

# Accounting NCEA Level 3 and Scholarship Appendix

In this appendix NZIFRS refers to the New Zealand Equivalents to International Financial Reporting Standards issued by the Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants (NZICA) and approved by the Accounting Standards Review Board (ASRB) under the Financial Reporting Act 1993. Any updated NZIFRS automatically form part of this appendix from the date the standard takes effect. Similarly, any changes to partnership and company legislation automatically form part of this appendix from the date the legislation takes effect.

New Zealand equivalents to International Financial Reporting Standards (IFRSs) are Standards and Interpretations approved by the ASRB comprising New Zealand equivalents to:

- (a) International Financial Reporting Standards (IFRS)
- (b) International Accounting Standards (IAS); and
- (c) International Interpretations.

## **EXTRACTS FROM THE NEW ZEALAND PREFACE TO NZIFRS**

### **Objectives and Role of the FRSB**

#### **Paragraph 2**

*The objective of the FRSB, a permanent board of the New Zealand Institute of Chartered Accountants (the Institute), is to develop and maintain definitive standards and other guidance on all aspects of financial reporting. The FRSB aims to continually improve the quality of general purpose financial statements and non-financial statements in New Zealand so that users of those statements are provided with information which enables them to:*

- (a) *assess the performance, financial position and cash flows of the entity;*
- (b) *assess the entity's compliance with legislation, regulations, common law and contractual arrangements, as they relate to the assessment of the entity's performance, financial position and cash flows; and*
- (c) *make decisions about providing resources to, or doing business with, the entity. This will assist in maintaining and improving the efficiency of New Zealand capital markets and in improving the accountability of profit-oriented and public benefit entities.*

### **Fair Presentation and Compliance with IFRSs**

#### **Paragraph 8**

*General purpose financial statements should fairly reflect or provide a true and fair view of an entity's performance, financial position and cash flows. In this NZ Preface, the terms "fair presentation" and "fairly reflect" have the same meaning as "true and fair view". In order for general purpose financial statements to show a true and fair view they should comply with NZ GAAP.*

Similar requirements are contained in NZIAS 1: Presentation of Financial Statements (Paragraph 15).

*Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions*

and recognition criteria for assets, liabilities, income and expenses set out in the NZ Framework. The application of NZ IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation (NZ IAS 1, paragraph 15).

## All Entities

*NZ 15.1 An entity shall disclose in the notes:*

- (a) the statutory base, if any, under which the financial statements are prepared;*
- (b) whether, for the purposes of complying with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), it is a profit-oriented or public benefit entity;*
- (c) if, for the purposes of complying with NZ GAAP, it is a qualifying entity and has applied differential reporting concessions. In accordance with NZ IAS 8, such an entity shall disclose the criteria which establish the entity as a qualifying entity for differential reporting and the extent to which the entity has applied available differential reporting concessions; and*
- (d) a statement that the financial statements have been prepared in accordance with NZ GAAP, together with a description of the financial reporting standards applied by the entity.*

## GENERALLY ACCEPTED ACCOUNTING PRACTICE

### Paragraphs 10 and 11

- 10 Generally accepted accounting practice is the term used to describe the basis on which general purpose financial statements are normally prepared. The term encompasses:
  - (a) specific rules, practices and procedures relating to particular circumstances; and
  - (b) broad concepts and principles of general application.
- 11 *For some entities, the term “generally accepted accounting practice” is defined in legislation; however, these and other definitions of the term are substantially the same:*
  - (a) A reporting entity is required by the Financial Reporting Act 1993 to prepare financial statements and, where applicable, group financial statements that comply with “generally accepted accounting practice”. That term is defined by the Financial Reporting Act 1993 to mean compliance with:*
    - (i) applicable financial reporting standards; and*
    - (ii) where there is no applicable financial reporting standard or rule of law, accounting policies that are appropriate to the circumstances of the reporting entity and have authoritative support within the accounting profession in New Zealand.*
  - (b) In the case of state sector bodies and local authorities, the term “generally accepted accounting practice” means:*
    - (i) approved financial reporting standards, so far as those standards apply to the state sector body, local authority or council-controlled organisation; and*
    - (ii) in relation to matters for which no provision is made in approved financial reporting standards and that are not subject to any applicable rule of law, accounting policies that are appropriate in relation to the state sector body, local authority or council-controlled organisation and have authoritative support within the accounting profession in New Zealand.*
  - (c) In the case of other entities conformity with generally accepted accounting practice means:*
    - (i) compliance with all New Zealand financial reporting standards applicable to the entity; and*

