

ANSWER ALL THREE QUESTIONS

44 marks in all

Answer ALL parts. Show all working and write explanations in full sentences, using accounting terms correctly and referring to the figures and the context given. Round money to the nearest dollar unless told otherwise. Classification headings are provided in the templates; enter amounts in the shaded boxes.

Formula sheet

Income tax expense = tax rate (28%) × taxable profit; taxable profit = profit before tax + non-deductible expenses (e.g. 50% of entertainment) + losses not yet deductible – non-taxable income. Taxation payable = income tax expense – provisional tax paid. GST: price excluding GST = price including GST ÷ 1.15; GST = price including GST × 3 ÷ 23. Retained earnings (closing) = opening + profit – dividends declared. Cash received from customers = sales including GST + opening receivables – closing receivables. Gain or loss on disposal = sale price (excluding GST) – carrying amount. Carrying amount = cost – accumulated depreciation.

Question One (15 marks)

(a) Pōhutukawa Outdoor Gear Limited is a company registered under the Companies Act 1993. Its balance date is 31 March 2026. The income tax rate is 28%.

Extracts from the trial balance before adjustments: Financial Assets at Fair Value (units in a managed fund) ; Provisional Tax Paid \$18 500 (debit balance, paid during the year) ; Taxation Payable (nil).

Additional information:

- At 31 March 2026 the fair value of the financial assets had fallen by \$4 000 since the last valuation.
- Profit before tax, after recording the fair value decrease, is \$223 500.
- Entertainment expense of \$2 800 is included in expenses; only 50% is deductible for income tax.
- The decrease in fair value is not deductible until the assets are sold.

Complete the following general journal entries (accounts, debit and credit amounts). Use account names from the trial balance extract; narrations are not required.

31/03/26 Record the decrease in fair value of the financial assets.

31/03/26 Record the income tax expense for the year and the amount of tax still payable (transfer the provisional tax already paid).

[5 marks]

(b) A friend says that Pōhutukawa Outdoor Gear Limited should report Taxation Payable of \$64 092 in the current liabilities section of its Statement of Financial Position at 31 March 2026, because that is the income tax expense for the year.

Explain in detail why your friend is incorrect. In your answer refer to relevant accounts and to the correct amount to report for taxation payable.

[4 marks]

(c) Harbourview Marine Supplies Limited is a GST-registered company (GST rate 15%) with a balance date of 31 March 2026. Complete the general journal entries for the three transactions below (GST applies where an amount is stated to include GST). Use sensible trial-balance account names; narrations are not required.

1. The dividend declared earlier of \$9 000 was paid to shareholders by direct credit.
2. Land with a carrying amount of \$670 000 was revalued upwards to its fair value of \$705 000.
3. Depreciation for the year on vehicles costing \$100 000 is 10% of cost using the straight-line method.

[6 marks]

THE WORKED ANSWERS TO THOSE 3 QUESTIONS

Question 1 (15 marks) [General journal entries]

(a) Pōhutukawa Outdoor Gear Limited is a company registered under the Companies Act 1993. Its balance date is 31 March 2026. The income tax rate is 28%. Extracts from the trial balance before adjustments: Financial Assets at Fair Value (units in a managed fund) ; Provisional Tax Paid \$18 500 (debit balance, paid during the year) ; Taxation Payable (nil). Additional information: • At 31 March 2026 the fair value of the financial assets had fallen by \$4 000 since the last valuation. • Profit before tax, after recording the fair value decrease, is \$223 500. • Entertainment expense of \$2 800 is included in expenses; only 50% is deductible for income tax. • The decrease in fair value is not deductible until the assets are sold. Complete the following general journal entries (accounts, debit and credit amounts). Use account names from the trial balance extract; narrations are not required. 31/03/26 Record the decrease in fair value of the financial assets. 31/03/26 Record the income tax expense for the year and the amount of tax still payable (transfer the provisional tax already paid).

