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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.

Not Achieved

TOTAL

7

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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.

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 means that if ~~the~~ ^{the} HA were to go bankrupt, the shareholders of HA are only limited to the amount ^{in which initially} they invested as their liability. This means shareholders in HA are not in danger of losing their personal assets if HA were to go under. In the circumstance of a director being a shareholder and ~~the~~ HA went under as the director withheld information from other share holders, the director would not be limited to limited liability and may lose ~~his assets to repay the~~ personal assets to help repay any debt HA may have fallen in.

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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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The cost constraint on useful financial reporting referred to as the balance between benefit and cost is applied to HG as a New Zealand reporting entity by using the New Zealand framework which is the equivalent to the IASB Conceptual framework.

The cost constraint means that HG's financial statements are prepared for the same amount as other companies across New Zealand. This means that HG's financial statements will be easily compared to other companies financial statements when a shareholder is looking to invest in a company.

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.

Suppliers of *Hallenstein Glasson Holdings Limited* would be interested in the Statement of Cash Flows as the statement of cash flows would provide the suppliers with the figure of total cash flows in and out of the HG ~~base~~ and whether they are making a surplus of cash or deficit. The surplus of cash would be a good sign for suppliers as it would encourage them to continue supplying for HG ~~as~~ as it would give them confidence in HG being able to repay their debts / cash for supplies and vice versa if it was a deficit suppliers would want

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

PricewaterhouseCoopers auditors' report has been included in HG's annual report in order to show the readers of the financial reports that HG's financial reports comply with NZ Framework and that they have been audited meaning they have been checked and reviewed and they are all correct and free from error which verifies the validity of their financial statements. It also shows that their financial statements would be easily compared to other companies.

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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.

The above information "there have been no significant changes in accounting policies during the year" aids comparability in HG's general purpose financial statements for a current share holder of the company as it means both years financial statements (previous and current years) should be prepared exactly the same making it easier to compare and draw trends of HG for example profit increasing or expenses decreasing.

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.

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Taxation payable is reported and classified as a current liability in *Hallenstein Glasson Holdings Limited's* Statement of Financial Position as the tax is due from past transactions, HGL has a present liability to ~~repay~~ pay tax and the payment of tax will cause a future outflow of economic benefit in the form of cash for HGL. The payment of tax will not be a distribution to the owner. It is a current liability as HGL have a current obligation to repay the debt in the current or next accounting period. Taxation is due annually and cannot be withheld from the government over a year.

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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.

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- (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.

Obsolescent stock will be included in HGA's inventory on balance day at a lower cost or net realisable value ~~in~~ so the worth of the inventory is not overstated therefore overstating the worth of ~~the~~ ~~best~~ HGA. By stating the obsolescent stock at the net realisable value or a lower cost ~~with~~ it will give a more accurate worth of ~~the~~ ~~best~~ HGA as it is most likely obsolescent stock will sell for less in the following accounting period.

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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.

For the year ended 1 August 2013 the payment to suppliers of \$148.3 million (rounded) including a prepayment of \$2.6 million (rounded) will be reported in ~~the~~ HG's financial statements as ...

In the Statement of Financial position the asset bank will decrease \$148.3 million. *¹

While the ^{asset} account prepayments will be created totalling \$2.6 million. ^{*²the current liability} Accounts payable will therefore decrease ~~to~~ \$145.7 million most likely down to \$0 if prepayments was created. *³

*¹ as ~~the~~ accounts payable is paid off using cash from the business, HG therefore the asset bank which is made up of cash decreases.

*² as HG prepaid \$2.6 million for ~~sup~~ expenses expected to be incurred in the next accounting period ending 1 August 2014.

*³ Accounts payable is the cost of expenses owed to suppliers accumulated during the year as invoices are received.

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A3

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.

HA's land and buildings measured at fair value meet the definition and recognition criteria of an asset as both the land and buildings were purchased in a past transaction. HA has present control over their land and buildings. ~~The~~ HA's land and buildings will create future economic benefit in the form of cash when they are used to sell their products, and when sold.

will create further future economic benefit in the form of cash. The value of both the land ~~of~~ and building can be found on the deed, however, ^{the fair value} can be verified after being valued every three years for a more accurate cost by independent valuers Colliers International and Peller Young (Hawkes Bay) Ltd. The land and buildings were not a distribution from the owner.

The fair value amount reported for land and buildings can be relied on by a bank manager when approving loan finance as the bank manager will need to report what the loan will be spent on, therefore needing to know the exact cost of the land and buildings to verify all the money being loaned is being spent on the correctly allocated purchase. The chairman's statement is relevant information for the bank manager as the goals and future investments of HA are often stated in their statements and the bank manager will need to verify that the chairman has stated a purchase in land and buildings therefore the loan applied for is valid. The chairman's report states that "notwithstanding a decline in profit, the balance sheet remains strong and cash reserves

NI

Extra space if required.

Write the question number(s) if applicable.

ASSESSOR'S
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1c to question whether to continue supplying HG because if they have a low cash flow, it would be less likely that suppliers will be paid on time.

3 stand at \$19.312 million. The group remain debt free." which is an important statement for the bank manager as it means that the bank manager can be more confident in ~~the~~ ~~the~~ HG repaying their loans as they have a strong cash holding and are debt free which the bank manager can further verify by checking their financial statements.

91404

Not Achieved exemplar for Accounting 91404 2014			Total score	07
Q	Grade score	Annotation		
1	A3	<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) an auditor's report gives a true and fair view of the financial statements. (U) 		
2	A3	<p>The candidate was awarded three 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 liability has a present obligation, past transaction and results in an outflow of economic benefit (U) identifies that the obsolescent stock is valued at the amount that <i>Hallenstein Glasson Holdings Limited</i> expects the inventory will be sold for (U) 		
3	N1	<p>The candidate has explained only one of the characteristics of an asset of::</p> <ul style="list-style-type: none"> <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> <p>Candidate writes about relevance</p>		