



For Supervisor's use only

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90500



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA



National Certificate of Educational Achievement
TAUMATA MĀTAURANGA Ā-MOTU KUA TAEA

Level 3 Accounting, 2006

90500 Describe and apply the conceptual basis of accounting in context

Credits: Four

2.00 pm Thursday 23 November 2006

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 answer ALL the questions in this booklet.

If you need more space for any answer, use the page(s) provided at the back of this booklet and clearly number the question.

Check that this booklet has pages 2–7 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.

<i>For Assessor's use only</i>		Achievement Criteria	
Achievement		Achievement with Merit	Achievement with Excellence
Demonstrate an understanding of the conceptual basis of accounting in context.	<input type="checkbox"/>	Demonstrate a sound understanding of the conceptual basis of accounting in context.	<input type="checkbox"/>
		Overall Level of Performance <input type="checkbox"/>	

You are advised to spend 40 minutes answering the questions in this booklet.

In this assessment, the New Zealand equivalent to the IASB Framework for the Preparation and Presentation of Financial Statements is referred to as the NZ Framework.

PART A

Kiwiphone Ltd is a company whose shares are traded on the New Zealand Exchange. *Kiwiphone Ltd* has issued debentures to the public.

The following extract is from *Kiwiphone Ltd's* Statement of Accounting Policies in its annual report:

Kiwiphone Ltd Statement of Accounting Policies (extract)

Reporting Entity

Kiwiphone Ltd is a New Zealand company registered under the *Companies Act 1993*.

The company is a supplier of mobile, fax and internet facilities to many New Zealand households. The company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

Compliance with IFRS's

The financial statements comply with International Financial Reporting Standards.

Basis of Preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand.

- (a) Shareholders of *Kiwiphone Ltd* enjoy limited liability. Apart from limited liability, provide ONE **advantage** for *Kiwiphone Ltd* being a company.

- (b) Explain to *Kiwiphone Ltd's* directors why the company does **not** qualify for differential reporting exemptions.

(c) Describe the objective of general purpose financial statements.

(d) Describe how employees of *Kiwiphone Ltd* can use the information in the annual report to satisfy their information needs.

(e) Explain why users of *Kiwiphone Ltd's* annual report would be interested in the Cash Flow Statement.

(f) Explain fully why employment benefits' expense owing to employees is reported in the balance sheet as a **current liability**. You are **not** required to explain liabilities in your answer.

PART B

- (a) State the name of the underlying assumption on which the financial statements are based if management has no intention to liquidate the entity or to cease trading, and has not identified any circumstances which may force *Kiwiphone Ltd* to cease trading.

- (b) Explain fully **how** prepaid insurance on balance sheet date is **reported in the financial statements** to illustrate the accrual basis.

- (c) An independent survey published recently, has rated *Kiwiphone Ltd* as the best performing communications and on-line company in New Zealand. Because of this acknowledgement, the directors wanted to include an amount for goodwill in the balance sheet.

- (i) Explain fully why the directors wanted to include an amount for goodwill in the balance sheet, in terms of **relevance**.

- (ii) Using the qualitative characteristic of **faithful representation**, explain fully why the amount of goodwill cannot be reliably measured.

- (d) On balance sheet date, inventory included a number of cellphones about to be replaced by a new model. As a consequence, the old-model cellphones, which cost \$12 000, would be sold in the next two months in a below-cost sale likely to net \$4 000.

Kiwiphone Ltd's accounting policy for inventory begins with the following statement:

"Inventory is stated at the lower of cost and net realisable value."

- (i) State how the above policy will be applied to the measurement of the old cellphones included in inventory on balance sheet date.

- (ii) Explain fully why the old cellphones will be measured as identified in (i) above.

- (e) *Kiwiphone Ltd* has a five-year-term lease agreement on premises in a shopping mall complex.

Explain how the lease agreement meets the following aspect of an asset:

"An asset is a resource controlled by the entity" (adapted from NZ Framework – definition of assets).

- (f) On balance sheet date there was an invoice on hand for electricity.

Explain fully, in terms of the following definition and recognition criteria of an expense, why this amount owing for electricity is reported as an **expense** in *Kiwiphone Ltd's* income statement.

- (i) Definition

"Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants" (NZ Framework).

- (ii) Recognition criteria

"it is probable that any future economic benefit associated with the item (expense) will flow to or from the entity" (NZ Framework).
