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91404



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

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Level 3 Accounting, 2014

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

9.30 am Friday 21 November 2014

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 parts of all 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 2–12 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

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Notes

- In this assessment, the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010 is referred to as the NZ Framework.
- You can use HG to refer to *Hallenstein Glasson Holdings Limited* in your answers.

QUESTION ONE

The extract below is from the notes to the financial statements of *Hallenstein Glasson Holdings Limited* for the period ended 1 August 2013.

Notes to the Accounts (extract)

Hallenstein Glasson Holdings Limited is a retailer of men's and women's clothing in New Zealand and Australia. *Hallenstein Glasson Holdings Limited* is a company registered under the Companies Act 1993 and is listed in the New Zealand Stock Exchange (NZX). The company is a limited liability company incorporated in New Zealand.

- (a) Explain what **limited liability** means and how this applies to the **shareholders** in *Hallenstein Glasson Holdings Limited*. Include in your answer a justification of circumstances in which limited liability may not protect a **director** (who is also a shareholder) of *Hallenstein Glasson Holdings Limited*.

- (b) Justify how the **cost constraint on useful financial reporting** (formally referred to as the balance between benefit and cost) is applied to *Hallenstein Glasson Holdings Limited* as a New Zealand reporting entity.

- (c) Justify why suppliers of *Hallenstein Glasson Holdings Limited* would be interested in the Statement of Cash Flows. Include in your answer the purpose of the Statement of Cash Flows.

- (d) Justify why the *PricewaterhouseCoopers* auditors' report has been included in *Hallenstein Glasson Holdings Limited's* annual report.

QUESTION TWO

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Notes to the Accounts (extract)

Standards, Amendments and Interpretations to existing standards (extract)

There have been no significant changes in accounting policies during the year.

- (a) Explain how the above information aids **comparability** in *Hallenstein Glasson Holdings Limited's* general purpose financial statements for a current shareholder of the company.

(b) Using the liability definition, justify why Taxation Payable is reported AND classified as a current liability in *Hallenstein Glasson Holdings Limited's* Statement of Financial Position.

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Notes to the Accounts (extract)

Inventories

Inventories are stated at the lower of cost or net realisable value.

Inventory adjustments are provided at year end for stock obsolescence within cost of sales in the Statement of Comprehensive Income.

- (c) Justify why the obsolescent stock included in *Hallenstein Glasson Holdings Limited's* inventory on balance day will be stated at the lower of cost or net realisable value.

For the year ended 1 August 2013, payments to suppliers amounting to \$148.3 million (rounded) are included in *Hallenstein Glasson Holdings Limited's* Statement of Cash Flows. Of this, \$2.6 million (rounded) was prepaid to suppliers for expenses that will be incurred during the year ended 1 August 2014.

- (d) Explain in detail, **using relevant amounts**, how the supplier expenses and the prepaid supplier expenses will be reported in *Hallenstein Glasson Holdings Limited's* general purpose financial statements, **other than** the Statement of Cash Flows, for the year ended 1 August 2013.



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The examination continues on the following page.**

QUESTION THREE

Hallenstein Glasson Holdings Limited's significant accounting policies and notes to the accounts for the period ended 1 August 2013 include the following:

Property, plant and equipment (extracts)

Land and buildings are recorded at valuation and are revalued at least every three years based on an independent valuation by a member of the New Zealand Institute of Valuers.

Land and buildings were revalued to fair value on 1 August 2013. Valuations were made on the basis of recent market transactions on arm's length terms. The valuations assume no major economic downturn after the date of valuation and that the properties continue to be managed and maintained in a professional manner.

The values were determined by independent valuers *Colliers International and Telfer Young (Hawkes Bay) Ltd.*

The following statement has been extracted from the Chairman's Report of *Hallenstein Glasson Holdings Limited's* annual report for the period ended 1 August 2013:

"Notwithstanding a decline in profit, the balance sheet remains strong and cash reserves stand at \$19.312 million. The Group remains debt free".

Use the information provided in the extracts above to explain how the fair value of land and buildings can be used as security over a loan. In your answer:

- justify how *Hallenstein Glasson Holdings Limited's* land and buildings measured at fair value meet the definition and recognition criteria of an asset
- justify why the fair value amount reported for land and buildings can be relied on by a bank manager when approving loan finance and how the chairman's statement is relevant information for the bank manager.

Extra space if required.
Write the question number(s) if applicable.

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