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Level 3 Accounting 2021

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

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.

Do not write in any cross-hatched area (///). This area may be cut off when the booklet is marked.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

KATHMANDU HOLDINGS LIMITED (KHL)

This assessment is based on *Kathmandu Holdings Limited's* Annual Report for the year ended 31 July 2020. *Kathmandu Holdings Limited* is a designer, retailer, and wholesaler of apparel, footwear, and equipment for surfing and the outdoors. *Kathmandu Holdings Limited* (The Group) consists of three iconic brands: Kathmandu, Rip Curl, and Oboz (a North American brand of handmade outdoor footwear).

You can use KHL to refer to *Kathmandu Holdings Limited* in your answers.

QUESTION ONE

The extract below is from the notes to the consolidated financial statements in *Kathmandu Holdings Limited's* Annual Report for the year ended 31 July 2020.

General information

The Company is a limited liability company incorporated and domiciled in New Zealand.

- (a) What does limited liability mean? How does this apply to the shareholders of *Kathmandu Holdings Limited*?
 In your answer, include the circumstances in which limited liability may not protect a director (who is also a shareholder) of *Kathmandu Holdings Limited*.

- (b) The comment below is from the Chairman and CEO’s letter in *Kathmandu Holdings Limited’s* Annual Report for the year ended 31 July 2020:

Rip Curl acquisition

We are very pleased with the successful acquisition and integration of Rip Curl over the last nine months. Rip Curl is an iconic global surf brand and action sports company, with a vision to be regarded as ‘the Ultimate Surfing Company’.

Justify how this statement could be relevant to satisfying the information needs of a potential investor of *Kathmandu Holdings Limited*.

- (c) Justify ONE limitation of general-purpose financial statements in *Kathmandu Holdings Limited’s* Annual Report, using a specific example in your explanation.

QUESTION TWO

- (a) The extract below is from the notes to the consolidated financial statements in *Kathmandu Holdings Limited's* Annual Report for the year ended 31 July 2020.

Changes in accounting policies

Details about changes in accounting policies during the period are included in the Operating segments under Section 2.1 of the notes to the financial statements, following the acquisition of *Rip Curl Group Pty Limited* in October 2019.

How does the above information aid comparability in *Kathmandu Holdings Limited's* general-purpose financial statements? Justify why this is important for an interested user of the company.

- (b) Why is an auditor's report from *PricewaterhouseCoopers* included in *Kathmandu Holdings Limited's* Annual Report? Justify your answer.

- (c) Depreciation on *Kathmandu Holdings Limited's* property, plant, and equipment is calculated using straight-line and diminishing-value methods.

Justify how this meets the expense recognition criteria of faithful representation.

- (d) For the year ended 31 July 2020 *Kathmandu Holding Limited's* trade receivables are recorded at \$62 143 000 (value of invoices sent out) less an allowance for expected credit losses (doubtful debts) of \$10 329 000.

Identify and justify the measurement base that has been applied to the reporting of *Kathmandu Holding Limited's* trade receivables at an amount of \$51 814 000.

QUESTION THREE

The following extract shows the policy for the non-physical assets used by *Kathmandu Holdings Limited* to operate the business, generating revenues and profits.

Intangible assets

Software costs

Software costs have a finite useful life. Software costs are capitalised and written off over the useful economic life.

Costs associated with developing or maintaining computer software programs are recognised as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by The Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the cost of software development employees.

Software is amortised using straight-line and diminishing-value methods at rates of 20–67%.

Justify the reporting of *Kathmandu Holdings Limited*'s software costs under its intangible assets policy.

In your answer:

- explain how **historical cost** is applied to the measurement of *Kathmandu Holdings Limited*'s software costs
- explain, using the definitions of **either** an asset or expense, the software costs that are reported as **capital** expenditure for *Kathmandu Holdings Limited*
- explain, using the definitions of **either** an asset or expense, the software costs that are reported as **revenue** expenditure for *Kathmandu Holdings Limited*.

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

QUESTION
NUMBER

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