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SUPERVISOR'S USE ONLY

91404



Level 3 Accounting, 2015

91404 Demonstrate understanding of accounting concepts for a New Zealand reporting entity

2.00 p.m. Monday 30 November 2015 Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of accounting concepts for a New Zealand reporting entity.	Demonstrate in-depth understanding of accounting concepts for a New Zealand reporting entity.	Demonstrate comprehensive understanding of accounting concepts for a New Zealand reporting entity.

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

You should attempt ALL the questions in this booklet.

If you need more room for any answer, use the extra space provided at the back of this booklet.

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.

TOTAL 5

This assessment is based on *Air New Zealand Limited's* Annual Report and Annual Shareholder Review for the period ended 30 June 2014.

QUESTION ONE

(a) Justify the importance of the following statement, written at the bottom of *Air New Zealand Limited*'s Annual Shareholder Review, for any user of this information.

"The accounting policies used in these financial statements are attached in the notes to the Annual Financial Statements."

The following statement is important as it used to verify that a number of steps were used to ensure that the information being provided to users is relevant and reliable. This also states that Air NZ abides to act under current NZ law which all businesses must follow. This would have one know that all private statement of owners are kept seperate from the businesses to insure financials aren't confugable (folse.)

Included in *Air New Zealand Limited*'s Annual Shareholder Review is a report titled "We're supporting Brand New Zealand" about what the company has done to become one of the world's most environmentally sustainable airlines.

(b) Justify how this report could be relevant to satisfying the information needs of a current shareholder of *Air New Zealand Limited*.

The above 1-eport could be relevant
to satisfying a current shareholder of
Air NZ (td as it may mean they
feel they are investing in a good
company. By seeing Air NZ. say they
are making changes that see them
become more environmentally triendly means
people feel they are helping this change.

(c) Justify ONE limitation of the general purpose financial statements in *Air New Zealand Limited*'s Annual Report, using a specific example in your explanation.

One limitation of the general Purpose
financial statement in Air NZ 1+d's
Annual report is the in-ability to show
the palterations have octually impacted
the company (being more environmentally friendly).
There is a second of
These changes may have a come of
These changes may have been come of a cost but been unknown to most
passencers meaning it won't have
passencers meaning it won't have
a cost but been unknown to most

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The following extracts are contained in the Annual Shareholder Review of *Air New Zealand Limited* for the period ended 30 June 2014.

"Our continuing fleet renewal programme means that our capital expenditure will be elevated in the coming years."

"The year finished on a very exciting note as we took delivery of our first Boeing 787-9 Dreamliner aircraft, the first of its type in the world."

"Fleet replacement programmes resulted in increased depreciation and reduced lease costs as owned aircraft replaced operating leased aircraft."

(a) Justify why the total cost of purchasing the first Boeing 787-9 Dreamliner is capital expenditure, and explain how this aircraft provides future economic benefit for *Air New Zealand Limited*.

The purchasing of the new Boeing 787-9

Preamliner is an example of capital

expenditure as It is an asset that

the business will use to expand themselve

capability wise to in fature use for

economic benefit. It will provide future

economic benefit as it comes from a past

purchase, giving them present control. In

the near future it will be able to

be used to transport passenders / castorers

over long destinations which will be a

source of revenue. It will be used for

many flights and will eventually be paged

oth through each ticket purchased.

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The depreciation which has been reported in Air NZ's Income statement classify's as an expense as it is from an item purchased in the past, that they have current control of and eventually they use for economic benefit, However over time this asset will exceed it's lifetime (it's expected working time itill it must be replaced. Each time the aircraft is used it's value slowly depreciates until it is no langer suitable for use and is at a stage where it will be an economic loss for

As a NZ reporting entity Air NZ Ital

Marst apply useful reporting. This does

however come as an added cost to

the business as they must eget the

valuations from qualified experts which

provides go people with reliable into an

the business position

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For the period ending 30 June 2014, the fair value of *Air New Zealand Limited*'s investment in *Virgin Australia Holdings Limited* was \$422 million, after being revalued downwards by \$18 million.

(d) Justify how an independent valuation leading to a downwards revaluation of *Air New Zealand Limited*'s investment in *Virgin Australia Holdings Limited* meets the fundamental qualitative characteristic of faithful representation.

The independent revaluation undertaken on la New Zeoland Ital's investment meets the fundamental qualitive characteristic ox faithful reperesentation as it is "completed by an individual who is not peronolly involved with the ranning of the company. A step faithful representation is required by a business because it done by someone with interest in Air NZ 1+d there would probably be a level of bius as they want to lock like a good place for people to invest. By being faithful in their representation they provide shore holders and other viewers with information that complies with the CUTV idea (Comparable, Understandability, Timeliness & verifiable). This allows people to make decisions which are supported by true info not staff designed to draw people in to talse, more promising javestments

Air New Zealand Limited operates a loyalty programme in which customers can earn Airpoints Dollars when booking flights. For an Airpoints member, these Airpoints Dollars help to reduce the cost of buying future airline tickets and must be used (redeemed) before they expire. Airpoint Dollars are usually valid for four to five years. Air New Zealand Limited knows from historical experience when Airpoints members redeem their Airpoint Dollars.

The Airpoints Dollars owed to *Air New Zealand Limited*'s loyalty programme members is shown by the following extract from Note 15 to the financial statements.

Note 15 2014 \$M

Current liabilities

Revenue in advance – Airpoints loyalty programme 101

Non-current liabilities

Revenue in advance – Airpoints loyalty programme 143

Justify why Air New Zealand Limited has reported the Airpoints loyalty programme as both a current and non-current liability, using the above information.

In your answer, explain:

- how Air New Zealand Limited's loyalty programme meets the definition and recognition criteria of a liability
- how Air New Zealand Limited has applied the going concern assumption to reporting the loyalty programme as both a current and a non-current liability.

Air NZ Itda: has reported the air points under the category of both current and non-current libility as the current habilities are points that are yet to be claimed whilst non-current represent the points that have been claimed and must be shown otherwise the profit and number of customers in the year wouldn't match. The loyalty programme meets the definition of a liability as it results from a past transaction (the customer purchasing the ticket and receiving Airpoints);

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by the customer new having the Followed which will be points available for use an economic outflow in the future for ANZ. This programme therefore going concern concept, which is about the This assumes that the business (Air for seeable future. will continue into the if they were to This is the cose as suddenly go under it is thely known that customers would lose access to their this would be clearly an a business that ean't support itself financially.

Not Achieved exemplar for Accounting 91404 2015		Total score	05			
Q	Grade score	Annotation				
1	N1	The candidate was awarded N1 due to a valid attempt made to answer (b) but missed the Achievement criteria by not describing how the report satisfies the information needs of a current shareholder.				
2	АЗ	 The candidate was awarded three grades for: describes capital expenditure as buying an asset (U) describes how the Boeing 787-9 Dreamliner aircraft is used to earn income for Air New Zealand Limited (I) explains how faithful representation is satisfied by using an independent valuer to revalue Air New Zealand Limited 's investment in Virgin Australia Holdings Limited (I) 				
3	N1	 The candidate has explained only two of the characteristics of liability of:: describes the past event (e.g. buying a passenger ticket) earning Airpoints Dollars for members of Air New Zealand Limited's loyalty programme identifies that there is an outflow of economic benefit from Air New Zealand Limited when members redeem their Airpoints Dollars Candidate writes about the going concern assumption. 		•		

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