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91404



NEW ZEALAND QUALIFICATIONS AUTHORITY
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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.

Achievement

TOTAL

11

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'S
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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."

This is of importance as the accounting policies help shape the Financial Statements of Air New Zealand. Knowing the accounting policies which Air New Zealand complied with when preparing the statements is important and helps with understandability. The statements are easier to understand when the accounting policies they were prepared in accordance with are known. Therefore this is an important statement as it shows Air New Zealand have disclosed their accounting policies.

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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
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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*.

A current shareholder of Air New Zealand Limited would be keen to see they invested in a company which has a good moral compass and cares for their environment. This report would delight shareholders as they would be confident that they support a company which is trying to do the right thing. Current shareholders will be less likely to seek other investment opportunities as they would prefer to be invested in an environmentally sustainable airline, like Air NZ.

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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 statements is the allowance for doubtful depreciation figures for Air New Zealand Limited's ~~planes~~ assets. The depreciation is merely an estimation and is unlikely to be the exact value. Therefore, this is a limitation.

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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 purchase of the Dreamliner is capital expenditure as it is a one-off cost, Air NZ will not need to purchase it again. The Dreamliner purchase is also of a non-current asset and will benefit Air NZ past the end of the current accounting period.

The Dreamliner will provide future economic benefit for Air NZ as customers will purchase seats on its flights. The Dreamliner will replace an older aircraft as its purchase was part of Air NZ's fleet replacement programme. Customers will be more eager to fly on Air NZ's new Dreamliner than an older plane so Air NZ will sell more tickets, which provide economic benefit to Air NZ.

- (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 on the aircraft fleet is an expense for Air NZ as it meets the definition of an expense. The depreciation will deplete Air NZ's asset of aircraft fleet/planes and will result in an outflow of economic benefit from Air NZ as when they sell their planes lower compensation will be received. The depreciation is not a distribution to shareholders.

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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 constraint on useful reporting is the idea that the cost of producing financial statements should not outweigh the usefulness of this reporting. This is applied to Air NZ in that the cost of producing their financial statements are lower than the usefulness gained.

ASSESSOR'S
USE ONLY

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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.

ASSESSOR'S
USE ONLY

- (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.

In order to meet the qualitative characteristics of faithful representation it must be complete, neutral and free from error. As this was an independent valuation it is neutral. The valuation has also been completed as a final figure has been worked out. It is not clear that the independent valuation is free from error, perhaps another valuer should come in and value the investment of Air New Zealand Ltd in Virgin Australia Holdings Ltd. N

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QUESTION THREE

ASSESSOR'S
USE ONLY

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 loyalty programme for Air NZ meets the definition and recognition criteria of a liability. The loyalty programme involves a past transaction, when a flight was booked and customers earned the Airpoints dollars. Air NZ also has a present obligation to allow customers to redeem the Airpoints Dollars as they wish, before they expire. When the Airpoints Dollars are redeemed there will be an outflow of economic benefit in the form of cash, seats on planes will be taken that leads to planes being full and customers not being able to purchase a seat on the flight.

Air NZ has applied the going concern assumption when reporting the loyalty ^{programme} as a current and non-current liability. Air NZ have assumed they will continue to operate into the foreseeable future and therefore customers will be able to redeem their Airpoints Dollars.

ASSESSOR'S
USE ONLY

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Achievement exemplar for Accounting 91404 2015		Total score	11
Q	Grade score	Annotation	
1	M5	<p>The candidate was awarded three 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</i>'s annual financial statements to aid understandability (I) • a valid reason describes how the report satisfies the information needs of a current shareholder (U) • describes the identified example of depreciation as being an estimated figure (I) 	
2	A3	<p>The candidate was awarded three 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) • describes that the benefit of preparing financial reports outweighs the cost (U) 	
3	A3	<p>The candidate was awarded the following two Achievement grades:</p> <ul style="list-style-type: none"> • states that <i>Air New Zealand Limited</i> has a present obligation to honour the amount owing for the loyalty programme • describes a reason why <i>Air New Zealand Limited</i> is a going concern <p>The candidate was awarded the following two Merit grades:</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 • describes the outflow of economic benefit occurs when members redeem their Airpoints Dollars, which results in less actual cash from passenger revenue into <i>Air New Zealand Limited</i> 	