- (ii) *in relation to matters for which no provision is made in New Zealand financial reporting standards and that are not subject to any applicable rule of law, adopting accounting policies that:*
  - (a) *are appropriate to the circumstances of the entity; and*
  - (b) *have authoritative support within the accounting profession in New Zealand.*

## **SCOPE AND AUTHORITY OF NEW ZEALAND EQUIVALENTS TO IFRSs AND FRSs**

### **Paragraph 17**

17 *New Zealand equivalents to IFRSs, and FRSs apply to all general purpose financial statements and, in some cases, to non-financial information included in, or accompanying, those statements. General purpose financial statements are those provided to meet the information needs of external users who are unable to require or contract for, the preparation of special reports to meet their specific information needs. A complete set of financial statements includes a statement of financial position, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows, and accounting policies and explanatory notes. When a separate income statement is presented in accordance with NZ IAS 1 Presentation of Financial Statements (as revised in 2007), it is part of that complete set.*

NZ IAS 1 paragraph clarifies what comprises a complete set of financial statements as follows:

- 10 *A complete set of financial statements comprises:*
- (a) *a statement of financial position as at the end of the period;*
  - (b) *a statement of comprehensive income for the period;*
  - (c) *a statement of changes in equity for the period;*
  - (d) *a statement of cash flows for the period;*
  - (e) *notes, comprising a summary of significant accounting policies and other explanatory information; and*
  - (f) \* *a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.*

*An entity may use titles for the statements other than those used in this Standard.*

\* This paragraph is beyond the scope of NCEA level 3

*See financial statements model provided at the end of this appendix.  
Discontinued activities are beyond the scope of this course.*

## **EXTRACTS FROM NZIAS 1: PRESENTATION OF FINANCIAL STATEMENTS**

### **Scope**

#### **Paragraph 2**

*An entity shall apply this Standard in preparing and presenting general purpose financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs).*

#### **Paragraph 7**

*General purpose financial statements (referred to as 'financial statements') are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.*

### **Purpose of Financial Statements**

#### **Paragraph 9**

*Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity's:*

- (a) assets;*
- (b) liabilities;*
- (c) equity;*
- (d) income and expenses, including gains and losses;*
- (e) contributions by and distributions to owners in their capacity as owners; and*
- (f) cash flows.*

*This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.*

*The users of financial statements and their information needs are identified in the NZ Framework Paragraph 9*

#### **Paragraph 13**

*Many entities present, outside the financial statements, a financial review by management that describes and explains the main features of the entity's financial performance and financial position, and the principal uncertainties it faces. Such a report may include a review of:*

- (a) the main factors and influences determining financial performance, including changes in the environment in which the entity operates, the entity's response to those changes and their effect, and the entity's policy for investment to maintain and enhance financial performance, including its dividend policy;*
- (b) the entity's sources of funding and its targeted ratio of liabilities to equity; and*
- (c) the entity's resources not recognised in the statement of financial position in accordance with NZ IFRSs.*

## Paragraph 14

*Many entities also present, outside the financial statements, reports and statements such as environmental reports and value added statements, particularly in industries in which environmental factors are significant and when employees are regarded as an important user group. Reports and statements presented outside financial statements are outside the scope of NZ IFRSs.*

## Comparative Information

### Paragraph 38

*Except when NZ IFRSs permit or require otherwise, an entity shall disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.*

*Note: Comparative figures will not be assessed*

## Identification of the Financial Statements

### Paragraph 49

*An entity shall clearly identify the financial statements and distinguish them from other information in the same published document.*

### Paragraph 51

*An entity shall clearly identify each financial statement and the notes. In addition, an entity shall display the following information prominently, and repeat it when necessary for the information presented to be understandable:*

