

90500



NEW ZEALAND QUALIFICATIONS AUTHORITY  
MANA TOHU MĀTAURANGA O AOTEAROA

*For Supervisor's use only*

## Level 3 Accounting, 2009

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

Credits: Four

9.30 am Thursday 26 November 2009

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

Answer ALL 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 2–8 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.

**Note:** 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).

*Empire Construction Ltd* provides construction management and development services for public projects around New Zealand. As a reporting entity, *Empire Construction Ltd* must prepare general purpose financial statements.

**QUESTION ONE**

- (a) (i) Identify who would require *Empire Construction Ltd* to **prepare general purpose financial statements**.

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- (ii) Explain why.

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- (b) Generally Accepted Accounting Practice in New Zealand (NZ GAAP) can be used as a guide for showing a **true and fair view** of general purpose financial statements. Explain more about what NZ GAAP refers to.

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- (c) Explain why *Empire Construction Ltd's* Statement of Accounting Policies must be read **in conjunction with** the company's general purpose financial statements.

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**QUESTION TWO**

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On 1 March 2009, *Empire Construction Ltd* received a fee of \$200 000 as an advance payment for a construction project begun in March. At the end of the month, the company's accountant determined that \$50 000 of the advance payment was to be reported as income and \$150 000 was to be reported as income in advance.

- (a) (i) Explain why the **\$50 000** of the advance payment reported as **fees received** in the Income Statement for the year ended 31 March 2009 meets the following definition of income:

*"Incomes are increases in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants."*

Source: NZF, paragraph 70 (a).

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- (ii) Explain, in terms of the **accrual basis of accounting**, how the **\$150 000** that the company's accountant determined as **income in advance** will be reported in *Empire Construction Ltd's* Income Statement and Balance Sheet for the year ended 31 March 2009.

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**QUESTION THREE**

- (a) Explain how the **depreciation on motor vehicles expense** reported in *Empire Construction Ltd's* Income Statement meets the following recognition criteria:

*"It is probable that any future economic benefit associated with the item will flow to or from the entity."*

Source: NZF, paragraph 83 (a).

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The Balance Sheet for *Empire Construction Ltd* shows an **upwards revaluation of buildings**.

- (b) (i) Identify the **measurement base** that has been applied to the buildings.

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- (ii) Explain **how** the measurement base identified in (i) is applied to the buildings.

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- (iii) Explain how an independent valuation leading to an upwards revaluation of buildings affects **reliability**.

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