

# Accounting NCEA Level 1 Appendix

This appendix has been prepared to clarify the impact of The New Zealand Equivalents to International Financial Reporting Standards (IFRS) on Achievement Standards 90022, 90026 and 90027.

This appendix is provided for teacher guidance in relation to the impact of NZIFRS on the Level 1 achievement standards.

At Level 1 candidates would not be required to give any detailed definition but should be able to recognise, describe and apply the definitions to financial elements.

## AS 90022 (1.1)

The **elements** being assessed are identified in Explanatory Note 4 of the achievement standard.

The New Zealand Equivalent to the IASB Framework for the Preparation and Presentation of Financial Statements (NZ Framework) contains the definitions of the Financial Elements.

Candidates should be able to identify the three key characteristics of each element definition except Equity (defined at Level One as Assets – Liabilities)

The recognition criteria will **not** be assessed.

The **accounting concepts** to be assessed are in Explanatory Note 5.

The users of financial information and their information needs are identified in the NZ Framework, paragraph 9.

## AS 90026 (1.5)

These are special purpose financial statements prepared for sole proprietors with emphasis on reporting to management.

The following templates have incorporated the necessary changes as a result of the introduction of the IFRS as they apply to New Zealand. These will be used for assessment purposes in 2007 and beyond.

### Statement of Accounting Policies

*(Business Name)*

#### Statement of Accounting Policies

##### **Name and Nature**

These financial statements are prepared for *(Business Name)* a sole proprietorship specialising in *(nature of business, e.g. plumbing services)*.

##### **Measurement Base**

The financial statements have been prepared on the basis of historical cost.

##### **Property, Plant and Equipment**

Property, plant and equipment are stated at their original purchase price, and except for land, depreciated.

##### **Depreciation**

The cost less residual value of property, plant and equipment (except for land) is depreciated over their estimated useful lives.

**Income Statement** (which replaces the Statement of Financial Performance)

**Service Entity**

*(Business Name)*

**Income Statement for the year ended 31 March 2006**

	\$	\$	\$
<b>Revenue</b>			
State primary source of income (1)			xxx
<b>Add Other income</b>			
(list) (2)		x	<u>xxx</u>
			xxx
<b>Less Expenses</b>			
<b>Group One expenses (3)</b>			
(list)	x		
	<u>xx</u>	xx	
<b>Administrative expenses</b>			
(list)	x		
	<u>xx</u>	xx	
<b>Finance costs</b>			
(list)	x		
	<u>xx</u>	<u>xx</u>	
<b>Total expenses</b>			<u>xxx</u>
<b>Profit (loss) for the year</b>			<u>\$ xx</u>

**Additional information clarifying the Income Statement for a service entity**

- (1) Revenue is the primary income source such as Plumbing Fees (Received) for a plumber.
- (2) Other income is income incidental to the main activity / ies for a service business such as interest received, dividends received, rent received
- (3) Group One expenses – the name of this expense category will be provided and will be appropriate to the service firm being assessed, eg Plumbing Expenses for a Plumber These are comprised of Distribution expenses (as per trading entity) and any other expenses specific to the provision and delivery of the service.

Trading Entity

**(Business Name)**  
**Income Statement**  
**for the year ended 31 March 2006**

	\$	\$	\$
<b>Revenue</b>			
Sales			xxx
Less Sales Returns			<u>(xx)</u>
Net Sales			xxx
<b>Less Cost of Goods Sold</b>			
Opening Inventory		xx	
Plus Purchases	xx		
Less Purchase Returns	<u>(xx)</u>	xx	
Plus Freight Inwards		x	
Customs Duty		<u>x</u>	
Goods available for sale		xx	
Less Closing Inventory		<u>(xx)</u>	
<b>Cost of goods sold</b>			<u>xx</u>
<b>Gross Profit</b>			xx
<b>Add Other Income</b>			
(list)		x	
		<u>x</u>	<u>x</u>
			xxx
<b>Less Expenses</b>			
<b>Distribution costs</b>			
(list)	x		
	<u>xx</u>	xx	
<b>Administrative expenses</b>			
(list)	x		
	<u>xx</u>	xx	
<b>Finance costs</b>			
(list)	x		
	<u>xx</u>	<u>xx</u>	
<b>Total expenses</b>			<u>xxx</u>
<b>Profit (loss) for the year</b>			<u>\$ xx</u>

**Additional information clarifying the Income Statement for a trading entity**

**Income**

Revenue	Sales .
Other Income	All other revenues/income and gains <b>Examples</b> (but not limited to): interest received, dividends received, rent received, commission received

**Expense classifications**

Distribution Costs:	Distribution costs are expenses incurred in transferring ownership of finished goods to the consumer. Those expenses incurred through the promotion, storage, selling and delivery of the inventory for sale.  <b>Examples</b> (not limited to): Advertising, Sales Salaries/Wages, Vehicle Expenses, Shop Electricity, Shop Rent, Delivery Expenses, Depreciation on Shop Fittings/Vehicles
Administrative Expenses:	Administrative expenses are costs associated with the administration of the entity as a whole.  <b>Examples</b> (not limited to): Office Salaries/Wages, Rent, Insurance, Depreciation on Office Equipment/Buildings, Telephone, Accountancy Fees
Finance Costs:	Finance costs arise from an entity financing its operations from external sources. Finance Costs are limited to different types of interest paid.  <b>Examples:</b> Interest on Overdraft, Interest on Loan, Interest on Mortgage.

