

Accounting NCEA Level 2 Appendix

This appendix has been prepared to clarify the impact of The New Zealand Equivalents to International Financial Reporting Standards (IFRS) on Achievement Standards 90220 and 90224.

This appendix is provided for teacher guidance in relation to the impact of NZIFRS on the Level 2 Achievement Standards.

AS 90220 (2.1)

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

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 asset, liability, income and expense definitions. The recognition criteria may be assessed.

The **qualitative characteristics** are listed in Explanatory Note 4. The Constraints on Relevant and Reliable information may be assessed in relation to these qualitative characteristics. (NZ Framework paragraphs 24 – 45 inclusive).

AS 90224 (2.5)

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 International Financial Reporting Standards (IFRS) as they apply to New Zealand. These will be assessed 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 cost, 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.

Accounts Receivable

Receivables are stated at estimated realisable value after allowing for doubtful debts. Bad debts are expensed during the period in which they are identified.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first out basis¹.

Investments

Investments are stated at cost.

GST

All amounts are stated exclusive of Goods and Services Tax (GST), except for receivables and payables which are stated inclusive of GST.

Changes in Accounting Policy

There have been no significant changes in accounting policy. All policies have been applied on a basis consistent with those used in previous years.

¹Note may be weighted average basis – the basis will be provided.

Income Statement (replaces the Statement of Financial Performance)

Service Entity

(Business Name)
Income Statement
for the year ended 31 March 2...

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

	\$	\$	\$
Revenue			
Sales			xxx
Less Sales Returns			<u>xx</u>
Net Sales			xxx
Less Cost of goods sold			<u>xx</u>
Gross profit			xx
Add Other income			
(list)		x	
		<u>x</u>	<u>xx</u>
			xxx
Less Expenses			
Distribution costs			
(list)	x		
	<u>xx</u>	xx	
Administrative expenses			
(list)	x		
	<u>xx</u>	xx	
Finance costs			
(list)	x		
	<u>xx</u>	<u>xx</u>	
Total expenses			<u>xxx</u>
Profit (loss) for the year			\$ xx

Additional information clarifying the Income Statement for a trading entity

Income

Revenue	Sales .
Other Income	All other revenues/income and gains Examples (but not limited to): interest received, dividends received, rent received, commission received, gain on sale of an item of property, plant and equipment

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. Examples (not limited to): Advertising, Sales Salaries/Wages, Vehicle Expenses, Shop Electricity, Shop Rent, Depreciation on Shop Fittings, Depreciation on Vehicles, Delivery Expenses
Administrative Expenses:	Administrative expenses are costs associated with the administration of the entity as a whole Examples (not limited to): Office Salaries/Wages, Rent, Insurance, Depreciation on Office Equipment, Telephone, Accountancy Fees, Discount Allowed (to debtors), Bad Debts, Doubtful Debts Note a decrease in the allowance for doubtful debts is shown as a credit (negative expense) in administrative expenses.
Finance Costs:	Finance costs arise from an entity financing its operations from external sources. Finance Costs are limited to different types of interest paid. Examples: Interest on overdraft, Interest on Loan, Interest on Mortgage.

Balance Sheet (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 2...

	\$	\$	\$
Current assets			
(list)		xx	
Accounts Receivable (Note 1)		4,900	
		xx	
		<u>xx</u>	xx
Non-current assets			
Investments (Note 2)			
(list)		xx	
Property, plant and equipment (Note 3)			
Total Carrying Amount		111 200	
Intangible asset			
Goodwill	xx		
	<u>xx</u>	<u>xx</u>	<u>xx</u>
Total assets			xx
Less Liabilities			
Current liabilities			
(list)	xx		
	<u>xx</u>	xx	
Non-current liabilities (Note 4)			
(list)	xx		
	<u>xx</u>	<u>xx</u>	
Total liabilities			<u>xx</u>
Net assets			\$ xx
Equity			
Opening Capital			xx
Plus Profit (loss) for the year		xx	
Less Drawings		(xx)	<u>xx</u>
Closing Capital			\$ xx

Notes to the Balance Sheet

1) Accounts Receivable

Accounts Receivable	5,000
Less Allowance for doubtful debts	100
	\$4,900

2) Investments

Investments comprise shares in (*name company*). The current fair value of the shares is \$xxx which is their market value on balance sheet date.

Or

Investments are in Government Stock / a Fixed Term Deposit with an interest rate of x% and a maturity date of ...

3) Property, Plant and Equipment

	Land	Equipment	Vehicles	Total
	\$	\$	\$	\$
For year ended 31 March 2...				
Opening carrying amount	60 000	19 200	14 000	93 200
Plus additions	20 000	0	16 000	36 000
Less disposals	0	0	(14 000)	(14 000)
Less depreciation	0	(2 400)	(1 600)	(4 000)
Closing carrying amount	\$ 80 000	\$ 16 800	\$ 14 400	\$111 200
As at 31 March ...				
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	\$111 200

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

Equipment 10% pa

Vehicles 20% pa

4. Loan / Mortgage

The loan / mortgage has an interest rate of x% and a maturity date of ...

Additional information clarifying the Balance Sheet and Notes to the Balance Sheet

Current Asset (NZIAS 1 Paragraph 57)

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

- it is expected to be realised in, or is intended for sale or consumption in, the entity's normal operating cycle;
- it is held primarily for the purpose of being traded;
- it is expected to be realised within twelve months after the balance sheet date; or
- 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 AS90220 and 90224 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 AS90220 and 90224 the operating cycle will be 12 months.

Bank overdraft will be assumed to be a current liability

Property, plant and equipment

All amounts in the property, plant and equipment note are GST exclusive

The amount recorded for disposals is the carrying amount of the asset sold

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 now 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.

Note for AS90224 assessment purposes in relation to property, plant and equipment all amounts provided will be GST exclusive and

- *the opening carrying amount will be provided if additions and / or disposals have occurred during the year*
- *the opening carrying amount will be able to be determined from the trial balance where no additions and /or disposals have occurred during the year*
- *the GST exclusive cost of additions will be provided*
- *the carrying amount of disposals will be provided*
- *depreciation, for a full year only, may require a calculation on balance sheet date*

Investments

All investments, such as shares, government stock, term deposits will be classified as non-current assets. Investments will be stated at cost. The market value of shares on balance sheet date will be disclosed as being their current fair value in the notes. The interest rate and maturity date of investments in Government Stock or Fixed Term Deposits will be disclosed in the notes or on the face of the balance sheet.

Non-current liabilities

The interest rate and maturity date of (term) loans or mortgages will be disclosed in the notes or on the face of the balance sheet.

Equity

Equity may be shown as follows

Opening capital	xx
Plus Profit (loss) for the year	xx
Less Drawings	(xx)
Closing capital	\$ xx

Statement of Changes in Equity

This statement is not assessed at Level 2

Cash Flow Statement

The NZIFRSs have no impact on this 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)

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

Note: Calculations for cash received from accounts receivable and cash paid to accounts payable may be required. Candidates will **not** be required to reconstruct an inventory account to determine the purchases figure used in the calculation of cash paid to accounts payable.

Achievement Standard 90224 Criteria 2

There are no changes to the requirements of the general journal and general ledger entries as a result of the NZIFRS.