- (a) the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period;*
- (b) whether the financial statements are of an individual entity or a group of entities;*
- (c) the date of the end of the reporting period or the period covered by the set of financial statements or notes;*
- (d) the presentation currency, as defined in NZ IAS 21; and*
- (e) the level of rounding used in presenting amounts in the financial statements.*

## Statement of financial position

### Current/Non-current Distinction

#### Paragraph 60

*An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 66–76...*

## Current Assets

### Paragraph 66

*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 reporting period; or*
- (d) *it is cash or a cash equivalent (as defined in NZ IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.*

*An entity shall classify all other assets as non-current.*

*Note for the purposes of assessment against AS90503 the entity's normal operating cycle will not exceed twelve months. Cash equivalents will not be assessed. For the purposes of assessment of AS 90500 an understanding of all the criteria is expected. An entity's normal operating cycle may exceed 12 months.*

### **Paragraph 67**

*This Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.*

### **Current Liabilities**

#### **Paragraph 69**

*An entity shall classify a liability as current when:*

- (a) *it expects to settle the liability in its normal operating cycle;*
- (b) *it holds the liability primarily for the purpose of trading;*
- (c) *the liability is due to be settled within twelve months after the reporting period; or*
- (d) *the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.*

*An entity shall classify all other liabilities as non-current.*

*Note for the purposes of assessment against AS90503 the entity's normal operating cycle will not exceed twelve months. For the purposes of assessment of AS 90500 an understanding of all the criteria is expected. An entity's normal operating cycle may exceed 12 months.*

### **Information to be Presented either on the Face of the Statement of financial position or in the Notes**

#### **Paragraph 77**

*An entity shall disclose, either on the face of the statement of financial position or in the notes, further subclassifications of the line items presented, classified in a manner appropriate to the entity's operations.*

#### **Paragraph 78**

*The detail provided in subclassifications depends on the requirements of NZ IFRSs and on the size, nature and function of the amounts involved. An entity also uses the factors set out in paragraph 58 to decide the basis of subclassification. The disclosures vary for each item, for example:*

- (a) *items of property, plant and equipment are disaggregated into classes in accordance with NZ IAS 16;*
- (b) *receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts;*

- (c) *inventories are disaggregated, in accordance with NZ IAS 2 Inventories, into classifications such as merchandise, production supplies, materials, work in progress and finished goods;*
- (d) *provisions are disaggregated into provisions for employee benefits and other items; and*
- (e) *equity capital and reserves are disaggregated into various classes, such as paid-in capital, share premium and reserves.*[Note the term Contributed equity is used for equity capital

**Notes:**

1. *Receivables from related parties will not be assessed.*
2. *Share premiums do not exist in New Zealand under the Companies Act 1993.*
3. *Contributed equity limited to fully-paid ordinary shares for a company including the number of shares issued.*
4. *See financial statements model at the end of this Appendix for extent of coverage of assets, equity and liabilities.*

**Paragraph 109**

*Changes in an entity's equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with owners in their capacity as owners (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expense, including gains and losses, generated by the entity's activities during that period.*

**Disclosure of Accounting Policies**

**Paragraph 117**

*An entity shall disclose in the summary of significant accounting policies:*

- (a) *the measurement basis (or bases) used in preparing the financial statements; and*
- (b) *the other accounting policies used that are relevant to an understanding of the financial statements.*

**Paragraph 118**

*It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which an entity prepares the financial statements significantly affects users' analysis. When an entity uses more than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.*

**Paragraph 119**

*In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in NZ IFRSs.*

## **EXTRACTS FROM NZIAS 7: CASH FLOW STATEMENTS**

### **Objective**

*Information about the cash flows of an entity is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an entity to generate cash and cash equivalents and the timing and certainty of their generation.*

*The objective of this Standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a cash flow statement which classifies cash flows during the period from operating, investing and financing activities.*

### **Paragraph 6**

The following terms are used in this Standard with the meanings specified:

*Cash comprises cash on hand and demand deposits.*

*Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.*

*Cash flows are inflows and outflows of cash and cash equivalents.*

*Operating activities are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.*

*Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.*

*Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.*

*Note: Cash equivalents will not be assessed*

### **Paragraph 10**

*The cash flow statement shall report cash flows during the period classified by operating, investing and financing activities.*

