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91404



NEW ZEALAND QUALIFICATIONS AUTHORITY
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QUALIFY FOR THE FUTURE WORLD
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SUPERVISOR'S USE ONLY

Level 3 Accounting, 2015

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

2.00 p.m. Monday 30 November 2015
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 2–11 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

5

ASSESSOR'S USE ONLY

This assessment is based on *Air New Zealand Limited's* Annual Report and Annual Shareholder Review for the period ended 30 June 2014.

ASSESSOR
USE ONLY

QUESTION ONE

- (a) Justify the importance of the following statement, written at the bottom of *Air New Zealand Limited's* Annual Shareholder Review, for any user of this information.

"The accounting policies used in these financial statements are attached in the notes to the Annual Financial Statements."

The following statement is important as it used to verify that a number of steps were used to ensure that the information being provided to users is relevant and reliable. This also states that Air NZ abides to act under current NZ law which all businesses must follow. This would have one know that all private statement of owners are kept seperate from the businesses to insure financials aren't confusable (false).

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Included in Air New Zealand Limited's Annual Shareholder Review is a report titled "We're supporting Brand New Zealand" about what the company has done to become one of the world's most environmentally sustainable airlines.

ASSESSOR'S
USE ONLY

- (b) Justify how this report could be relevant to satisfying the information needs of a current shareholder of Air New Zealand Limited.

The above ^{listed} report could be relevant to satisfying a current shareholder of Air NZ Ltd as it may mean they feel they are investing in a good company. By seeing Air NZ say they are making changes that see them become more environmentally friendly means people feel they are helping this change.

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- (c) Justify ONE limitation of the general purpose financial statements in Air New Zealand Limited's Annual Report, using a specific example in your explanation.

One limitation of the general purpose financial statement in Air NZ Ltd's Annual report is the in-ability to show the alterations have actually impacted the company (being more environmentally friendly). These changes may have ~~been~~ come at a cost but been unknown to most passengers meaning it ~~won't~~ have influenced the choice made by customers.

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QUESTION TWO

ASSESSOR'S
USE ONLY

The following extracts are contained in the Annual Shareholder Review of *Air New Zealand Limited* for the period ended 30 June 2014.

"Our continuing fleet renewal programme means that our capital expenditure will be elevated in the coming years."

"The year finished on a very exciting note as we took delivery of our first Boeing 787-9 Dreamliner aircraft, the first of its type in the world."

"Fleet replacement programmes resulted in increased depreciation and reduced lease costs as owned aircraft replaced operating leased aircraft."

- (a) Justify why the total cost of purchasing the first Boeing 787-9 Dreamliner is capital expenditure, and explain how this aircraft provides future economic benefit for *Air New Zealand Limited*.

The purchasing of the new Boeing 787-9 Dreamliner is an example of capital expenditure as it is an asset that the business will use to expand themselves capability wise to in future use for economic benefit. It will provide future economic benefit as it comes from a past purchase, giving them present control. In the near future it will be able to be used to transport passengers / customers over long destinations which will be a source of revenue. It will be used for many flights and will eventually be payed off through each ticket purchased.

- (b) Justify how depreciation on the aircraft fleet reported in Air New Zealand Limited's Income Statement meets the definition of an expense.

ASSESSOR'S
USE ONLY

The depreciation which has been reported in Air NZ's Income statement classifies as an expense as it is from an item purchased in the past, that they have current control of and eventually they use for economic benefit. However over time this asset will exceed its lifetime (its expected working time till it must be replaced). Each time the aircraft is used its value slowly depreciates until it is no longer suitable for use and is at a stage where it will be an economic loss for Air NZ.

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- (c) Justify how the cost constraint on useful reporting is applied to Air New Zealand Limited as a New Zealand reporting entity.

As a NZ reporting entity Air NZ Ltd must apply useful reporting. This does however come as an added cost to the business as they must get the valuations from qualified experts which provides people with reliable info on the business position.

