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SUPERVISOR'S USE ONLY

91404



# Level 3 Accounting, 2019

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

2.00 p.m. Tuesday 26 November 2019 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 2–10 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

## **OCEANIA HEALTHCARE LIMITED (OHL)**

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This assessment is based on *Oceania Healthcare Limited*'s Annual Report from 1 June 2017 to 31 May 2018. *Oceania Healthcare Limited* operates premium aged care rooms and suites as part of a portfolio of rest homes and retirement villages throughout New Zealand.

You can use OHL to refer to Oceania Healthcare Limited in your answers.

#### **QUESTION ONE**

(a) The following statement is an extract from the letter from the chair of *Oceania Healthcare Limited*'s Annual Report for the period ended 31 May 2018:

In our second annual report since *Oceania Healthcare Limited* became a listed company, net profit after tax increased by 71.5% to \$77.0 million, compared with \$44.9 million for the prior financial year, and exceeded the initial public offering forecast by 45.0%.

low could this statement be relevant to satisfying the information needs of a potential evestor of Oceania Healthcare Limited? Justify your answer.					

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## **QUESTION TWO**

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	age service fees (e.g. meals and laundry) reported in <i>Oceania Healthcare</i> income note meet the definition of revenue.
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#### **QUESTION THREE**

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Included in *Oceania Healthcare Limited*'s notes to the consolidated financial statements for the year ended 31 May 2018 are the following two extracts:

#### **Investment property**

Investment property includes freehold land and buildings and land and buildings under development, comprising independent units, certain care suites, serviced apartments and common facilities, provided for the use of residents.

The fair value of completed investment property is calculated every six months by *CBRE Limited*. *CBRE Limited* is an independent registered valuer and is appropriately qualified, with experience of valuing retirement villages in New Zealand. The fair value of completed investment property is based on an industry-accepted valuation model applied to the expected future cash flows to derive a net present value.

*OHL*'s interest in all investment property was valued on 30 April 2018 by *CBRE Limited* at a total of \$332.1 million.

#### Capital commitments

At 31 May 2018, *OHL* has a number of commitments to develop and construct certain facilities totalling \$104.6 million, of which \$104.1 million relates to development sites.

At 31 May 2018, *OHL* is committed to acquiring a number of small parcels of land totalling \$14.3 million.

Use this information to explain how a bank manager approving a loan can use the fair value of investment property as security.

In your answer, justify:

- how Oceania Healthcare Limited's investment property measured at fair value meets the definition and recognition criteria of an asset
- why the fair value amount reported for investment property can be relied on by a bank manager when approving loan finance

•	how the capital commitments are relevant information for the bank manager.

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