### **Paragraph 18**

*An entity shall report cash flows from operating activities using:*

- (a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.*

### **Interest and Dividends**

#### **Paragraph 31**

*Cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as either operating, investing or financing activities.*

#### **Paragraph 33**

*...Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss.*

#### **Paragraph 34**

*Dividends paid may be classified as a financing cash flow because they are a cost of obtaining financial resources.*

*Note:*

- *Interest paid will be classified as operating cash flows*
- *Dividends paid will be classified as financing cash flow.*

## **Taxes on Income**

### **Paragraph 35**

*Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities...*

## **EXTRACTS FROM NZIAS 8: ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS**

### **Definitions**

#### **Paragraph 5**

The following terms are used in this Standard with the meanings specified:

*Accounting policies* are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

*A change in accounting estimate* is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

#### **Paragraph 10**

*In the absence of an NZ IFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:*

- (a) *relevant to the economic decision-making needs of users; and*
- (b) *reliable, in that the financial statements:*
  - (i) *represent faithfully the financial position, financial performance and cash flows of the entity;*
  - (ii) *reflect the economic substance of transactions, other events and conditions, and not merely the legal form;*
  - (iii) *are neutral, ie free from bias;*
  - (iv) *are prudent; and*
  - (v) *are complete in all material respects.*

### **Consistency of Accounting Policies**

#### **Paragraph 13**

*An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions...*

### **Changes in Accounting Policies**

#### **Paragraph 14**

*An entity shall change an accounting policy only if the change:*

- (a) *is required by an NZ IFRS; or*
- (b) *results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.*

#### **Paragraph 15**

*Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, financial performance and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next unless a change in accounting policy meets one of the criteria in paragraph 14.*

*Note: See financial statements model at the end of this appendix for extent of coverage of accounting policies.*

## **EXTRACTS FROM NZIAS 16: Property, Plant and Equipment**

### **Definitions**

#### **Paragraph 6**

The following terms are used in this Standard with the meanings specified:

*Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.*

*Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other New Zealand equivalents to IFRSs, eg NZ IFRS 2 Share-based Payment.*

*Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.*

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

*Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.*

*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.*

*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.*

### **Measurement at Recognition**

#### **Paragraph 15**

*An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.*

### **Measurement after Recognition**

#### **Paragraph 29**

*An entity shall choose either the cost model in paragraph 30 or the revaluation model in paragraph 31 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.*

### **Cost Model**

#### **Paragraph 30**

*After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.*

## Revaluation Model

### Paragraph 31

*After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.*

### Paragraph 32

*The fair value of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers. The fair value of items of plant and equipment is usually their market value determined by appraisal.*

#### Note:

- *The classes of plant and equipment including vehicles will be reported using the cost model*
- *Impairment losses will not be assessed. Impairment of property, plant and equipment as envisaged by NZIAS 36 is beyond the scope of this course.*
- *The classes of land and buildings will be reported using the revaluation model.*

## Depreciation

### Paragraph 43

*Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.*

### Paragraph 48

*The depreciation charge for each period shall be recognised in profit or loss unless it is included in the carrying amount of another asset.*

## Share Issue Entries

As stated in NZ IAS 1 paragraph 109,

*Except for changes resulting from **transactions with owners** in their capacity as owners (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and **transaction costs directly related to such transactions**,...*

Share issue legal and prospectus costs are required (as part of the share issue process) to be debited to contributed equity.

Share issue for cash may be through a share broker. The amount received by the company for the share issue will then be the gross amount of the issue less the underwriting and brokerage fee charged by the sharebroker. Other direct costs associated with the share issue such as prospectus costs and legal fees paid by the company are transferred to contributed equity by debit contributed equity, credit bank for the amount paid. GST will be ignored. Indirect costs that may be associated with the share issue such as administration expenses and management time are debited to appropriate expense accounts in the statement of comprehensive income. GST will be ignored.

