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91404



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

SUPERVISOR'S USE ONLY

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.

Merit

TOTAL

16

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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.

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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*.

Limited Liability refers to the fact that the liability of the shareholders is only limited to the amount of the shares ^{agreed and} purchased. ^{as the shareholders are not personal liable for the company} This means if the company goes into bankrupt, the personal possession of the shareholders would not be at risk.

Limited liability may not protect a director if he/she is negligent that he continue the operation of the company knowing that the company would not be able to pay its debt. In this case, the director is personally liable for the debts that the company cannot afford to pay.

N

- (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.

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As HGL is a reporting entity, the benefits are having limited liability, perpetual session and greater access to capital. Having limited liability reduces the risk of the shareholders so that they would be more willing to invest. Having perpetual session allows HGL to continue operation even if one of the shareholders dies or leave the company such that HGL is maintained stably. Having greater access to capital due the fact that HGL can raise fund by issuing shares and debentures and also being able to borrow bank loan easier. Therefore, HGL would have more fund to improve its operation. The cost are that there are more regulations and double taxation on the profit. HGL is required to fully comply with Company Act 1993. Double taxation is due to the tax on the company and the income tax on shareholders.

N

- (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.

The purpose of ~~Cash Flow~~ the Statement of Cash Flow is to report the ~~net cash flow from~~ ^{cash transactions so as to calculate} the net cash flow from each section of operating activities, investing activities and financing activities and the ~~total~~ net cash flow for the year.

The suppliers would be interested because the suppliers would be able to determine whether HGL has ~~difficulties~~ ^{or not} a cash flow problem ~~it is which~~. As suppliers often offer credit purchase, if HGL has cash flow problem, the suppliers may not be able to receive cash from HGL that would affect the operation of the suppliers. In order to ~~be prevent this problem~~ ^{to minimise further} bad debts, the suppliers would be interested to see if HGL has sufficient cash that can pay off their account ~~before trading with HGL~~.

C

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

The PricewaterhouseCoopers auditors report has been included in HG's annual report as to ~~show~~ ^{show} that the annual report of HG have been fully comply with ~~the~~ GAAP as it is a statutory requirement that ~~the~~ for reporting entity registered under the Company Act 1993, Auditor's report has to be included in the annual report. The auditor's report prove the annual report to be fully comply with NZIFRS ~~that~~ such that they have been faithfully represented as they provide fair and true views for the users of the annual report to assist them to make economic decision about HG.

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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.

Comparability ~~is defined~~ refers to the information is prepared in a consistent manner ~~that~~ ~~it~~ and any change of accounting policies have to be identified ~~by the users~~ ~~so as to~~. By stating that there is no significant changes ^{current shareholders} in accounting policies, the ~~users~~ of the ~~annual~~ financial statements ~~of~~ can then compare the information and data of this ~~accounting~~ financial year to the last financial year ~~with~~ ~~without~~ ^{other} knowing that no ~~external~~ factors expect the financial performance of ~~the~~ H&G has influenced the ~~is~~ ~~result~~ information such that the shareholders can establish trend that would assist them to make economic decision of whether or not to sell the shares etc.

I

- (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.

Taxation payable is a ~~liability~~ liability because it has arisen from the past event that HGL ~~is required to~~ has made profit ~~that~~ from which tax expense arise and required to pay to IRD. HGL ~~is~~ ^{has} present obligation to pay the amount of tax payable to IRD which is enforced by law ~~at~~ and no one else can pay the tax payable for HGL. Also, there is future economic benefit outflow ^{in the form of cash decrease} from HGL when HGL pays the tax payable amount to IRD.

The taxation payable is a current liability because HGL is ^{required} ~~expected~~ to pay the tax payable within the next 12 months (accounting period).

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.

As inventory is ~~used~~ used by HG for the purpose of sales such that their fair value is most relevant to HG as it reflects the actual future economic benefits associated with the inventory. Therefore, ^{when} ~~if~~ the stock is obsolescent, it can no longer be used for the purpose of ~~net~~ sales such that ^{even} if the net ~~net~~ realisable value is higher than the cost, it would not be relevant as it can no longer bring future economic benefits to HG. ~~However~~ Therefore, the net realisable value is stated when it is lower than the cost. However, when the cost is higher than the net realisable value, the difference is already accounted for in the cost of goods sold such that the net realisable value should be stated.

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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.

