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91404



NEW ZEALAND QUALIFICATIONS AUTHORITY
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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.

Merit

TOTAL

16

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.

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 statement is of the Statement of Accounting policies in which it is meant to show additional information that may be used by existing or potentially new shareholders for economic decision making. This statement is important as it shows all assumptions ^{and procedures} made in the process of ~~the~~ preparing the statements of Air New Zealand Limited which may be useful for their shareholders. The information in the ~~statement~~ notes of Air New Zealand's Financial statements can be used to aid the shareholders to help them decide if they should buy, sell or hold their current shares in Air New Zealand Limited.

The accounting policies also help to show ~~that~~ if NZIFRS are followed GAAP and NZIFRS to see if ^{Air NZ} ~~the~~ are preparing the financial statements in accordance to those ~~the~~ and to show if ~~the~~ Air New Zealand is following the good practice of accounting ~~and~~ and if the statements are fair and true. This is important for shareholders if they want to make comparisons to other entities financial statements or past year statements.

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.

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

Air New Zealand Ltd may have shares in Brand New Zealand which would be shown in the Air NZ's interest register. This is a statutory requirement and has to be shown due to laws and regulations. Current shareholders would ~~be~~ benefit from this as they would be able to see what Air New Zealand supports and where their funds are going.

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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.

~~The general purpose sta~~ The ~~business~~ ^{Financial Position} Statement of ~~comprehensive income~~ does not show non financial information in ~~its~~ the statement for Air New Zealand Limited. This ~~could be~~ means that the employees that work hard to make clients come back and fly on their airline are unrecognised and ~~do not get~~ ^{customer service does not} get ~~recorded~~ as recorded in the Statement of Financial Position as human resource is not an asset. This is a limitation as users such as the shareholders won't know what is ~~helping~~ ^{helping} to make ~~the~~ revenue so high or so low as customer service is not ~~not~~ recorded, despite customer service being a large factor to sales.

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QUESTION TWO

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 total ~~pur~~ cost of the Boeing 787-9 is capital expenditure as the purchase is a one off ~~cost~~ and ~~the~~ the Boeing 787-9 will be used beyond the next accounting period by Air New Zealand Ltd to increase the inflow of future economic benefit. The Boeing 787-9 is an asset of Air New Zealand and will be reported in the Statement of Financial Position as Property, Plant and Equipment. The aircraft will be used by Air New Zealand to fly people from other countries eg Australia from New Zealand and that will result in an inflow of future economic benefit as the clients will pay for the air ticket to fly on the Boeing 787-9. ~~As this is an owned aircraft of Air New Zealand Ltd, this can reduce lease costs~~ This will help potential shareholders, or existing shareholders to see if they want to further invest into Air New Zealand as they know from the new purchase of the Boeing 787-9 that Air New Zealand is thinking of expanding and increasing their assets.

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

Depreciation on aircraft fleets are an expense for Air New Zealand Ltd as it results in an ~~outflow~~ outflow of economic benefits in the form of useful life. The depreciation will result in a decrease in equity as there will be a decrease in retained earnings and there are not distributions made by the Directors of Air New Zealand Ltd. There will be an outflow of future economic benefits in the form of useful life when Air New Zealand use the aircrafts eg the Boeing 787-9 to fly passengers to other countries.

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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.

The cost of preparing the statements for Air New Zealand outweighs the benefit. This is because the shareholders are the managers and know a lot about Air New Zealand's financial information already. ~~which therefore means that~~

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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.

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- (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 revaluation of Air New Zealand's Shares in Virgin Australia Holdings Ltd is faithfully represented as ^{the transaction} ~~it~~ is complete, neutral and free from error. The ~~transaction~~ revaluation would have been done by an independent registered valuer ~~that~~ at arms length and means that there is no bias when it comes to the revaluation of \$18 million in shares in Virgin Australia Holdings Limited, thus ~~is~~ is neutral. The revaluation of shares will have a certificate to show all financial information of the share revaluation which is therefore complete, and it is free from error as there would be no omissions in the revaluation figure of \$18 million. Despite being an estimation of the share price, the registered valuers base their figures on other share prices and other conditions which means that the figure of \$18 million is reliable for decision making for Air New Zealand Ltd. This would be helpful for Air New Zealand Ltd as it can give them ~~the~~ ~~realisable~~ ~~value~~ the realisable value of the shares in Virgin Holdings Ltd and ~~will~~ aid them in the decision whether to buy, sell or hold the shares.

