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91404



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Mana Tohu Mātauranga o Aotearoa
New Zealand Qualifications Authority

Level 3 Accounting 2024

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

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 2–8 in the correct order and that none of these pages is blank.

Do not write in the margins (// // // //). This area will be cut off when the booklet is marked.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

Excellence

TOTAL 24


This assessment is based on *Tourism Holdings Limited's* Annual Report for the year ended 30 June 2023.

Tourism Holdings Limited is an Aotearoa New Zealand tourism company that manufactures, rents, and sells recreational vehicles (RVs) including motorhomes, campervans, and caravans. It is also involved in other tourist activities, such as Waitomo Caves and black water rafting.

In this assessment, THL can be used to refer to *Tourism Holdings Limited*.

QUESTION ONE

- (a) The following is an extract from the Our People and Responsibility section of the annual report.



THRIVE
SUPPORTING OUR CREW, CREATING
A HEALTHY CULTURE, AND BUILDING
CULTURAL CAPABILITY

GOALS

- Employee health
- Living wage
- Fair employment terms
- Employee discrimination
- Employee concerns

With reference to the goals identified, explain why this information would be of interest to a potential employee of *Tourism Holdings Limited*.

THL's goals of supporting their crew is relevant as it is capable of making a difference to economic decisions of potential employees. This is because it highlights their ^{goals/}values of ^{creating}a healthy environment for their workers by providing them with good pay, working conditions etc. This would encourage a potential employee to work for THL as it is likely that they will receive good remuneration for their work ^{as}and THL paints itself in a positive light and puts a human face behind its operations, that cares about its people and not just profit. THL's goal of fair employment terms also is evidence for a secure employment for the potential employee.

- (b) Explain why a potential employee would be interested in the consolidated statement of cash flows in the financial statements section of the annual report.

In your answer, include:

- the purpose of the consolidated statement of cash flows
- specific information in the consolidated statement of cash flows that would be of interest to a potential employee.

The Cash Flow Statement shows THL's historical changes in cash, their ability to generate cash and how they use it. This is of interest to a potential employee as a good cash flow (ie. positive closing bank balance) suggests that THL has the ability to pay its employees as and when they fall due, so potential employees are likely to be paid on time.

under operating activities

Another aspect of interest would be the cash paid for expenses, especially because it includes the cash paid for employees' remuneration which would provide evidence of how THC cares about healthy working conditions / pay for its employees. Finally, the employee may be interested in dividends paid under financing activities as it provides insight to how much profit THC is making. This is because dividends are paid from profits so high dividends mean larger profits typically. This would suggest that the company is doing well, relating to positive job security.

In our opinion, the accompanying consolidated financial statements of *Tourism Holdings Limited* (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2023, its financial performance and its cash flows for the year ended in accordance with New Zealand Equivalents to *International Financial Reporting Standards* (NZ IFRS) and *International Financial Reporting Standards* (IFRS).

- (c) Explain why a potential shareholder would be interested in this statement from the auditors. In your answer, include:

- reference to the qualitative characteristics of faithful representation and comparability
- how this statement enables a shareholder to make decisions based on the financial statements with confidence.

An auditor's report provides an independent opinion that ensures THC's general purpose financial statements comply with NZGAAP and show a true and fair view of THC's financial position, performance, cash flows for the year. THC's financial statements are faithfully represented as it has been checked by an independent neutral 3rd party (external auditors) so are free from material error and ~~can~~ ^{complete,} be relied on by users ^{to make informed decisions.} The auditor's report ensures comparability as the financial statements must follow the specific rules of NZGAAP to ensure that they are presented/prepared consistently. Users can thus ^{identify} similarities and differences between THC and other entities, and THC over time. For example, a potential shareholder can compare THC and its competitors' profit for the year to ^{which is higher than,} determine how likely they are to receive dividends and thus where to invest/buy ~~shares~~ ^{shares.}

Potential shareholders may also be interested in the auditor's report to understand whether or not THC is a company that complies with accounting laws thus its trustworthiness. Since the statements satisfy the auditors' potential shareholders may be encouraged to invest.

QUESTION TWO

- (a) Tourism Holdings Limited paid audit fees of \$1 125 000 to PwC New Zealand. Explain why audit fees are reported as revenue expenditure in the financial statements of Tourism Holdings Limited.

Audit fees of \$ 1 125 000 is revenue expenditure as it is recurring expenditure that benefits THL for only the current accounting period as it is used up and needs to be paid regularly. For example, PwC's auditing service will only benefit THL in ensuring they comply with NZ GAAP etc for the year and needs to be paid again next year. Hence, it is expensed in THL's Statement of Comprehensive Income.

- (b) Justify how and why the income tax expense of \$17m is treated differently to the current tax payable of \$13m as reported in the financial statements of Tourism Holdings Limited. In your answer include reference to the relevant financial statements and recognition criteria applied to reporting these financial elements.

Income tax expense of \$17m is an expense so it is reported in THL's Statement of Comprehensive Income. ^{*} This is relevant as it is capable of making a difference to economic decisions of users as it is the likely amount of cash that THL must pay to the IRD in total for the year otherwise they may face fines. ^{*} This shows faithful representation as it is calculated by the IRD (an independent neutral 3rd party) based on ^{complete} THL's actual profits for the year so is free from material error, ^v and verifiable through a tax notice. This proves the market value of the transaction. ^{*} \$17m is a significant cash outflow so is also material in size. Banks may want to know this as it could negatively impact THL's cash flow thus ability to repay a loan plus its interest.

