Assessment Schedule – 2018

Accounting: Demonstrate understanding of accounting concepts for a New Zealand reporting entity (91404)

Assessment Criteria

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding involves **applying** accounting concepts to a New Zealand reporting entity so that its stakeholders are able to make decisions.	*Demonstrate in-depth understanding* involves **explaining** the application of accounting concepts to a New Zealand reporting entity so that its stakeholders are able to make decisions.	*Demonstrate comprehensive understanding* involves **justifying** the application of accounting concepts to a New Zealand reporting entity so that its stakeholders are able to make decisions.

Evidence

Question	Evidence
ONE (a)	If *Auckland International Airport Limited* experiences financial difficulties and cannot pay its debts, the company's shareholders are not personally liable for *Auckland International Airport Limited's* debts as shareholders' personal assets are protected and cannot be sold to repay *Auckland International Airport Limited*'s debts. The extent of *Auckland International Airport Limited*'s shareholders' liability is limited to any amounts outstanding on their shares or any liability imposed on them by the company's constitution. The circumstances when limited liability may not protect *Auckland International Airport Limited's* directors can include if the directors have given a personal guarantee for a company debt, or if the directors act negligently; for example, making a distribution to the shareholders when the company fails the solvency test.
(b)	The cost constraint on useful financial reporting is that the benefits of producing annual financial statements that have been prepared in accordance with NZ GAAP, and have full compliance with NZ IFRS, would outweigh the costs incurred by *Auckland International Airport Limited.* This is because *Auckland International Airport Limited* is an issuer / has public accountability and has many users interested in its annual financial statements, and as the shareholders / creditors / lenders are separate from the governing body (directors), they do not have easy access to information about *Auckland International Airport Limited.*
(c)	The limitations of *Auckland International Airport Limited*'s general-purpose financial statements include: • Some figures are based on estimates and the judgement of the accountants; for example, depreciation on property, plant and equipment. Therefore, the profit of *Auckland International Airport Limited* is only the best estimate / is not entirely accurate. • Non-cash items or non-financial information are not included; for example, the reputation of *Auckland International Airport Limited* or its quality of staff / service, which can all impact on the future profitability of *Auckland International Airport Limited*.

N0 = No response; no relevant evidence.

Not Achieved	• Any ONE Achievement criterion. • Any ONE other question part attempted, but missing Achievement criteria because of a lack of context. **N1** ONE of the above **N2** BOTH the above
Achievement	• Reference to *Auckland International Airport Limited*'s shareholders being not personally liable / *Auckland International Airport Limited*'s shareholders' personal assets being protected. • Describes that the benefit of preparing financial reports outweighs the cost. • Identifies an example of an estimated figure or non-cash item. **A3** TWO of the above **A4** ALL the above
Achievement with Merit	• Limited liability described, linked with a reasonable example showing how limited liability applies to *Auckland International Airport Limited*'s shareholders. • Describes that the benefit exceeds the cost of preparing annual financial statements prepared in accordance with NZ GAAP / annual financial statements with full compliance to NZ IFRS. • Describes the identified example as being an estimated figure or a non-cash item. **M5** TWO of the above **M6** ALL the above
Achievement with Excellence	• Limited liability is explained that includes one circumstance in which limited liability may not protect a director (who is also a shareholder) of *Auckland International Airport Limited*. • Explains the benefit exceeds the cost of preparing annual financial statements prepared in accordance with NZ GAAP / annual financial statements with full compliance with NZ IFRS, linked to *Auckland International Airport Limited* being an issuer / public accountability and having many users. • Explains the limitation of the identified example of an estimated figure. Linked to the profit of *Auckland International Airport Limited* not being entirely accurate. OR Explains the limitation of the identified example of non-cash items, linked to the future profitability of *Auckland International Airport Limited*. **E7** TWO of the above **E8** ALL the above