**Balance Sheet** (which replaces the Statement of Financial Position)

NZIAS 1 does not prescribe a balance sheet format. However the following format will be provided where a format outline is given.

**(Business Name)**  
**Balance Sheet**  
**as at 31 March 2006**

	\$	\$	\$
<b>Current assets</b>			
(list)		xx	
		<u>xx</u>	xx
<b>Non-current assets</b>			
<b>Investment</b>			
(list)		xx	
<b>Property, plant and equipment (Note 1)</b>		111 200	
<b>Intangible asset</b>			
Goodwill		<u>xx</u>	<u>xx</u>
<b>Total assets</b>			xx
<b>Less Liabilities</b>			
<b>Current liabilities</b>			
(list)	xx		
	<u>xx</u>	xx	
<b>Non-current liabilities</b>			
(list)	xx		
	<u>xx</u>	<u>xx</u>	
<b>Total liabilities</b>			<u>xx</u>
<b>Net assets</b>			\$ xx
<b>Equity</b>			
Opening capital			xx
Plus Profit (loss) for the year			xx
Less Drawings			<u>(xx)</u>
Closing capital			\$ xx

**Note to the Balance Sheet**

**1. Property, plant and equipment**

	Land	Equipment	Vehicles	Total
	\$	\$	\$	\$
Cost	80 000	24 000	16 000	120 000
Accumulated Depreciation	0	7 200	1 600	8 800
Carrying Amount	80 000	16 800	14 400	<b>111 200</b>

Depreciation is calculated on a straight-line basis at the following rates

Equipment 10% pa

Vehicles 20% pa

## **Additional information clarifying the Balance Sheet.**

### **Current Assets and Current Liabilities**

#### **Current Asset** (NZIAS 1 Paragraph 57)

An asset shall be classified as current when it satisfies any of the following criteria:

- (a) it is expected to be realised in, or is intended for sale or consumption in, the entity's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is expected to be realised within twelve months after the balance sheet date; or
- (d) it is cash or a cash equivalent (as defined in NZ IAS 7 Cash Flow Statements).

All other assets shall be classified as non-current.

*Note for the purposes of assessment against AS90022 and 90026 the operating cycle will be 12 months.  
Cash equivalents will not be assessed*

#### **Current Liability** (NZIAS 1 Paragraph 60)

A liability shall be classified as current when it satisfies any of the following criteria:

- (a) it is expected to be settled in the entity's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is due to be settled within twelve months after the balance sheet date; or
- (d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

All other liabilities shall be classified as non-current.

*Note for the purposes of assessment against AS90022 and 90026 the operating cycle will be 12 months.  
Bank overdraft will be assumed to be a current liability*

### **Property, plant and equipment**

Property, plant and equipment replaces the Fixed Asset category and is reported at its total carrying amount in the Balance Sheet. The classes of property, plant and equipment are reported in the Note to the Balance Sheet – Property, Plant and Equipment as shown above.

Adapted from NZIAS 16 Paragraph 6

Property, plant and equipment are tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than one period.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciable amount is the cost of an asset less its residual value.

The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life is:

- (a) the period over which an asset is expected to be available for use by an entity; or
- (b) the number of production or similar units expected to be obtained from the asset by an entity.

Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation.

**Investments**

All investments, such as shares, government stock, term deposits, will be classified as non-current assets

**Equity**

Equity may be shown as follows

Opening Capital			xx
Plus Profit (loss) for the year		xx	
Less Drawings		(xx)	<u>xx</u>
Closing Capital			\$ xx

**Cash Flow Statement**

The cash flow statement uses the direct approach and all amounts are GST inclusive where relevant.

**(Business Name)**  
**Cash Flow Statement**  
 for the **(month / year) ended (date)**

	\$	\$
<b>Receipts</b>		
(list)	xx	
	<u>xx</u>	
<b>Total receipts</b>		xx
<b>Payments</b>		
(list)	xx	
	<u>xx</u>	
<b>Total payments</b>		<u>xx</u>
<b>Net increase (decrease) in cash</b>		xx
<b>Opening bank balance</b>		<u>xx</u>
<b>Closing bank balance</b>		xx

## AS 90027 (1.6)

These are special purpose financial statements prepared for community organisations.

The following templates have incorporated the necessary changes as a result of the introduction of the International Financial Reporting Standards (IFRS) as they apply to New Zealand. These will be assessed in 2006 and beyond.