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For the period ending 30 June 2014, the fair value of Air New Zealand Limited's investment in Virgin Australia Holdings Limited was \$422 million, after being revalued downwards by \$18 million.

- (d) Justify how an independent valuation leading to a downwards revaluation of Air New Zealand Limited's investment in Virgin Australia Holdings Limited meets the fundamental qualitative characteristic of faithful representation.

The independent revaluation undertaken on Air New Zealand Ltd's investment meets the fundamental qualitative characteristic of faithful representation as it is completed by an individual who is not personally involved with the running of the company. ~~As a result~~ Faithful representation is required by a business because if done by someone with interest in Air NZ Ltd there would probably be a level of bias as they want to look like a good place for people to invest. By being faithful in their representation they provide shareholders and other viewers with information that complies with the C.U.T.V. idea (Comparable, Understandability, Timeliness & Verifiable). This allows people to make decisions which are supported by true info not stuff designed to draw people in to false, more promising investments.

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QUESTION THREE

Air New Zealand Limited operates a loyalty programme in which customers can earn Airpoints Dollars when booking flights. For an Airpoints member, these Airpoints Dollars help to reduce the cost of buying future airline tickets and must be used (redeemed) before they expire. Airpoint Dollars are usually valid for four to five years. *Air New Zealand Limited* knows from historical experience when Airpoints members redeem their Airpoint Dollars.

The Airpoints Dollars owed to *Air New Zealand Limited's* loyalty programme members is shown by the following extract from Note 15 to the financial statements.

Note 15	2014
	\$M
Current liabilities	
Revenue in advance – Airpoints loyalty programme	101
Non-current liabilities	
Revenue in advance – Airpoints loyalty programme	143

Justify why *Air New Zealand Limited* has reported the Airpoints loyalty programme as both a current and non-current liability, using the above information.

In your answer, explain:

- how *Air New Zealand Limited's* loyalty programme meets the definition and recognition criteria of a liability
- how *Air New Zealand Limited* has applied the going concern assumption to reporting the loyalty programme as both a current and a non-current liability.

Air NZ Ltd has reported the airpoints under the category of both current and non-current liability as the current liabilities are points that are yet to be claimed whilst non-current represent the points that have been claimed and must be shown otherwise the profit and number of customers in the year wouldn't match. The loyalty programme meets the definition of a liability as it results from a past transaction (the customer purchasing the ticket and receiving Airpoints);

followed by the customer now having the points available for use which will be an economic outflow in the future for ANZ.

This programme therefore assumes ~~that~~ the going concern concept, ~~which is about the~~ This assumes that the business (Air NZ Ltd) will continue into the foreseeable future. This is the case as if they were to suddenly go under it is ~~itely~~ known that customers would lose access to their points as this would be clearly an un-viable ^{scheme} for a business that can't support itself financially.

Not Achieved exemplar for Accounting 91404 2015			Total score	05
Q	Grade score	Annotation		
1	N1	The candidate was awarded N1 due to a valid attempt made to answer (b) but missed the Achievement criteria by not describing how the report satisfies the information needs of a current shareholder.		
2	A3	<p>The candidate was awarded three grades for:</p> <ul style="list-style-type: none"> describes capital expenditure as buying an asset (U) describes how the Boeing 787-9 Dreamliner aircraft is used to earn income for <i>Air New Zealand Limited</i> (I) explains how faithful representation is satisfied by using an independent valuer to revalue <i>Air New Zealand Limited</i>'s investment in <i>Virgin Australia Holdings Limited</i> (I) 		
3	N1	<p>The candidate has explained only two of the characteristics of liability of::</p> <ul style="list-style-type: none"> describes the past event (e.g. buying a passenger ticket) earning Airpoints Dollars for members of <i>Air New Zealand Limited</i>'s loyalty programme identifies that there is an outflow of economic benefit from <i>Air New Zealand Limited</i> when members redeem their Airpoints Dollars <p>Candidate writes about the going concern assumption.</p>		