(a) Answer: Dr Loss on FV \$4 000 / Cr Financial Assets \$4 000; Dr Income Tax Expense \$64 092 / Cr Provisional Tax Paid \$18 500 / Cr Taxation Payable \$45 592

- Evidence level: Achieved (records the fair value decrease and calculates taxable profit).
- Entry 1: Dr Loss on Fair Value of Financial Assets \$4 000; Cr Financial Assets at Fair Value \$4 000.
- Taxable profit = profit before tax \$223 500 + non-deductible entertainment \$1 400 (50% of \$2 800) + fair value loss \$4 000 = \$228 900.
- Income tax expense = $28\% \times \$228\,900 = \$64\,092$.
- Entry 2: Dr Income Tax Expense \$64 092; Cr Provisional Tax Paid \$18 500; Cr Taxation Payable \$45 592 (the balance, \$64 092 – \$18 500).

KEY TAKEAWAY

Income tax expense is based on taxable profit (accounting profit adjusted for non-deductible items), not on accounting profit.

(b) A friend says that Pōhutukawa Outdoor Gear Limited should report Taxation Payable of \$64 092 in the current liabilities section of its Statement of Financial Position at 31 March 2026, because that is the income tax expense for the year. Explain in detail why your friend is incorrect. In your answer refer to relevant accounts and to the correct amount to report for taxation payable.

(b) Answer: Correct taxation payable is \$45 592

- Evidence level: Excellence (explains the difference using the accounts and the correct amount).
- Taxation Payable = income tax expense – provisional tax paid = \$64 092 – \$18 500 = \$45 592.
- Achievement: Income tax expense of \$64 092 is an expense in the Statement of Comprehensive Income; it is not the amount still owed to Inland Revenue.
- Merit: Income tax expense of \$64 092 is an expense in the Statement of Comprehensive Income; it is not the amount still owed to Inland Revenue. The company has already paid provisional tax of \$18 500 during the year, so the liability is only the unpaid part.
- Excellence: Income tax expense of \$64 092 is an expense in the Statement of Comprehensive Income; it is not the amount still owed to Inland Revenue. The company has already paid provisional tax of \$18 500 during the year, so the liability is only the unpaid part. The Taxation Payable account balance is the tax expense \$64 092 less the Provisional Tax Paid \$18 500 = \$45 592, and this amount is reported as a current liability because it is due within 12 months. Reporting \$64 092 would overstate

current liabilities by \$18 500 (the provisional tax already paid), because the part of the tax that has already been paid is not owed any more.

KEY TAKEAWAY

A liability is only what is still owed at balance date: tax payable = tax expense less tax already paid.

(c) Harbourview Marine Supplies Limited is a GST-registered company (GST rate 15%) with a balance date of 31 March 2026. Complete the general journal entries for the three transactions below (GST applies where an amount is stated to include GST). Use sensible trial-balance account names; narrations are not required. 1. The dividend declared earlier of \$9 000 was paid to shareholders by direct credit. 2. Land with a carrying amount of \$670 000 was revalued upwards to its fair value of \$705 000. 3. Depreciation for the year on vehicles costing \$100 000 is 10% of cost using the straight-line method.

(c) Answer: (1) Dr Dividends Payable \$9 000, Cr Bank \$9 000; (2) Dr Land \$35 000, Cr Revaluation Reserve \$35 000; (3) Dr Depreciation Expense \$10 000, Cr Accumulated Depreciation – Vehicles \$10 000

- Evidence level: Achieved (records each entry with equal debits and credits).
- 1. Dr Dividends Payable \$9 000; Cr Bank \$9 000 Paying the dividend clears the liability, reducing both Dividends Payable and Bank.
- 2. Dr Land \$35 000; Cr Revaluation Reserve \$35 000 A revaluation gain on land goes to equity (a revaluation reserve) and to other comprehensive income, not to profit.
- 3. Dr Depreciation Expense \$10 000; Cr Accumulated Depreciation – Vehicles \$10 000 Depreciation is an expense that allocates cost over the asset's life; it is credited to accumulated depreciation, not to the asset.

KEY TAKEAWAY

Each journal entry balances: total debits equal total credits; use the account that matches what changed in each transaction.

LOS: General journal entries (91406)

Question 2 (14 marks) [Statement of Comprehensive Income and Statement of Financial Position]

(a) Southern Lights Electrical Limited is a trading company registered under the Companies Act 1993. The figures in the template come from its adjusted trial balance at 31 March 2026 (balance date). The income tax rate is 28%. Additional information: • Entertainment expense is only 50% deductible for income tax. • The loss on fair value of financial assets is not deductible until the assets are sold. • Dividends of \$24 000 were declared during the year. • The revaluation gain on land is recorded in other comprehensive income. Complete the Statement of Comprehensive Income. Calculate the income tax expense first. Notes are not required.

