	S
	Drawings	50000		7750	Cr	SC

(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".

Charlie and Holly have included the ~~following~~ interest on drawings clause to disgourage each other from making drawings for peronal uses from the partnership.

needs to refer to 'exessive' or 'extra' above agreed salary'

(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.

"Bonus to Charlie Rivers is at 10% of the amount of drum lesson ~~above the~~ income above of $70000."

SC

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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	
	Contributed equity		420

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(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	
1/8/05 ~~30/6/05~~	Bank		280	280	Cr
	Retained Earnings	280		0	

a date would have made this closing entry correct, even though the first entry is wrong

(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	~~[illegible]~~ NSAT	~~[illegible]~~	670	2820 ~~[illegible]~~	~~Cr~~ U
17/8/05	Final Dividend	280		2540	Cr

(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 on Buildings	19	
	Accumulated Depreciation Buildings		19
	Record depreciation expense on buildings for the year		
30/06/06	Buildings	57	
	Accumulated Depreciation Buildings		57
	Transfer accumulated depreciation on buildings to buildings		
30/06/06	Buildings	97	
	Building Revaluation Reserve		97
	Revalue buildings to their current independent fair value		

Assessor's use only
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SC

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

Assessor's use only

be cause they are a neutal person and therefore there will be no bias in their overall valuation of the buildings SC

(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 that the share issue and profit after distributions could be shown seperatly. SC

Q2
10S 5C

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but 2 grades (in fact 4) come from (e) a (f) thus allowing the student to gain E overall when combined with the E in question One.