Current taxation payable of \$13m is a current liability so is reported in THL's Statement of Financial Position. ^{*} This is relevant as it is capable of making a difference to economic decisions of users because

which is ⁵ a significant thus material amount,

it is the likely amount of cash[✓] that THL will pay to the IRD as it is still owing after provisional tax paid based on their estimated profits was offset.[✓] ^{and they can face fines otherwise.} This amount shows faithful representation as it is calculated and confirmed by the IRD, an independent neutral 3rd party,^{so is free from error and complete} which proves the market value of the transaction. It is verifiable by finding the difference between provisional tax payments (on a tax notice) and the actual tax expense (on another income tax notice) based on THL's actual profits for the year.

✱ This is because THL's Statement of Comprehensive Income only includes incomes, expenses and comprehensive income. Income tax expense is an expense as it decreases assets (bank) which decreases equity (less profit) and is not a result of distribution to holders of equity claims. It is a decrease in assets as cash is paid to the IRD.

✱ This is because the Statement of Financial Position only includes assets, liabilities, and equity. Tax payable is a liability as THL has a present obligation to pay the IRD so they don't face a fine. The transfer of economic resource is the cash that will be paid to the IRD which cannot be used elsewhere. The past event was when profit for the year was calculated and a tax notice was received.

QUESTION THREE

Use the information contained in the following property, plant, and equipment note extract for *Tourism Holdings Limited* to answer this question.

Property, plant, and equipment is made up of the following assets:

- motorhomes – comprises the rental fleet of the rentals business; motorhomes that are held for sale are reclassified from property, plant, and equipment to inventory
- motor vehicles
- land and buildings
- other plant and equipment
- capital work in progress – capital purchases and projects that are not yet in service; the most significant work in progress relates to the motorhome fleet built for the next season.

Land and buildings are shown at historical cost, less subsequent accumulated depreciation for buildings. Land is not depreciated. All other property, plant, and equipment are stated at historical cost, less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the period in which they are incurred.

Justify why items of property, plant, and equipment are reported as assets in the statement of financial position for *Tourism Holdings Limited*.

In your answer, explain:

- why motorhomes held for sale are classified as inventory in current assets, while rental motorhomes are classified as property, plant, and equipment
- how historical cost is applied to the measurement of property, plant, and equipment (PPE)
- how the work in progress of the motorhome fleet meets the definition of an asset and why it is an example of capital expenditure associated with property, plant, and equipment.

Motorhomes held for sale are primarily held for trading purposes hence is classified as inventory, a current asset, as it is expected to be realised in TLC's normal operating cycle. Rental homes are a noncurrent asset, reported as PPE, because it is not expected to be realised in TLC's normal operating cycle. This is assuming that TLC is a going concern and will continue to operate and provide RVs, tourist activities etc into the foreseeable future. (i.e. they have no intentions of liquidating / cease trading in the next 12 months), allowing them to classify assets as current and noncurrent.

The historical cost of Property, plant and equipment (PPE) is the amount of cash paid / payable at the time of the transaction (i.e. the original purchase price) which includes the costs of getting it into a condition and position for use. This is because it is verifiable through source documents (receipt / invoice) when the items of PPE were purchased, showing faithful representation. The historical cost is what the value of the asset is recorded at.

The work in progress of the motorhome fleet is an asset as it has potential to produce economic benefits for THC as it can be sold/rented ^{when completed} to paying customers which generates income thus brings in cash to the company. Only THC can use the motorhome fleet as they own it which prevents / restricts others from gaining its economic benefit. The motorhome fleet project was initiated in the past so the past event is when the progress began.

The construction of the motorhome fleet is capital expenditure as it is a one-off cost that will provide economic benefit to THC beyond the current accounting period as it will be kept and used over multiple periods to generate income thus cash for THC. This is because it can be rented out to clients who will pay for THC's services. Hence, it is reported in THC's Statement of Financial Position as ~~a current asset~~ ^{a noncurrent} asset as part of PPE since its economic benefits are not expected to be realised in THC's normal operating cycle and is a part of what generates THC's revenue.

Subject: Accounting

Standard: 91404

Total score: 24

Q	Grade score	Marker commentary
One	E8	<p>The candidate provided clear justifications in all the following four areas:</p> <ul style="list-style-type: none">• potential benefits to employees of both the Our People and Responsibility extract and the consolidated statement of cash flows in <i>Tourism Holdings Limited's</i> Annual Report• potential benefits to shareholders of <i>Tourism Holdings Limited's</i> audited financial statements• faithful representation, as the auditors provided an independent opinion that <i>Tourism Holdings Limited's</i> financial statements show a true and fair view by following NZ GAAP• Comparability, as <i>Tourism Holdings Limited's</i> financial statements have been prepared consistently.
Two	E8	<p>The candidate provided clear justifications in all the following three areas:</p> <ul style="list-style-type: none">• revenue expenditure, by justifying that the audit fees are a recurring expense for <i>Tourism Holdings Limited</i> that benefit the current accounting period only• why income tax is an expense, by explaining the expense definition and that this is reported in <i>Tourism Holdings Limited's</i> comprehensive income statement• recognition criteria for both the income tax expense and the current tax payable. <p>The candidate explained why taxation payable is a liability in <i>Tourism Holdings Limited's</i> statement of financial position but did not justify why this is reported as a current liability.</p>
Three	E8	<p>The candidate provided clear justifications in all the following four areas:</p> <ul style="list-style-type: none">• distinction between current and non-current assets• historical cost and how this figure is verifiable through source documents• how the work in progress of the motorhome fleet meets the three characteristics of the asset definition• why property, plant and equipment is capital expenditure.