

Assessment Schedule – 2007**Accounting: Describe and apply the conceptual basis of accounting in context (90500)****Evidence Statement****Note:**

- Where more than one grade can be awarded for a question, award the highest grade the candidate's answer achieves – **E** being the highest grade, followed by **A** then **D**.
- Each question can only be awarded ONE grade.
- Codes key: **E** = explain conflicts, limitations, interrelationships
A = apply and explain
D = describe, define or recognise
N = no grade awarded

Question	Evidence	Code
PART A (a)	<ul style="list-style-type: none"> • <i>All the shareholders of Wealthcom Limited are members of its governing body.</i> • <i>Wealthcom Limited is not large</i> <i>(revenue / income does not exceed \$20 million and is more than \$2 million)</i> <i>(assets does not exceed \$10 million and is more than \$1 million)</i> <i>(full time equivalent employees does exceed 50 and is more than five).</i> • <i>Wealthcom Limited is not a subsidiary of an issuer.</i> <p>Judgement Any ONE valid reason.</p>	D
(b)	<ul style="list-style-type: none"> • <i>Wealthcom Limited does not need to comply with all the disclosure requirements of all NZ IFRS. That is, Wealthcom Limited can adopt less comprehensive financial statement disclosures.</i> • <i>The cost of preparing general purpose financial statements is reduced.</i> <p>Judgement Any ONE of the above primary benefits.</p>	D
(c)	<ul style="list-style-type: none"> • <i>The costs of providing additional financial statement disclosures should not exceed the benefits of doing so.</i> • <i>As Wealthcom Limited is not an issuer / not large, it is unlikely that the benefits of complying with all NZ IFRS would exceed the costs that would be incurred by the company.</i> • <i>It is unlikely that the cost of preparing additional information required by full compliance with NZ IFRS would be of benefit to the shareholders / owners / directors of Wealthcom Limited as the company is closely held.</i> <p>Judgement First bullet point – explains costs do not exceed benefits of preparing additional information / full compliance / full disclosures in financial reports.</p> <p>Second two bullet points – adds an explanation by reference to not large / closely held.</p>	D A

<p>(d)</p>	<p><i>A constitution can modify the Companies Act (1993) to suit individual company requirements / needs.</i></p> <p><i>A constitution can provide / state for example:</i></p> <ul style="list-style-type: none"> • <i>rules for the sale of shares</i> • <i>rules for calling meetings</i> • <i>who may vote at meetings</i> • <i>rules for repurchase of shares</i> <p>Judgement</p> <p>Any ONE valid reason.</p>	<p>D</p>
<p>(e)</p>	<p><i>To provide information about the financial position, performance and changes in financial position (cash flows) of an entity that is useful to a wide range of users in making (economic) decisions.</i></p> <p>Judgement</p> <p>Refers to the objective as providing information about any one of the financial statements as per evidence AND makes reference to users in making (economic) decisions.</p>	<p>D</p>
<p>(f)</p>	<ul style="list-style-type: none"> • <i>The balance sheet shows assets, liabilities and equity of the business/Wealthcom Ltd and the relationship of these elements to each other at a point in time.</i> • <i>Information about the financial position contained in the balance sheet is useful in helping users understand how the entity could raise additional finance and meet its commitments as they fall due (liquidity and solvency).</i> <p>Judgement</p> <p>First bullet point – shows assets, liabilities and equity (at a point in time).</p> <p>Second bullet – provides a valid reason why users would be interested in the balance sheet as per evidence.</p>	<p>D</p> <p>A</p>