The prepaid Suppliers expenses of \$2.6 million would be reported by debiting ^{\$2.6 million to} the temporary Assets account, prepayment ~~by~~ and crediting \$2.6 million to the Supplier expenses to reflect the actual ~~ex~~ suppliers expense for the ~~account~~ current accounting period ended 1 August 2014.

The adjusted supplier expense of \$145.7 million would be reported as an expense in the Statement of Comprehensive income for calculating the actual profit or loss for the year ended 1 August 2014.

The prepayment of \$2.6 million would be reported as ~~an~~ ^a ~~current~~ Current assets as the Suppliers ^{is obliged} ~~will~~ provides goods for H&G ~~in~~ within the next accounting period. This is reported as a current asset in the Statement of financial position for calculating the ^{actual} net assets of H&G.

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QUESTION THREE

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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.

The land and buildings measured at fair value meet the definition of an asset because they arise from past transactions that HG purchased the land and building in the past. HG has present control over the land and buildings that no one else can use the land and buildings of HG without permission from HG. There will be future economic benefits inflow in the form of cash into HG when HG makes sales ~~through the sale of~~ ^{in the buildings and on the land} such that

the sales is made ~~from~~ ^{through} the usage of building and land as sales of clothes is made mainly in stores. The customers will pay cash to HGI ~~for~~ when purchasing clothes from HGI.

The recognition criteria of an asset is also met by land and buildings measured at fair value. It is highly probable (75% chance) that future economic benefit will ~~is~~ flow into HGI in the form of cash when the customers pay ~~the~~ ~~for~~ from each sale that is made through using the land and buildings ~~for~~ as ~~as~~ stores. Also, ~~they~~ the land and building can be measured ~~reliably~~ reliably through source documents such the revaluation document that ~~is~~ ^{has} faithful representation because the information is complete, free from error that with no omission and neutral as it is based on the recent market transactions on arm's length terms and done by ~~independent~~ independent valuers Colliers International and Telfer Young (Hawkes Bay) Ltd.

The fair value of land and building is the value that most relevant as it is up-to-date while the historical cost of the land and building would not be as it has omitted the effect of depreciation and revaluation. The fair value shows the a more accurate value for the future economic benefits associates with the ~~usage~~ use of the land and building. Such that the bank manager would be able to have a true and fair interpretation of the financial position of ~~the~~ HGI and whether HGI will be able to pay off the potential loan, so as to minimise the risk of not getting back the loan from HGI. The chairman's statement is also relevant to the bank manager as it shows ~~the~~ HGI's ability to maintain a strong cash flow of \$19.312 million even when they is a decline in profit. This reflects the ~~technical~~ ~~financial~~ leadership ability of

Extra space if required.

Write the question number(s) if applicable.

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3. the management and the financial stability of H&A which would increase the confidence of the bank manager towards the ability of H&A repaying the potential loan.

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Achievement with Merit exemplar for Accounting 91404 2014		Total score	16
Q	Grade score	Annotation	
1	M5	<p>The candidate was awarded two grades for:</p> <ul style="list-style-type: none"> the purpose of the Statement of Cash Flows is linked to how suppliers would use the information in <i>Hallenstein Glasson Holdings Limited's</i> Statement of Cash Flows (C) a valid reason described why an auditor's report is a statutory requirement.(I) 	
2	M5	<p>The candidate was awarded four grades for:</p> <ul style="list-style-type: none"> following the same accounting policies will lead to <i>Hallenstein Glasson Holdings Limited's</i> financial statements being prepared in a consistent way (I) a valid reason described why taxation payable results in a present obligation for <i>Hallenstein Glasson Holdings Limited</i> (I) a current liability has to be within the next year/future year/next period (U) explains the supplier expenses using the accrual basis of accounting (I) 	
3	M6	<p>The candidate was awarded the following five Merit grades:</p> <ul style="list-style-type: none"> the control – idea <i>Hallenstein Glasson Holdings Limited</i> to benefit/ <i>Hallenstein Glasson Holdings Limited</i> can exclude others from benefitting from using the land and buildings <i>Hallenstein Glasson Holdings Limited</i> will benefit in the future, as land and buildings are used to earn income for the company, and the bringing of cash into <i>Hallenstein Glasson Holdings Limited</i> probability of future economic benefit, as land and buildings are used to sell the inventory bringing money into <i>Hallenstein Glasson Holdings Limited</i> reliable measure using third-party independent experts is free from bias/faithfully represents the fair value of the land and buildings describes ONE of an asset characteristics or recognition criteria, from a bank manager's point of view in terms of security over the loan 	