Question	Evidence
TWO (a)	NZ GAAP refers to the specific rules, practices, and procedures relating to particular circumstances, broad concepts, and principles of general application, on which general-purpose financial statements are prepared. By complying with NZ GAAP, *Auckland International Airport Limited* complied with all the applicable financial reporting standards in the NZ IFRS – ensuring a true and fair view is presented in its financial statements. *Auckland International Airport Limited*'s financial statements are required to comply with NZ GAAP, because *Auckland International Airport Limited* is a reporting entity with public accountability, and the financial statements need to be relied on by shareholders and lenders in making decisions about investing in – or lending to – *Auckland International Airport Limited.*
(b)	The measurement base applied to the reporting of *Auckland International Airport Limited*'s accounts receivable is Realisable (settlement) value. Under this measurement base, the realisable value of $17.6 million is the expected cash to be received from Accounts Receivable, assuming doubtful debts will be written off as bad debts / after allowing for the impairment, which is based on past experience with bad debts and the age of accounts receivable.
(c)	Depreciation on Runway, taxiways and aprons is a depletion / decrease in assets (Runway, taxiways and aprons) that results in a decrease in equity, because there is less profit / this is not a distribution to the shareholders. Depreciation on Runway, taxiways and aprons is a decrease in economic benefit because as the runway, taxiways and aprons are being used they lose the ability to generate as much economic benefit in the future for *Auckland International Airport Limited*. Therefore the existing runway, taxiways and aprons will have less future economic benefit on balance day than they had at the beginning of the accounting period.
(d)	Explains the interest expense: • $72.8 million will be reported as the interest expense (finance costs) in the Statement of Comprehensive Income for the year, as this is the amount of interest for the period (ended 30 June 2017), and the $13.5 million of the interest expense not paid yet relates to the current accounting period / this year. Explains the interest payables liability: • The $13.5 million owing for the interest payables / accrued expense will be reported as a liability in the Statement of Financial Position on Balance Sheet day because this is the amount owed to the lenders of *Auckland International Airport Limited* for borrowings this period, which represents a future outflow of economic benefit – as the interest will be paid with cash next period, which decreases the bank account of *Auckland International Airport Limited.*

N0 = No response; no relevant evidence.

Not Achieved	• Any ONE Achievement criterion. • Any ONE other question part attempted, but missing Achievement criteria because of a lack of context. **N1** ONE of the above **N2** BOTH the above
Achievement	• Reference to NZ GAAP being specific rules / practices in preparation of statements *OR* financial statements that comply with NZ GAAP are expected to give a true and fair view. • Identifies the measurement base applied to the reporting of accounts receivable is realisable value. • Describes that an expense results in a decrease in assets (Runway, taxiways and aprons), a decrease in equity, and is not a distribution to shareholders. • $72.8 million is the amount of interest expense reported in the Statement of Comprehensive Income for the current period / $13.5 million will be reported in this year's Statement of Comprehensive Income. *OR* $13.5 million is a current liability reported at the end of the period, or on balance day, or in the Statement of Financial Position at the end of the period. **A3** THREE of the above **A4** ALL the above
Achievement with Merit	• Following NZ GAAP means that *Auckland International Airport Limited* has complied with all the applicable financial reporting standards in the NZ IFRS to give a true and fair view. • Describes that the realisable value of $17.6 million is the expected cash to be received from accounts receivable, assuming doubtful debts will be written off as bad debts. • Describes that depreciation on Runways, taxiways and aprons results in a decrease in assets (Runway, taxiways and aprons), a decrease in equity by less profit, and is not a distribution to shareholders. • Explains the interest expense *OR* explains the interest payables liability. **M5** THREE of the above **M6** ALL the above
Achievement with Excellence	• Compliance with NZ GAAP and the NZ IFRS is necessary due to *Auckland International Airport Limited* having public accountability / being relied on by shareholders to ensure a true and fair view. • Explains that the realisable value of $17.6 million is the expected cash to be received from accounts receivable assuming doubtful debts will be written off as bad debts, which is based on past experience. • Describes why depreciation on Runway, taxiways and aprons is an expense, and explains the decrease in economic benefit as the Runway, taxiways and aprons, once used, will provide less future economic benefit. • Explains the interest expense *AND* explains the interest payables liability. **E7** THREE of the above **E8** ALL the above