### For example

ABC Ltd gets A Sharebroker to issue 100,000 shares at \$2.40 fully paid on application. A Sharebroker charges a 5% brokerage fee. Prospectus and legal fees associated with the share issue are paid by the company, totalling \$8,000. Indirect administration costs are paid by the company totalling \$1,000. The entries required relating to this share issue are

#### ABC Ltd General Journal

Bank	228,000	
Contributed equity		228,000
<i>Monies received for the issue of 100,000 shares</i>		
Contributed equity	8,000	
Bank		8,000
<i>Payment of prospectus and legal fees associated with the share issue</i>		
Administration expense (share issue)	1,000	
Bank		1,000
<i>Payment of indirect administration expenses related to the share issue.</i>		

In the General Ledger only the Contributed Equity account will be assessed in relation to share issue.

Shares issued for purchase of a business are debit/credit assets/liabilities taken over, credit vendor then debit vendor, credit contributed equity for shares issued and if necessary debit vendor, credit bank for payment of cash

Shares issued to retire debt are debit the liability, credit equity and debit/credit expense /income for the difference between the carrying value of the liability and present cash value of the liability. Both the carrying value and the present cash value of the liability will be provided.

For example ABC Ltd has a debenture with a carrying value of \$12,000 and a present cash value of \$10,000, which is converted to equity. The General Journal entry is

## ABC Ltd General Journal

Debentures	12,000	
Contributed Equity		10,000
Income		2,000
<i>Conversion of a debenture to equity</i>		

### Model Financial Statements

#### Accounting Policies

##### Reporting Entity

The Firm Limited is a New Zealand company registered under the *Companies Act 1993*.

The company is a sporting goods distributor based in Invercargill.

The company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

##### Compliance with IFRSs

The financial statements comply with International Financial Reporting Standards

##### Basis of Preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand.

The financial statements have been prepared on the basis of historical cost with the exception of certain items for which specific accounting policies are identified, as noted below.

The presentation currency is New Zealand dollars.

##### Specific Accounting Policies

The specific accounting policies that materially affect the measurement of financial performance and financial position are set out below. These policies have been applied consistently.

(a) *Receivables*

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

(b) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis<sup>1</sup>.

(c) *Investments*

Management classifies investments into two categories. Financial assets which are available-for-sale financial assets and those financial assets held for trading. The classification depends on the purpose for which the assets were acquired.

*Financial assets<sup>1</sup> held for trading*

A financial assets is classified as held for trading if it was acquired primarily for the purpose of selling in the short-term or if management designates them as held for trading. Financial assets held for trading are recognised at their historical cost at the date of acquisition.

*Available-for-sale financial assets<sup>2</sup>*

Available-for-sale financial assets are classified as non-current unless management intends to dispose of them in the next 12 months. Available-for-sale financial assets are recognised at their fair value at the date of acquisition

---

<sup>1</sup> This terminology reflects that shown in IAS 39 *Financial Instruments: Recognition and Measurement*. The term 'Investment held for trading' could be used without penalty.

<sup>2</sup> This terminology reflects that shown in IAS 39 *Financial Instruments: Recognition and Measurement*. The term 'Available-for-sale investment' could be used without penalty.

Available-for-sale financial assets and financial assets held for trading are subsequently carried at fair value.

(d) *Property, plant and equipment*

Land and buildings are stated at fair value, as determined every three years by an independent registered valuer.

Other items of property, plant and equipment are stated at cost and depreciated as outlined below.

(e) *Depreciation*

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

(f) *Revenue*

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services.

(g) *Dividends*

Dividends are recognised in the period that they are authorised and approved.

(h) *Goods and services tax*

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

(i) *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.

<sup>1</sup> Note for inventory cost may be determined using the weighted average basis – the basis will be provided.

