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Level 3 Accounting, 2018

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

2.00 p.m. Tuesday 13 November 2018
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 2–12 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

ASSESSOR'S USE ONLY

Note: This assessment is based on *Auckland International Airport Limited's* Financial Statements Report for 1 July 2016 to 30 June 2017.

You can use *AIA* to refer to *Auckland International Airport Limited* in your answers.

QUESTION ONE

The extract below is from the notes and accounting policies to the financial statements of *Auckland International Airport Limited* for the year ended 30 June 2017.

Corporate information (extract)

Auckland International Airport Limited is a company established under the Auckland Airport Act 1987 and was incorporated on 20 January 1988 under the Companies Act 1955. The company was re-registered under the Companies Act 1993 on 6 June 1997.

One main advantage, once a company has been incorporated and registered, is limited liability.

- (a) Justify what limited liability means, and how this applies to the shareholders of *Auckland International Airport Limited*.

In your answer:

- include the circumstances in which limited liability may not protect a director (who is also a shareholder) of *Auckland International Airport Limited*.

- (b) Justify how the cost constraint on useful reporting applies to *Auckland International Airport Limited* as a New Zealand reporting entity.

- (c) Justify ONE limitation of the general purpose financial statements in *Auckland International Airport Limited's* Financial Statements Report, using a specific example in your explanation.

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Trade and other receivables

	2017 (\$m)
Trade receivables	18.3
Less: Provision for doubtful debts	(0.7)
Net trade receivables	17.6

Trade receivables have general payment terms of the 1st or the 20th of the month following invoice. Movements in the provision for doubtful debts have been included in other expenses in the income statement.

- (b) Identify and justify the measurement base that has been applied to the reporting of *Auckland International Airport Limited's* trade receivables.

For the year ended 30 June 2017, interest paid of \$59.3 million was reported in *Auckland International Airport Limited's* Statement of Cash Flows, after subtracting the amount paid for the interest owing from the previous year.

On balance day, included in the accounts payable and accruals note to the financial statements was an amount owing for interest payables of \$13.5 million.

- (d) Justify, using the accrual basis of accounting and relevant amounts, how the interest expense and interest payables on balance day will be reported in *Auckland International Airport Limited's* general purpose financial statements, other than the Statement of Cash Flows, for the year ended 30 June 2017.

QUESTION THREE

The extract below is from the notes and accounting policies to the financial statements of *Auckland International Airport Limited* for the year ended 30 June 2017.

Contingent liabilities: noise insulation

In December 2001, the Environment Court ratified an agreement that had been reached between Manukau City Council, *Auckland International Airport Limited*, and other interested parties on the location and future operation of a second runway to the north of and parallel to the existing runway.

The Environment Court determination includes a number of conditions that apply to the operation of the airport. These conditions include obligations on the company to mitigate the impacts of aircraft noise on the local community. The obligations include the company offering acoustic treatment packages to schools and existing homes within the defined areas. Noise levels are monitored continually, and as the noise impact area increases, offers will need to be made.

The obligation does not extend to new houses. The second runway to the north may be extended beyond the length of the runway previously planned. Overall, it is estimated that approximately 4 000 home owners will eventually be offered assistance, including owners of those homes that may be affected by the extended runway.

As it is not possible to accurately predict the rate of change in aircraft noise levels over time, nor the rate of acceptance of offers of treatment to homeowners, the company cannot accurately predict the overall cost or timing of acoustic treatment. It is estimated that, overall, further costs would not exceed \$9.0 million.

Since 2005, the company has made 3 784 acoustic treatment offers to the owners of 1 800 houses and six schools. The owners of 542 homes and six schools have accepted these offers.

Justify why the accountants for *Auckland International Airport Limited* have shown the noise insulation as a contingent liability in the notes to the financial statements, as opposed to a liability in the Statement of Financial Position.

In your answer, explain:

- how the noise insulation does not meet the definition of a liability for *Auckland International Airport Limited*
- how the qualitative characteristic of relevance, including materiality, applies to disclosing the noise insulation in the notes to the financial statements.

25 horizontal lines for writing.