	Evidence
THREE	A liability is a present obligation of *Auckland International Airport Limited* arising from past events, the settlement of which is expected to result in an outflow from *Auckland International Airport Limited* of resources embodying economic benefits. *Auckland International Airport Limited* does not have a present obligation to pay any noise insulation costs as the company only has an obligation to fund the acoustic treatment when noise exceeds certain thresholds within defined areas and when the offers of acoustic treatment are accepted by home owners and schools. Neither of these situations exist on balance day, therefore there is no present obligation for *Auckland International Airport Limited.* There is no present obligation for *Auckland International Airport Limited*, and as a result there is no outflow from *Auckland International Airport Limited* of resources embodying economic benefits. There have been two past events: 1) when the Environment Court ratified that *Auckland International Airport Limited* has the obligation to mitigate the impacts of aircraft noise on the local community within defined areas, and 2) that *Auckland International Airport Limited* must continually monitor noise levels. Therefore the noise insulation costs cannot be reported in the Statement of Financial Position as a liability as not all aspects of the liability definition have been satisfied. The noise insulation costs are shown in the notes to the financial statements as a contingent liability due to relevance. The qualitative characteristic of relevance is described as any financial information that is capable of making a difference in the decisions made by any user of *Auckland International Airport Limited*'s financial statements. For example, creditors / lenders / shareholders / potential shareholders would be interested as this could represent a significant outlay for *Auckland International Airport Limited*, which would restrict the company's ability to pay its creditors / lenders or distribute dividends to existing or new shareholders. A component of relevance is materiality. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the information contained in *Auckland International Airport Limited*'s general-purpose financial reports. This contingent liability note is material because: • The large amount of cash ($9 million) required by *Auckland International Airport Limited* to pay for insulation costs if there is a significant increase in both aircraft noise levels, and the rate of acceptance of acoustic treatment offers by homeowners. These may influence report users' decisions on the future financial stability of the company. • The nature of this contingent liability may influence report users' decisions by questioning whether the company's future noise insulation costs will have any effect on future profits made by *Auckland International Airport Limited* as the second runway to the north may be extended beyond the length of the runway previously planned.

N0 = No response; no relevant evidence.

Not Achieved	• Characteristics of a liability described, with no context. • Relevance described, with no context. • Materiality described, with no context. **N1** ONE of the above **N2** At least TWO of the above
Achievement	• Describes that *Auckland International Airport Limited* has no present obligation to pay for any noise insulation costs. • Describes that there is no outflow of economic benefit from *Auckland International Airport Limited.* • Describes a past event that resulted in *Auckland International Airport Limited* reporting the contingent liability. • Describes the qualitative characteristic of relevance in the context of *Auckland International Airport Limited.* • Describes why the contingent liability is relevant information for any one user of *Auckland International Airport Limited*'s financial statements. • Describes the influence of materiality in the context of *Auckland International Airport Limited.* • Describes why the contingent liability is material; due to its size, it is likely to influence users of *Auckland International Airport Limited*'s financial reports in making decisions *OR* describes why the contingent liability is material; due to its nature, it is likely to influence users of *Auckland International Airport Limited*'s financial reports in making decisions. **A3** FOUR of the above **A4** FIVE of the above
Achievement with Merit	• Explains that *Auckland International Airport Limited* has no present obligation to pay for any noise insulation costs and provides a reason. • Explains that there is no outflow of economic benefit from *Auckland International Airport Limited* and provides a reason. • Explains the past events that resulted in *Auckland International Airport Limited r*eporting the contingent liability. • Explains the qualitative characteristic of relevance in the context of *Auckland International Airport Limited.* • Explains why the contingent liability is relevant information for any one user of *Auckland International Airport Limited*'s financial statements. • Explains the influence of materiality in the context of *Auckland International Airport Limited.* • Describes why the contingent liability is material; due to its size, it is likely to influence users of *Auckland International Airport Limited*'s financial reports in making decisions *AND* describes why the contingent liability is material; due to its nature, it is likely to influence users of *Auckland International Airport Limited*'s financial reports in making decisions. **M5** FOUR of the above **M6** FIVE of the above
Achievement with Excellence	• Uses justifications to demonstrate understanding of the nature of *Auckland International Airport Limited*'s contingent liability in terms of the definition of a liability. • Uses justifications from: o the application of the relevance qualitative characteristic o the application of materiality to demonstrate understanding of the reporting of *Auckland International Airport Limited*'s contingent liability. **E7** BOTH the above BUT only one sub-bullet (justifications from) **E8** ALL the above

Cut Scores

Not Achieved	Achievement	Achievement with Merit	Achievement with Excellence
0–7	8–13	14–18	19–24