

No part of the candidate's evidence in this exemplar material may be presented in an external assessment for the purpose of gaining an NZQA qualification or award.

SUPERVISOR'S USE ONLY

3

91404



Draw a cross through the box (X) if you have NOT written in this booklet

☐

+



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.

Merit

TOTAL 16



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*.

The info provided in the ~~goals~~ 'Our People and Responsibility' section of the annual report for THL, specifically the 'Goals' section, would be of interest to a potential employee of THL because it outlines the clear benefits of working at this company and shows that the wellbeing of employees is ~~paramount~~ important to THL. Potential employees will be eased to know that their employee rights will not be ignored by management and that they will be paid a living wage rather than just the minimum wage which is often not ~~adeq~~ adequate to support an individual in the current economy.

- (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 purpose of a consolidated statement of cash flows is to list the cash flowing IN & OUT of ^{THL} ~~the business~~ over the accounting ^{year} ~~period~~ and to calculate whether there is a net cash inflow or outflow for the ^{year} ~~acc. period~~. A potential employee would be interested in the consolidated statement of cash flows ~~(CSOF)~~ (CSOF) because the information in



the financial statement would help indicate to employees that THL is able to pay for their expenses (such as purchases, insurance, loan repayments) in a timely fashion and are also regularly receiving enough cash inflows (such as sales, fees) to offset the cash outflows. This will allow potential employees to feel safe joining THL as they are confident the business will not go ~~bankrupt~~ bankrupt or not make payments during their employment.

The independent auditors' report includes the following statement.

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.

→ between companies AND years

The statement from the auditors above indicates that the financial info made available about THL is faithfully represented - the info is correct and complete and properly reflects the financial standings of the business, and it is comparable - potential shareholders can use the info to make comparisons of THL's financial performance with that of other businesses they might want to invest in, and since the info in THL's statements adheres to NZIFRS and IFRS they can be assured that the standard to which the report is done to will be similar and therefore comparable to other companies. Furthermore, potential shareholders can use THL's financial info and compare it with previous years to see the current growth till date as well as the growth potential for THL, before deciding whether or not they want to ~~become~~ invest in the business. The statement from the auditors provides potential shareholders with the confidence they need to make a final decision about whether they should become a shareholder of THL.



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. \hookrightarrow not capital??

Audit fees are reported as revenue expenditure in the financial statements of THL because they are ~~recurring~~ a recurring expense for THL, ^① that ~~one~~ ^{THL is} required by law to continue Audits is required by law and THL must complete them when necessary for the continued operation of the business and is therefore reported as revenue expenditure.

① ...unlike a capital expenditure, which is a one-off expense usually required for the set up of (aspects of) the business.

- (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 FR&RT applied to reporting these financial elements. \hookrightarrow statement of comprehensive income? 63/64??

The income tax expense of \$17m is treated differently than the current tax payable of \$13m because of the difference in when its paid. The income tax expense of \$17m will be reported in the Statement of Comprehensive Income for THL at value of \$17m. ~~It~~ In the general ledger entry for Taxation expense, 'Tax payable' will be credited ~~\$17m~~ \$13m and Tax expense will be credited \$4m. ~~It is~~ By treating these accounts as such, THL's financial info re the accounts ~~is~~ is faithfully represented - as all complete workings related to the tax expense are completed in the financial statements, and it is relevant - as all info provided is relevant info and will provide users with all necessary info needed for decisionmaking.

Income tax expense (cr) 5000 | ~~Income tax ex~~ Tax payable (cl) 4000
~~provisional tax paid~~ 1000

\$5

Inc. tax exp.	4000	
Prov. tax paid		1000

Tax payable				
inc. tax. expense	115200		8000	CR

_____ x _____ x _____ ✓ _____ x _____

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:

- | | |
|-------|--|
| (a) ✓ | why motorhomes held for sale are classified as inventory in current assets, while rental motorhomes are classified as property, plant, and equipment |
| (b) ✓ | how historical cost is applied to the measurement of property, plant, and equipment |
| (c) ✓ | 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. |

(a) Motorhomes held for sale ^(SM) are classified ~~as~~ as inventory in current assets ~~because~~ while rental motorhomes ^(RM) are classified as PPE because SM will be sold within the accounting year while RM will be ~~continuously~~ continuously used by THL in future business as they rent the RMs out to customers and therefore receive ~~inflows~~ recurring inflows of economic benefit as opposed to the one-off inflows of economic benefit from the sale of SMs.

(b) Historical cost is applied to the measurement of PPE because it is important for business THL to use verifiable costs for all of their assets, and since the sale/~~off~~ purchase of these assets would have resulted in a transaction and/or receipt, THL can accurately represent the cost of PPE by using their historical cost. For future sale of assets or asset revaluations, THL will be able

to calculate the gain/loss on sale or increase/decrease in fair value of asset more accurately if they use the historical cost when reporting PPE in their financial statements.

(c) The work in progress (WIP) of the motorhome fleet ~~being built for the next season~~ meets the definition of an asset because it is being built for THL's use in the next season, meaning that THL has full present control of the asset (only they are able to rent or sell the WIP motorhomes), and the renting ~~of~~ and sales of the motorhome fleet would ~~be~~ used to generate revenue/profit for THL indicating future inflows of economic benefit. The construction of the motorhome fleet also ~~shows~~ ^{means} indicates that THL would have purchased materials and labourers for the building process, indicating the past transaction required for an item to be considered an asset - and THL would have purchase receipts and contracts with the labour to prove the transaction. The expenditure associated with the WIP motorhome fleet is an example of capital expenditure (associated with PPE), as the construction of the motorhomes ~~will~~ require a one-time expenditure by THL that will establish the business's capacity to use the fleet (cap. expend. are one-off expenses that help with the set up of a business / aspects of a business and do not need to be repeated. The maintenance of RM would be considered rev. expend but the purchase of / construction of ~~all~~ the fleet is a cap. expend.)

Subject: Accounting

Standard: 91404

Total score: 16

Q	Grade score	Marker commentary
One	M6	<p>The candidate provided three of the following explanations in context:</p> <ul style="list-style-type: none">• potential benefits to employees of the Our People and Responsibility extract from <i>Tourism Holdings Limited's</i> Annual Report• potential benefits to employees of <i>Tourism Holdings Limited's</i> consolidated statement of cash flows• potential benefits to shareholders of <i>Tourism Holdings Limited's</i> audited financial statements.
Two	A3	<p>The candidate provided the following two explanations with some reference to context:</p> <ul style="list-style-type: none">• revenue expenditure, as audit fees are a recurring expense for <i>Tourism Holdings Limited</i>• income tax is an expense in Tourism Holdings Limited's comprehensive income statement. <p>The candidate explained the processing of the tax expense and tax payable accounts with little reference to the conceptual basis of accounting, resulting in an overall A3 for the question.</p>
Three	E7	<p>The candidate provided clear justifications in the following two areas:</p> <ul style="list-style-type: none">• historical cost and how this figure is verifiable through source documents• explanations of how the work in progress of the motorhome fleet meets the three characteristics of the asset definition. <p>To secure a third justification, more emphasis was required on the accounting period concept and the benefit of the property, plant and equipment in both the distinction between current and non-current assets and capital expenditure.</p>