

90500



NEW ZEALAND QUALIFICATIONS AUTHORITY  
MANA TOHU MĀTAURANGA O AOTEAROA

*For Supervisor's use only*

## Level 3 Accounting, 2007

### 90500 Describe and apply the conceptual basis of accounting in context

Credits: Four

2.00 pm Tuesday 27 November 2007

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.

Show ALL working.

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 2–6 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>		<b>Achievement Criteria</b>	
<b>Achievement</b>	<input type="checkbox"/>	<b>Achievement with Merit</b>	<input type="checkbox"/>
		<b>Achievement with Excellence</b>	<input type="checkbox"/>
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"/>
		Demonstrate a comprehensive understanding of the conceptual basis of accounting in context.	<input type="checkbox"/>
<b>Overall Level of Performance</b> <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 (NZF).

## PART A

*Wealthcom Limited* is a company that manufactures plastic components used in the electronics industry. *Wealthcom Limited* does not have public accountability. At its balance sheet date of 30 June 2007, *Wealthcom Limited* qualifies for differential reporting.

- (a) Apart from having no public accountability, state ONE additional reason why *Wealthcom Limited* would qualify for differential reporting.

---

---

- (b) State the primary benefit to *Wealthcom Limited* of differential reporting.

---

---

- (c) The opportunity for companies to use differential reporting is because of the **benefit : cost criterion**.

Explain how the balance between benefit and cost is applied to companies that qualify for differential reporting.

---

---

---

---

---

---

- (d) State ONE reason why *Wealthcom Limited* would choose to have a constitution.

---

---

(e) State the objective of financial statements.

---

---

---

---

(f) Explain why users of *Wealthcom Limited's* financial statements would be interested in the **balance sheet**.

---

---

---

---

Assessor's  
use only

**PART B**

*Wealthcom Limited* owns the land and buildings on which its factory is located. The land and buildings are reported in the balance sheet at their fair value, determined by independent registered valuers every three years.

- (a) The initial measurement base used for the land and buildings was historical cost.

Explain how historical cost would have been applied to the land and buildings as the initial measurement base.

---



---



---

- (b) Financial statements are required to have the qualitative characteristic of reliability.

Explain how reporting land and buildings at fair value in the balance sheet will meet the characteristic of reliability.

---



---



---



---



---



---



---

*Wealthcom Limited* has insufficient funds to purchase a machine to manufacture plastic cell phone covers. Rather than purchase the machine, the directors decide to lease the machine for a period of eight years.

- (c) Explain how the machine included in the lease agreement meets the definition of an asset of *Wealthcom Limited*.

---



---



---



---



---



---

(d) Explain how the lease liability meets the following definition and recognition criteria for a liability:

- (i) A liability is a present obligation of the entity, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

---

---

---

---

---

---

---

- (ii) "... it is probable that any future economic benefit associated with the item will flow to or from the entity". [NZF paragraph 83 (a)]

---

---

---

---

---

---

---

(e) *Wealthcom Limited* is required to prepare its financial statements using the accrual basis of accounting.

- (i) Which financial statement is exempt from this requirement?

---

- (ii) Explain **how** accrued interest on balance sheet date is **reported in the financial statements** to illustrate the accrual basis of accounting.

---

---

---

---

---

---

---





90500