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91404



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## Level 3 Accounting, 2016

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

2.00 p.m. Friday 18 November 2016  
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**

**10**

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**Note:** This assessment is based on *Michael Hill International Limited's* Annual Report for the period ended 30 June 2015.

You can use MHI to refer to *Michael Hill International Limited* in your answers.

### QUESTION ONE

- (a) Justify why *Michael Hill International Limited* is a New Zealand reporting entity.

The benefits of preparing General Purpose financial statements that comply with NZ GAAP for a full reporting entity would outweigh the cost of complying with NZ GAAP, a full reporting entity because *Michael Hill International Limited* is a reporting entity with public accountability. *Michael Hill International Limited* are separate from the governing body and these financial statements need to be relied on by shareholders and lenders in making decisions about lending to or investing in it. It is also an issuer, and because *Michael Hill International Limited* has many users interested in the General Purpose financial statements due to the large size of *Michael Hill International Limited*.

*Michael Hill International Limited* donates 15% of the gross profits from the sale of the Pink Hope Collection to the Pink Hope Foundation (sponsorship programme), which supports families facing hereditary breast and ovarian cancer.

- (b) Justify why details regarding *Michael Hill International Limited's* donations to the Pink Hope Foundation are included in the Annual Report for the period ended 30 June 2015.

*Michael Hill International Limited* donations to the Pink Hope Foundation are included in the Annual Report 30 June 2015 because the face of the company included will give sponsors a bright and positive view and name of *Michael Hill International Limited*. And it will show future sponsors programmes and understanding of what other users perspective on *Michael Hill International Limited*.

- (c) The following statement has been extracted from the CEO's Review of Operations of *Michael Hill International Limited's* Annual Report for the period ended 30 June 2015:

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"During the year, we experienced strong e-commerce (online) sales growth of 122%. We also experienced strong levels of awareness across our digital and social channels."

Justify how this statement could be relevant to satisfying the information needs of an employee currently working in a retail store of *Michael Hill International Limited*.

Employees of Michael Hill International Limited are interested in this information because it lets them know the profitability of the business and stability. Current employees will also like to know if they will get paid for the work and period they stay with Michael Hill International Limited, and if there will be any retirement benefits as an employee of the business. This information is relevant to ~~satisfying~~ ~~employees~~ employees as it will help them make future ~~predictions~~ decisions.

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## QUESTION TWO

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The extract below is taken from the notes to the financial statements of *Michael Hill International Limited's* Annual Report for the period ended 30 June 2015.

### Basis of Preparation

The financial statements for the year ended 30 June 2015 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-oriented entities.

### Trade and Other Receivables

Collectibility of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off. A provision for impaired receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

- (a) Justify why the financial statements of *Michael Hill International Limited* are required to comply with NZ GAAP. In your answer, you should explain what NZ GAAP refers to.

NZGAAP refers to the principles of general application on which General Purpose Financial Statements are prepared. By complying with NZ GAAP, Micheal Hill International Limited complies, consist of all the applicable financial reporting standards in the NZIFRS, ensuring that a true and fair view is presented in its financial statements. In the absense of the industry practice is used. Financial Statements of ~~Michael Hill International Limited~~ Micheal Hill International Limited are requiried to comply with NZGAAP, because Micheal Hill International Limited is a reporting entity with public accountability, and financial statements need to be relied on by shareholders and lenders in making decision about investing in or lending to Micheal Hill International limited. They also can use this mformation for comparability. //

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- (b) Identify and justify the measurement base that has been applied to the reporting of Michael Hill International Limited's trade receivables.

Michael Hill International limited reports trades receivable <sup>under accounts receivable</sup> at estimated reliable value after allowing for doubtful debts.

This is the expected amount of cash (probable future economic benefit) in the form of cash that is likely to flow to the entity from its presents trades receivable.

This is reliable measure because of past experience with trades receivable and the age of trades receivable.

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**Statutory Report of the Directors****Accounting Policies**

There have been no changes in accounting policies during the year.

- (c) Justify how the above information aids comparability in *Michael Hill International Limited's* general purpose financial statements for a current shareholder of the company.

