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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

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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."

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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*.

(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.

QUESTION TWO

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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*.

(b) Justify how depreciation on the aircraft fleet reported in *Air New Zealand Limited*'s Income Statement meets the definition of an expense.

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(c) Justify how the cost constraint on useful reporting is applied to *Air New Zealand Limited* as a New Zealand reporting entity.

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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.

QUESTION THREE

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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.

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

QUESTION NUMBER

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