(a) Answer: Profit before tax \$185 800; income tax expense \$55 272; profit for the year \$130 528; total comprehensive income \$150 528

- Evidence level: Merit (calculates the subtotals and the income tax expense).
- Gross profit = \$900 000 – \$540 000 = \$360 000. Total income = \$360 000 + \$4 500 = \$364 500.
- Total expenses = 81 000 + 32 500 + 11 500 + 28 000 + 11 500 + 5 200 + 9 000 = \$178 700. Profit before tax = \$364 500 – \$178 700 = \$185 800.
- Taxable profit = \$185 800 + non-deductible entertainment \$2 600 + fair value loss \$9 000 = \$197 400; income tax expense = 28% × \$197 400 = \$55 272.

- Profit for the year = \$185 800 – \$55 272 = \$130 528. Total comprehensive income = \$130 528 + revaluation gain \$20 000 = \$150 528. The dividend is not in this statement: it is shown in the Statement of Changes in Equity.

KEY TAKEAWAY

Tax is charged on taxable profit; dividends are a distribution of profit, not an expense, and revaluation gains on land go to other comprehensive income.

(b) Waitomo Adventure Gear Limited has a balance date of 31 March 2026. Information for the year: • Share capital at 1 April 2025 was \$350 000; during the year new shares were issued for \$45 000. • Retained earnings at 1 April 2025 were \$137 000. The profit for the year was \$104 000. Dividends of \$12 000 were declared; \$6 000 of these had been paid by 31 March 2026. • The revaluation reserve at 1 April 2025 was \$15 000; land was revalued upwards during the year by \$50 000. • Income tax expense for the year was \$63 000, and provisional tax paid during the year was \$48 000. Complete the equity section and the current liabilities section of the Statement of Financial Position extract.

(b) Answer: Total equity \$689 000; total current liabilities \$67 000

- Evidence level: Merit (rolls each equity account forward and separates tax and dividends owing).
- Share capital = \$350 000 + \$45 000 = \$395 000.
- Retained earnings = \$137 000 + profit \$104 000 – dividends declared \$12 000 = \$229 000.
- Revaluation reserve = \$15 000 + \$50 000 = \$65 000. Total equity = \$395 000 + \$229 000 + \$65 000 = \$689 000.
- Taxation payable = \$63 000 – \$48 000 = \$15 000. Dividends payable = \$12 000 – \$6 000 = \$6 000.
- Total current liabilities = \$38 000 + \$8 000 + \$15 000 + \$6 000 = \$67 000.

KEY TAKEAWAY

Equity accounts roll forward (opening + increases – decreases); amounts still owing at balance date, such as tax and dividends, are current liabilities.

LOS: Statement of Comprehensive Income and Statement of Financial Position (91406)

Question 3 (15 marks) [Statement of Cash Flows and notes]

(a) Fernbird Stationery Limited is registered for GST on the invoice basis (GST 15%) and uses a perpetual inventory system. Information for the year ended 31 March 2026 (income statement amounts are GST-exclusive): • Sales \$665 000. Accounts receivable (GST-inclusive) were \$18 630 at 1 April 2025 and \$32 775 at 31 March 2026. • Inventory purchases \$315 000, cash operating expenses \$75 000 (rent, advertising and similar GST-able costs) and wages \$90 000 (no GST on wages); depreciation is excluded. Accounts payable (GST-inclusive) were \$14 605 at 1 April 2025 and \$16 790 at 31 March 2026. • GST payable was \$3 500 at 1 April 2025 and \$8 500 at 31 March 2026. GST (15%) is charged on sales, inventory purchases and cash operating expenses, but not on wages. • Interest paid \$7 000. Income tax paid \$27 500. Complete the Statement of Cash Flows. Receipts and payments include GST; the net GST paid to Inland Revenue is shown as a separate line.

(a) Answer: Receipts from customers \$750 605; payments \$536 315; net GST \$36 250; net operating cash \$143 540; closing cash \$139 540

- Evidence level: Merit (adjusts sales and costs for GST and for the change in receivables and payables).
- Receipts from customers = sales incl GST \$764 750 + opening receivables \$18 630 – closing receivables \$32 775 = \$750 605.

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