The above information aids comparability in Michael Hill International Limited general purpose financial statements for a current shareholder because ~~the~~ personal assets are still protected as the ~~the~~ information says that "accounting policies have no changes" and no financial difficulties have occurred within Michael Hill International Limited. The information show that they have compared past and present general purpose financial statement to see if changes have been made and that they are following the rules of accounting policies. It is also true and faithful. ||

For the year ended 30 June 2015, interest paid of \$4 547 000 was reported in *Michael Hill International Limited's* Statement of Cash Flows, after subtracting the amount paid for the interest owing from the previous year. On balance day, included in the accrued expenses total of \$5 772 000 was an amount owing for interest of \$161 000.

- (d) Explain in detail, using relevant amounts, how both the interest expense and the interest expense owing on balance day will be reported in *Michael Hill International Limited's* general purpose financial statements, other than the Statement of Cash Flows, for the year ended 30 June 2015.

The \$161000 owing for interest expense will be added to the \$45 47000 interest expense<sup>paid</sup> so that \$4708000 will be reported in the Statement of Comprehensive Income for this period as it relates to this period.

~~The \$161000~~ <sup>\$5772000</sup> owing for interest expense will be reported as a accrued expense, a current liability in the statement of financial position on balance day as the interest owing will be paid next period.

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## QUESTION THREE

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**Note:** The following has been extracted from the *Michael Hill International Limited* Annual Report for the period ended 30 June 2015.

*Michael Hill International Limited* is currently in dispute with the New Zealand Inland Revenue Department (IRD). On 30 June 2015, the issues with the IRD remain unresolved.

*Michael Hill International Limited* is under investigation by the IRD for the tax treatment adopted by the Group in relation to the financing arrangements between New Zealand and Australian group members for the last six accounting periods, from 2009 through the 2014 financial year.

The total amount of tax deductions claimed by the Group in respect of these years and that is in dispute is NZ\$35 million.

The Group continues to defend its position and has started legal proceedings in the High Court of New Zealand, with a view to this pending lawsuit being brought to a conclusion, rather than remaining unresolved.

Justify why the accountants for *Michael Hill International Limited* have shown the pending lawsuit as a contingent liability in the Notes to the Financial Statements, as opposed to a liability in the Statement of Financial Position.

In your answer, explain:

