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90500



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.

For Assessor's use only	Achievement Criteria	
Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate an understanding of the conceptual basis of accounting in context.	Demonstrate a sound understanding of the conceptual basis of accounting in context.	Demonstrate a comprehensive understanding of the conceptual basis of accounting in context.
Overall Level of Performance		

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

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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.

QUE	QUESTION ONE		
(a)	(i)	Identify who would require <i>Empire Construction Ltd</i> to prepare general purpose financial statements .	
	(ii)	Explain why.	
(b)	for s	erally Accepted Accounting Practice in New Zealand (NZ GAAP) can be used as a guide howing a true and fair view of general purpose financial statements. ain more about what NZ GAAP refers to.	
(c)		ain why Empire Construction Ltd's Statement of Accounting Policies must be read in unction with the company's general purpose financial statements.	

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).
	(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 <i>Empire Construction Ltd</i> 's Income Statement and Balance Sheet for the year ended 31 March 2009.

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During the financial period ending 31 March 2009, *Empire Construction Ltd* took out a loan of \$5 million repayable in five equal annual instalments, commencing on 2 April 2009.

In *Empire Construction Ltd*'s Balance Sheet dated 31 March 2009, the current portion of the loan is shown as a current liability of \$1 million and the remaining \$4 million is shown as a non-current liability.

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QUESTION THREE

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(a)		Ltd's Income Statement meets the following recognition criteria:		
	the e	probable that any future economic benefit associated with the item will flow to or from entity."		
	Sour	ce: NZF, paragraph 83 (a).		
The	e Bala	ance Sheet for <i>Empire Construction Ltd</i> shows an upwards revaluation of buildings .		
(b)	(i)	Identify the measurement base that has been applied to the buildings.		
	(ii)	Explain how the measurement base identified in (i) is applied to the buildings.		
	(iii)	Explain how an independent valuation leading to an upwards revaluation of buildings affects reliability .		

QUESTION FOUR

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Empire Construction Ltd recently signed a two-year contract to upgrade a sports stadium in preparation for the 2011 Rugby World Cup.

Included with *Empire Construction Ltd*'s general purpose financial statements is a note explaining the future capital expenditure commitments involved in completing this construction contract, as well as any penalty clauses for late completion.

Explain why this note has been included with *Empire Construction Ltd*'s general purpose financial statements. Your answer must include:

- a description of what is meant by future capital expenditure commitments
- a description of the concept of relevance including materiality

an explanation of how disclosing the future capital expenditure commitments and penalty clauses meets the needs of the users of <i>Empire Construction Ltd</i> 's general purpose financial statements.

Extra paper for continuation of answers if required. Clearly number the question.

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