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QUESTION THREE

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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.

The Air New Zealand Limited's Loyalty Programme is a liability as it arises from a past event where Air New Zealand allowed Airpoints members to earn points to reduce the cost of flying in the future. ~~The~~ Air New Zealand are presently obligated to pay for the redeemed airpoints dollars as there is a receipt from the customers of Air New Zealand showing the amount of airpoints dollars that they have. Future economic benefits are likely to flow out of Air New Zealand Ltd when the customers redeem the airpoints dollars and go on the flight which ~~the~~ Air New Zealand will have to pay. It is highly probable (more than 50%) that any future economic benefit will flow out of Air New Zealand Ltd as they will want to pay for the Air Dollars redeemed by the customers to make sure that they do not lose their customer base. Also, there is a receipt to show that the customers have the air dollars.

and Air New Zealand would be obliged to pay ~~for them~~ the amount of Air

Dollars redeemed. The value of air points of \$244 m can be reliably measured by an invoice or receipt and is therefore faithfully represented.

- Air New Zealand Ltd has ~~shown that~~ applied going concern as they have non-current liabilities of ~~the~~ Revenue in advance ~~total~~ of \$143 million. The non-current liabilities shows that Air New Zealand Plans on ~~continuing to~~ operating into the foreseeable future, ~~has means that~~ and do not plan on closing down/liquidating. The non-current liabilities show \$143 million that Air New Zealand will have to owe beyond the next accounting period. \$104 million of revenue in advance is likely to be paid within the next accounting period and is therefore a current liability. //

A4

Achievement with Merit exemplar for Accounting 91404 2015		Total score	16
Q	Grade score	Annotation	
1	E7	<p>The candidate was awarded two grades for:</p> <ul style="list-style-type: none"> • users knowing the policies / assumptions / bases that have been adopted / used in the preparation of <i>Air New Zealand Limited's</i> annual financial statements to aid comparability and adds that accompanying notes provide additional detail and disclosures for users to make sound decisions (buying shares) based on <i>Air New Zealand Limited's</i> annual financial statements. (C) • explains the limitation of the identified example (customer service) of a non-financial item, linked to the future profitability of <i>Air New Zealand Limited</i>. (C) 	
2	M5	<p>The candidate was awarded four grades for:</p> <ul style="list-style-type: none"> • describes that the Boeing 787-9 Dreamliner aircraft will provide economic benefit for <i>Air New Zealand Limited</i> beyond the current accounting period (I) • describes how the Boeing 787-9 Dreamliner aircraft is used to earn income for <i>Air New Zealand Limited</i> (I) • an expense results in a decrease in assets (aircraft), a decrease in equity, and is not a distribution to shareholders (U) • explains how faithful representation is satisfied by using an independent valuer to revalue <i>Air New Zealand Limited's</i> investment in <i>Virgin Australia Holdings Limited</i> (I) 	
3	A4	<p>The candidate was awarded the following four Achievement grades:</p> <ul style="list-style-type: none"> • states that the past event was when <i>Air New Zealand Limited's</i> Airpoints members earned the Airpoints Dollars • identifies that there is an outflow of economic benefit from <i>Air New Zealand Limited</i> when members redeem their Airpoints Dollars • there is a probable outflow of economic benefit from <i>Air New Zealand Limited</i>, as members will try to ensure that they use the Airpoints Dollars before the date of expiry • reliable measure of the loyalty programme based source documents from <i>Air New Zealand Limited</i> <p>The candidate was awarded the following three Merit grades:</p> <ul style="list-style-type: none"> • describes <i>Air New Zealand Limited</i> has a contractual obligation to honour the loyalty programme until such time the Airpoints Dollars are redeemed • links the description why <i>Air New Zealand Limited</i> is a going concern to the classification of liabilities as current and non-current • describes an explanation as to why the \$101 million of the loyalty programme is reported as a current liability <p>AND</p> <p>describes an explanation as to why the \$143 million of the loyalty programme is reported as a non-current liability.</p>	