Bascially this student ends up with an M overall because they cannot answer explain questions in context and they have some basic processing errors

Merit Paper FG1

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

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.

M A M J J A S O
A M M J J J A A S O

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.

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

Rockmusic
General Journal

		Dr	Cr
01/01/06	Bank	20,000	
	~~Current~~ Capital - Charlie Rivers		20,000
	Charlie Rivers' contribution of $20000 cash to the partnership		
31/03/06	Interest on Current account	300	—
	Current - Charlie Rivers	—	300
	Transfer Charlie Rivers' interest on current account to his current account		

S
S

Overall
M

(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

		Dr	Cr	Bal		
1/4/05	Balance			~~17~~,000	Cr	SC
1/10/05	Capital - Holly Todman	10,000		7,000	Cr	SC
31/3/06	Salories		30,000	37,000	Cr	S
	Interest on drawings	2,000		35,000	Cr	SC
	Interest on current		1700	36,700	Cr	SC
	Interest on Capital wrong figure correct column no C		1000	37,700	Cr	S –
	Drawings	50,000		12 300	Dr	S
	~~Distribution of profit~~	9050		3250	Dr	
	(Profit Distribution Summary)					C

right figure wrong column is nothing

6 items 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"

To discourage Charlie and Holly to take more money out of Rockmusic than they are entitled to ~~[illegible]~~ from the work they have done for Rockmusic. // no direct link to partners agreed salaries no 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.

Bonus : Charlie 10% of total sales revenue. //

must refer to drum lesson revenue

This question gains M and because it does not have 2 grades from (c) and (d) it is not sufficient to award E overall with the E from question 2.
To get E student needed to be better at explaining E requires explaining

Q1
10S5C
M

PTO

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
	Paid-in Capital		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)

		$000	$000	$000		
17/8/05	Bank	280		280	Dr	SC
	Retained earnings		280	0		—

a date was required for this grade

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

Assessor's use only

Aria Music Ltd
General Ledger
Retained Earnings

		$000	$000	$000	
01/07/05	Balance			2150	Cr
30/06/06	Performance Summary		670	2820	Cr
	Final Dividend	280		2540	Cr

S
SC

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

S
SC
S
SC
S
SC

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

Assessor' use only

~~This is an~~ ~~[illegible]~~, This is because it is a companies requirement to have an independent valuer when an asset is revalued, and this is so any revaluation of Aria Music Ltds assets are created from an independent, neutral source, free of bias that may be generated from Aria Music Ltd revaluing their own assets.

Context required for C

S

(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.

- To show a clear distinction between the capital contributed from shareholders of ~~[illegible]~~ Aria Music themselves and the profit retained in Aria Music after all owner distributions, since the existence of Aria Music.
- So that outsiders can easily calculate important ratios that might influence their opinion of Aria Music, such as earnings per share.

SC

Q2
135 6C

E