<p>PART B (a)</p>	<p><i>The land and buildings would have (initially) been stated / recorded at their acquisition / purchase cost.</i></p> <p>Judgement States that historical cost is recording of purchase / original or acquisition cost. (NOT “is valued at purchase cost”)</p> <p>Refers to land and buildings with the correct answer.</p>	<p>D</p> <p>A</p>
<p>(b)</p>	<ul style="list-style-type: none"> • <i>To be useful to users, information must be reliable. Information is reliable when it is free from material error and bias, and can be depended upon by users to faithfully represent that which it either purports to represent, or can reasonably be expected to represent.</i> • <i>The valuation is reliable because using an independent valuer ensures that the figure for land and buildings is free from material error and bias.</i> • <i>Land and buildings at fair value provided by an independent valuer ensures that the figure faithfully represents the fair value of land and buildings.</i> <p>Judgement First bullet point – defines reliability (both faithful representation and neutrality).</p> <p>Second two bullet points – links independent valuation of land and buildings with either neutrality or faithful representation.</p>	<p>D</p> <p>E</p>
<p>(c)</p>	<p><i>The leased machine asset exists because:</i></p> <ul style="list-style-type: none"> • <i>a past event of leasing has occurred</i> • <i>the machine is (presently) controlled by Wealthcom as Wealthcom can restrict access to their employees only (or only Wealthcom can use the machine)</i> • <i>the future economic benefit from the leased machine will arise because the machine is used to make cell phone parts that when sold bring cash / revenue to Wealthcom.</i> <p>Judgement Defines an asset (past transaction, control and future economic benefit).</p> <p>Refers to correct explanations as per evidence for two out of the three parts of the asset definition.</p> <p>Refers to correct explanations as per evidence for all three parts of the asset definition.</p>	<p>D</p> <p>A</p> <p>E</p>
<p>(d)(i)</p>	<ul style="list-style-type: none"> • <i>Wealthcom Ltd is presently obliged to make the lease payments in the future as it has signed the lease agreement / received an invoice / contracted to use the machine for a period of eight years, and there will be an outflow (giving up) of cash when the lease payments are made.</i> <p>Judgement The lease liability has to be paid back in the future.</p> <p>Refers to EITHER the present obligation exists because a lease agreement has been signed OR refers to an outflow of cash to repay the lease liability.</p> <p>Refers to BOTH the present obligation exists because a lease agreement has been signed AND refers to an outflow of cash to repay the lease liability.</p>	<p>D</p> <p>A</p> <p>E</p>

<p>(ii)</p>	<p><i>In order to continue to use the leased machine, Wealthcom Limited must continue to meet the lease payments, so it is more than 50% likely (probable) that they will do so, meaning that money will flow out to meet the payments.</i></p> <p>Judgement</p> <p><i>Wealthcom Limited is more than likely / probable to pay the lease payments and EITHER gives a reason why OR explains the future economic benefit as money being paid or an outflow of money.</i></p> <p><i>Wealthcom Limited is more than likely / probable to pay the lease payments and gives BOTH a reason why AND explains the future economic benefit as money being paid or an outflow of money.</i></p>	<p>A</p> <p>E</p>
<p>(e)(i)</p>	<p><i>Cash flow statement.</i></p>	<p>D</p>
<p>(ii)</p>	<p><i>If accrued interest treated as interest expense:</i></p> <p><i>Accrued interest will be added to interest expense reported in the income statement as the interest has been incurred in this period.</i></p> <p><i>The accrued expense will be reported as a current liability in the balance sheet on balance day as it represents an outflow of future economic benefit / present obligation as the interest amount will be paid next year</i></p> <p><i>If accrued interest treated as interest income:</i></p> <p><i>Accrued interest will be added to interest income reported in the income statement as the interest has been incurred in this period.</i></p> <p><i>The accrued income will be reported as a current asset in the balance sheet on balance day as it represents a future economic benefit as the interest amount will be received next year</i></p> <p>Judgement</p> <p><i>Accrued interest is reported in the period to which it relates.</i></p> <p><i>Accrued interest is added to interest (expense / income) reported in the current period / is a (current) asset / liability reported at the end of this period or on Balance Day or in the Balance Sheet for the period.</i></p> <p><i>Explains what happens to the interest expense / income AND the creation of a liability / asset.</i></p> <p><i>AND adds reference to the outflow of future economic benefit or present obligation as the interest will be paid next year / future economic benefit as the interest will be received in the next year.</i></p>	<p>D</p> <p>A</p> <p>E</p>

Judgement Statement

Achievement	Achievement with Merit	Achievement with Excellence
6 grades total	8 grades total	10 grades total
2 grades A or E	5 grades A or E	2 grades E 5 more grades A or E
1 grade from Part A 1 grade from Part B	4 grades from Part B	5 grades from Part B