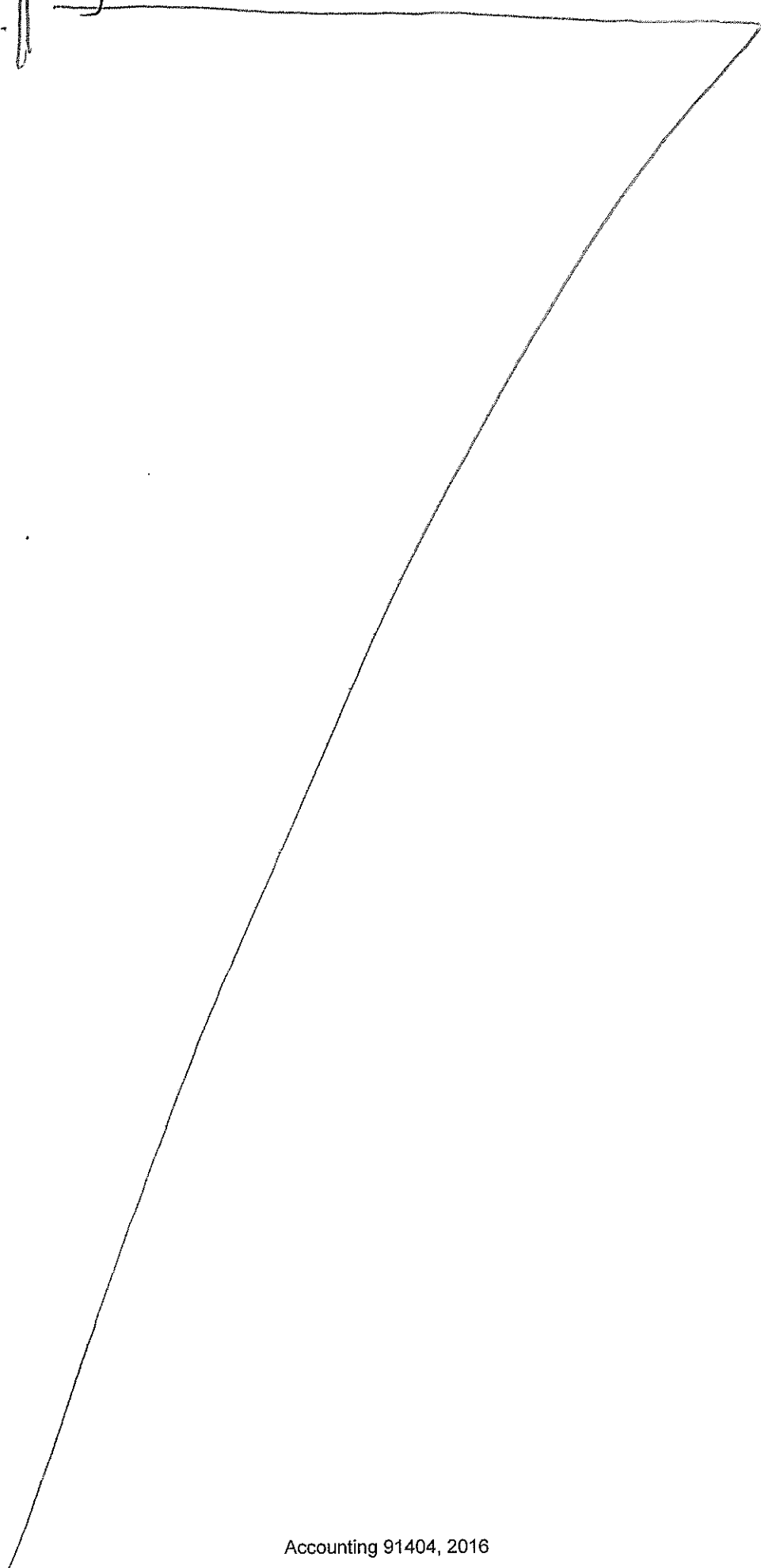
- how the pending lawsuit does not meet the definition of a liability for *Michael Hill International Limited*
- how the qualitative characteristic of relevance, including materiality, applies to disclosing the pending lawsuit in the Notes to the Financial Statements.

~~Pending lawsuit does not~~ A liability is a liability that currently must be repaid ~~back to~~ because either Goods have been received (suppliers) contracted has been signed (invoice, electricity, wages owing) or agreement has been signed (loan or lease). Therefore must give up some of its money in the future to repay the liability, that cash once paid, cannot be used elsewhere. Hence pending lawsuit does not meet a definition of liability as New Zealand and Australian group do not have a financing agreement for the tax treatment but a conclusion has been made in how to resolve the issues with IRD.

Information included in *Michael Hill International Limited* must be helpful in making decision about disclosing the pending lawsuits. The NZ\$35 million is a large amount and will influence



decision making as this will effect future decisions about the business.



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Achievement exemplar for Accounting 91404 2016		Total score	10
Q	Grade score	Annotation	
1	A4	<p>The candidate was awarded three grades for:</p> <ul style="list-style-type: none"> <li>• Identifies that <i>Michael Hill International Limited</i> is a New Zealand reporting entity because the company is an issuer. (U)</li> <li>• A valid reason described for the purpose of sponsorship programmes that is linked with a user's relationship to <i>Michael Hill International Limited</i>. (I)</li> <li>• A valid reason describes how the statement satisfies the information needs of a current physical store employee. (U)</li> </ul>	
2	M5	<p>The candidate was awarded three grades for:</p> <ul style="list-style-type: none"> <li>• Compliance with NZ GAAP and the NZ IFRS is necessary because <i>Michael Hill International Limited</i> has public accountability/is relied on by shareholders to ensure a true and fair view. (C)</li> <li>• Explains that the realisable value is the expected cash to be received from accounts receivable assuming that doubtful debts will be written off as bad debts, which is based on past experience. (C)</li> <li>• Explains fully how the interest expense is reported in Statement of Comprehensive Income. (I)</li> </ul>	
3	N1	<p>Candidate writes about information influencing users' decision making which is a description of the qualitative characteristic of relevance.</p>	