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SUPERVISOR'S USE ONLY

91404



Level 3 Accounting, 2016

91404 Demonstrate understanding of accounting concepts for a New Zealand reporting entity

2.00 p.m. Friday 18 November 2016 Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of accounting concepts for a New Zealand reporting entity.	Demonstrate in-depth understanding of accounting concepts for a New Zealand reporting entity.	Demonstrate comprehensive understanding of accounting concepts for a New Zealand reporting entity.

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 attempt ALL the questions in this booklet.

If you need more room for any answer, use the extra space provided at the back of this booklet.

Check that this booklet has pages 2–11 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.

TOTAL

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Note: This assessment is based on *Michael Hill International Limited*'s Annual Report for the period ended 30 June 2015.

You can use MHI to refer to Michael Hill International Limited in your answers.

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lec	el Hill International Limited donates 15% of the gross profits from the sale of the Pink Hope ction to the Pink Hope Foundation (sponsorship programme), which supports families facing itary breast and ovarian cancer.
ŧu	itary breast and ovarian cancer.
	Justify why details regarding <i>Michael Hill International Limited</i> 's donations to the Pink Hope Foundation are included in the Annual Report for the period ended 30 June 2015.
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	atisfying the information needs of chael Hill International Limited.	an

QUESTION TWO

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The extract below is taken from the notes to the financial statements of *Michael Hill International Limited*'s Annual Report for the period ended 30 June 2015.

Basis of Preparation

The financial statements for the year ended 30 June 2015 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-oriented entities.

Trade and Other Receivables

Collectibility of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off. A provision for impaired receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

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Statutory Report of the Directors

Accounting Policies

There have been no changes in accounting policies during the year.

C)	Justify how the above information aids comparability in <i>Michael Hill International Limited</i> 's general purpose financial statements for a current shareholder of the company.

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For the year ended 30 June 2015, interest paid of \$4 547 000 was reported in *Michael Hill International Limited*'s Statement of Cash Flows, after subtracting the amount paid for the interest owing from the previous year. On balance day, included in the accrued expenses total of \$5 772 000 was an amount owing for interest of \$161 000.

30 June 2015.		of Cash Flows,	•	

QUESTION THREE

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Note: The following has been extracted from the *Michael Hill International Limited* Annual Report for the period ended 30 June 2015.

Michael Hill International Limited is currently in dispute with the New Zealand Inland Revenue Department (IRD). On 30 June 2015, the issues with the IRD remain unresolved.

Michael Hill International Limited is under investigation by the IRD for the tax treatment adopted by the Group in relation to the financing arrangements between New Zealand and Australian group members for the last six accounting periods, from 2009 through the 2014 financial year.

The total amount of tax deductions claimed by the Group in respect of these years and that is in dispute is NZ\$35 million.

The Group continues to defend its position and has started legal proceedings in the High Court of New Zealand, with a view to this pending lawsuit being brought to a conclusion, rather than remaining unresolved.

Justify why the accountants for *Michael Hill International Limited* have shown the pending lawsuit as a contingent liability in the Notes to the Financial Statements, as opposed to a liability in the Statement of Financial Position.

In your answer, explain:

•	how the pending lawsuit does not meet the definition of a liability for Michael Hill International
	Limited

•	how the qualitative characteristic of relevance, including materiality, applies to disclosing the pending lawsuit in the Notes to the Financial Statements.

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