### Statement of Accounting Policies

**(Community Organisation Name)  
Statement of Accounting Policies**

#### **Name and Nature**

These financial statements are prepared for *(Community Organisation Name)* a/an incorporated community organisation providing *(nature of activity, e.g. facilities for tennis players)*.

#### **Measurement Base**

The financial statements have been prepared on the basis of historical cost.

#### **Property, Plant and Equipment**

Property, plant and equipment are stated at their original purchase price, and except for land, depreciated.

#### **Depreciation**

Property, plant and equipment (except for land) are depreciated over their estimated useful lives

### Activity Statement for a community organisation

**(Community Organisation Name)  
(Carnival) Activity Statement  
for the (month, year) ended (date)**

	\$	\$	\$
<b>(Carnival) Revenue</b>			
(List all revenue related to the activity) (1)			<u>XXX</u>
			XXX
<b>Less (Carnival) Expenses</b>			
(list all expenses related to the activity) (2)	X		
	<u>XX</u>	XX	
<b>Total expenses</b>			<u>XXX</u>
<b>Surplus (deficit) on (carnival)</b>			<u>\$ XX</u>

**Trading Statement** for a community organisation

**(Community Organisation Name)  
(Bar) Trading Statement  
for the year ended (date)**

	\$	\$	\$
<b>Revenue</b>			
Sales			xxx
<b>Less Cost of Goods Sold</b>			
Opening Inventory		xx	
Plus Purchases		xx	
Less Closing Inventory		(xx)	
Cost of goods sold			<u>xx</u>
Gross surplus			xx
<b>Less (Bar) Expenses</b>			
(list)	x		
	<u>xx</u>	xx	
<b>Total expenses</b>			<u>xx</u>
<b>Surplus (deficit) on (bar)</b>			\$ xx

**Income Statement** for a community organisation (replaces the Statement of Financial Performance)

**(Community Organisation Name)  
Income Statement  
for the year ended (date)**

	\$	\$	\$
<b>Income</b>			
(List all income) (1)		x	
		<u>xx</u>	xxx
<b>Less Expenses</b>			
(list) (2)	x		
	<u>xx</u>	xx	
<b>Total expenses</b>			<u>xxx</u>
<b>Surplus (deficit) for the year</b>			\$ xx

**Additional information clarifying the income statement**

- (1) Include in income only the surplus on an activity such as surplus on carnival or trading activity and **not** the revenue for the activity
- (2) Include in expenses only a deficit on an activity such as deficit on carnival or trading activity and **not** the expenses for the activity

**Balance Sheet** for a community organisation (which replaces the Statement of Financial Position) NZIAS 1 does not prescribe a balance sheet format. However the following format will be provided where a format outline is given.

**(Community Organisation Name)**  
**Balance Sheet**  
**as at (date)**

	\$	\$	\$
<b>Current assets</b>			
(list)		xx	
		<u>xx</u>	xx
<b>Non-current assets</b>			
<b>Investment</b>			
(list)		xx	
<b>Property, plant and equipment (Note 1)</b>		<u>111 200</u>	
<b>Total assets</b>			xx
<b>Less Liabilities</b>			
<b>Current liabilities</b>			
(list)	xx		
	<u>xx</u>	xx	
<b>Non-current liabilities</b>			
(list)	xx		
	<u>xx</u>	<u>xx</u>	
<b>Total liabilities</b>			(xx)
<b>Net assets</b>			\$ xx
<b>Accumulated Fund</b>			
Opening Accumulated Fund			xx
Plus Surplus (deficit) for the year			<u>xx</u>
Closing Accumulated Fund			\$ xx

**Note to the Balance Sheet**  
**1, Property, Plant and Equipment**

	Land (\$)	Equipment (\$)	Vehicles (\$)	Total \$
Cost	80 000	24 000	16 000	120 000
Accumulated depreciation	0	7 200	1 600	8 800
Carrying amount	80 000	16 800	14 400	<b>111 200</b>

Depreciation is calculated on a straight-line basis at the following rates

Equipment 10% pa

Vehicles 20% pa

**Additional information clarifying Balance Sheet**

Property, Plant and Equipment now replaces the Fixed Asset category and is reported at its total carrying amount in the Balance Sheet. The classes of property, plant and equipment are reported in the Note to the Balance Sheet – Property, Plant and Equipment as shown above.

**Cash Flow Statement** for a community organisation.  
 The IFRSs have no impact on this statement  
 The cash flow statement uses the direct approach and is GST inclusive.

**(Community Organisation Name)**  
**Cash Flow Statement**  
 for the *(month / year)* ended *(date)*

	\$000	\$000
<b>Receipts</b>		
(list)	xx	
	<u>xx</u>	
<b>Total receipts</b>		xx
<b>Payments</b>		
(list)	xx	
	<u>xx</u>	
<b>Total payments</b>		<u>xx</u>
<b>Net increase (decrease) in cash</b>		xx
<b>Opening bank balance</b>		<u>xx</u>
<b>Closing bank balance</b>		xx