

90500



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

For Supervisor's use only

Level 3 Accounting, 2008

90500 Describe and apply the conceptual basis of accounting in context

Credits: Four

2.00 pm Thursday 27 November 2008

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	<input type="checkbox"/>	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"/>
		Demonstrate a comprehensive 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 (NZF).

Topmarts Ltd, a company formed five years ago, operates three supermarkets in New Zealand. Currently the total assets and turnover of *Topmarts Ltd* are \$25 million and \$30 million, respectively.

Peter Nepia, a director of the company, is also one of the 500 shareholders in the company. Shares in *Topmarts Ltd* are traded publicly on the New Zealand stock exchange.

Part A

In order to incorporate *Topmarts Ltd* as a company five years ago, the owners, as part of the company incorporation application, included a name reservation letter from the New Zealand Companies Office.

- (a) State ONE **other** important piece of information that would have been required by the New Zealand Companies Office when the owners of *Topmarts Ltd* completed their company incorporation application.

- (b) Elizabeth Sua is another shareholder in *Topmarts Ltd*. Explain what **limited liability** means for Elizabeth and how this applies to her as a shareholder in *Topmarts Ltd*.

- (c) Using the assets and turnover of the company, explain why *Topmarts Ltd* does **not** qualify for **differential reporting**.

General purpose financial statements should fairly reflect an entity's performance, financial position, and cash flows.

- (d) Explain how New Zealand Equivalents to International Financial Reporting Standards help to ensure that the general purpose financial statements of *Topmarts Ltd* fairly reflect its performance, financial position and cash flows.

Topmarts Ltd is required by the Companies Act 1993 to keep an interests register. *Topmarts Ltd's* interests register contains the following general disclosure:

	Entity	Relationship
Peter Nepia	<i>Fortification Services Ltd</i>	Director / Shareholder

- (e) Explain why the Companies Act 1993 requires Peter to disclose his relationship with *Fortification Services Ltd* in the interests register.

The omission of **non-monetary items** is a limitation of *Topmarts Ltd's* general purpose financial statements.

- (f) Explain, using an **example** of a non-monetary item, **how** its **omission** is a **limitation** of *Topmarts Ltd's* general purpose financial statements, which may influence **potential shareholders**.

Part B

Information provided in financial statements must be readily understandable by users.

- (a) Describe what the shareholders of *Topmarts Ltd* are “assumed to have” when reading the financial statements, in order for the information to be **understandable**.

- (b) Explain how compliance with New Zealand Generally Accepted Accounting Practice helps to achieve **comparability** in *Topmarts Ltd's* financial statements.

- (c) Explain how *Topmarts Ltd's* accountants have applied the **going concern** assumption when preparing the company's financial statements.

- (d) Explain how the **reporting** of prepaid advertising of \$10 000 in *Topmarts Ltd's* balance sheet and income statement for the year ended 31 March 2008 illustrates the **accrual basis**.

Topmarts Ltd's accountants have used the **current cost** measurement base for the reporting of **land** in the company's balance sheet.

- (e) Explain how the reporting of land at current cost would be **different** if the **realisable value** measurement base was used instead.

- (f) Explain how a term deposit reported in *Topmarts Ltd's* balance sheet as an **asset** will provide **future economic benefit** for *Topmarts Ltd*.

- (g) Explain how the amount paid for auditors' fees reported in *Topmarts Ltd's* income statement meets the following definition of an expense:

"Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletion of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants." [NZF paragraph 70 (b)]

Topmarts Ltd owns the building where its head office is based. The company rents out office space in the building to *Healthy Days Ltd*.

- (h) Explain how rent **received** of \$48 000 would meet the following recognition criterion for **income**, in order for it to be reported in *Topmarts Ltd's* income statement:

"... the item has a cost or value that can be measured with reliability" [NZF paragraph 83 (b)]
