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Level 3 Accounting 2020

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

2.00 p.m. Monday 23 November 2020
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 2–8 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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THE A2 MILK COMPANY LIMITED (A2MC)

This assessment is based on *The a2 Milk Company Limited's* Annual Report for the year ended 30 June 2019. *The a2 Milk Company Limited* sells branded milk products in targeted markets. Regular cow's milk contains both A1 and A2 proteins, but *The a2 Milk Company Limited's* products are made from cow's milk that contains only the A2 protein type.

You may use *A2MC* to refer to *The a2 Milk Company Limited* in your answers.

QUESTION ONE

The following is an extract from the notes to the financial statements in *The a2 Milk Company Limited's* Annual Report for the year ended 30 June 2019.

Notes to the financial statements – Basis of preparation

The company is registered in New Zealand under the Companies Act 1993, and is a reporting entity under the Financial Markets Conduct Act 2013.

The consolidated financial report:

- has been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP);
- complies with the New Zealand Equivalents in International Financial Reporting Standards (NZ IFRS);
- has been prepared in accordance with the historical cost convention and, except for listed investments, does not take into account changing money values or fair values of assets.

(a) Explain why *The a2 Milk Company Limited* is a New Zealand reporting entity.

(b) Justify why *The a2 Milk Company Limited's* financial statements are required to comply with Generally Accepted Accounting Practice in New Zealand (NZ GAAP).

In your answer, you should explain what NZ GAAP refers to.

(c) *The a2 Milk Company Limited* revalues its listed investments to fair value. Why is this relevant to users of *The a2 Milk Company Limited's* financial statements?

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QUESTION TWOASSESSOR'S
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- (a) How does the cost constraint on useful financial reporting apply to *The a2 Milk Company Limited* as a New Zealand reporting entity?

- (b) Audit fees of \$701 000 were paid by *The a2 Milk Company Limited* to Ernst & Young.

Justify how and why audit fees are reported as revenue expenditure, rather than capital expenditure, in the financial statements of *The a2 Milk Company Limited*.

- (c) During the year, \$1 550 000 was recognised as an expense in cost of sales for inventories written down to net realisable value.

How does *The a2 Milk Company Limited's* write-down of inventories meet the definition of an expense?

- (d) Taxation payable to the Inland Revenue Department (IRD) of \$43.7 million (rounded) is reported in *The a2 Milk Company Limited's* consolidated Statement of Financial Position.

How does this reporting of taxation payable meet the fundamental qualitative characteristic of faithful representation?

QUESTION THREE

The extract below provides details of *The a2 Milk Company Limited's* operating liabilities incurred as a result of trading activities, used to generate the company's performance.

Operating Liabilities (extract)	
Trade and other payables – current	2019
	\$'000
Employee entitlements	6 054
Trade and other payables – non-current	2019
	\$'000
Employee entitlements	227
Employee entitlements	
Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long-service leave.	
Provisions made in respect of employee benefits as current are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.	
Provisions made in respect of employee benefits as non-current are measured as the present value of the estimated future cash outflows to be made by the company in respect of services.	

Use this information to explain why *The a2 Milk Company Limited* has reported the provisions for employee entitlements as both a current liability and a non-current liability.

In your answer, justify:

- how *The a2 Milk Company Limited's* provisions for employee entitlements meet the definition and recognition criteria of a liability
- how *The a2 Milk Company Limited* has applied the going-concern assumption to reporting the provisions for employee entitlements as both a current and a non-current liability.