## **Statement of comprehensive income**

**Statements of comprehensive income can be shown and assessed with classifications by nature OR by function.**

### **Classification of expenses by nature**

*The classification of expenses by nature (sometimes referred to as objective classification) is the most simple of the two methods to apply. Under this method, expenses are simply aggregated in the statement of comprehensive income according to their nature. This means that expenses such as depreciation, purchases of materials, transport costs, employee benefits and advertising costs, are combined together and not reallocated among various functions of the entity such as cost of sales, distribution expenses, administration expenses or other expenses.*

### **Classification of expenses by function**

*Preparing a statement of comprehensive income according to the function of expenses requires the allocation of costs according to their function, for example as part of cost of sales, distribution, administration or other expenses. This method of disclosing expenses can provide more relevant information to users than the classification of expenses by nature.*

### **The nature and function method of classifying expenses evaluated**

*Each method of presentation has merit for different types of entities. When deciding whether to use either the nature or function of expense method to prepare the statement of comprehensive income, management needs to select the method that is most relevant and reliable, and most fairly presents the elements of the entity's performance. In order to do so, a number of factors are considered. These include the historical and industry factors, as well as the nature of the entity. Irrespective whether the nature or function of expense method is used, both methods identify those costs that vary, directly or indirectly, with the level of sales or production of the entity.*

*Irrespective of whether the statement of comprehensive income is prepared using the nature or function method, the same profit or loss for the period will result. The classification of expenses by nature suits smaller businesses because of its simplicity, while the function method may provide more relevant information to users. The reason for this is that users will be able to calculate the gross profit percentage, something that is perhaps more difficult using the nature of expenses classification method. As indicated earlier, when the statement of comprehensive income is prepared according to the function of expenses method, information relating to the nature of expenses must be disclosed because this information is necessary to enable users to predict future cash flows.*

*Where a reporting entity operates primarily as a service entity, rather than a manufacturing or retail entity, the disclosure of expenses by nature is appropriate.*

*Source: Samkin G. 2006. Preparing financial statements using New Zealand Equivalents to International Financial Reporting Standards. McGraw-Hill.*

Numbers in the following examples are purely for illustration purposes

### Example One

Disclosure requirements are to be shown by classification of income and expenses by **function** using the totals for each function. Where a statement of comprehensive income has been prepared by function, the nature of expenses **must** be shown by way of note.

**The Firm Limited**  
**Statement of comprehensive income**  
**for the year ended 31 March 2006**

	Notes	\$NZ 000
Revenue <sup>1</sup>	1	12,000
Less Cost of Sales <sup>2</sup>		5,000
Gross Profit		7,000
Add Other income <sup>3</sup>	2	2,000
		9,000
Less		
Distribution costs <sup>4</sup>		3,700
Administrative expenses <sup>4</sup>		3,590
Finance costs <sup>5</sup>	5	110
Profit before tax	3,4	1,600
Income tax expense		500
Profit for the year		\$1,100
<i>Other comprehensive income</i>		
Gain on revaluation of land		5,000
Gain on revaluation of buildings		10,000
Gain on revaluation of available-for-sale financial asset		3,000
Other comprehensive income for the year		18,000
Total comprehensive income for the year		19,100

#### **Additional information**

*Note how the heading of the statement of comprehensive income complies with the requirements of NZIAS 1, paragraphs 44 and 46. These headings need to be consistent for all statements.*

*Candidates are expected to be able allocate income and expenses items into their appropriate classifications*

<sup>1</sup>*Revenue is the primary source of income such as sales*

<sup>3</sup>*Other income is the ancillary income of the entity for example Dividend Income, Interest Received, Gain on Sale of (item of) Property, Plant and Equipment,*

<sup>2</sup>*Cost of sales includes the write down of inventory to net realisable value*

<sup>4</sup>*Individual expenses should be allocated to the appropriate expense grouping*

- *Distribution costs are those costs incurred in transferring ownership of finished goods to the consumer. For example: Distribution/Sales Wages and Salaries and Commissions; Advertising; Warehouse/Shop Rent, Depreciation, Electricity, and Insurance; Cash discounts on sales; Sales Staff Travel and Vehicle expenses including Depreciation on Vehicles; Loss on Sale of a distribution item of Property, Plant and Equipment*
- *Administrative expenses are those costs associated with the administration of the entity as a whole. For example: Office Wages and Salaries, Directors' Fees, Auditors' Remuneration, Accountancy Fees, Donations, Bad and Doubtful Debts, Depreciation and Loss on Sale of an administrative item of Property, Plant and Equipment*

<sup>5</sup>Finance costs arise from an entity financing its operations. This will be limited to interest expenses –Interest on Debentures, Interest on Mortgage etc

While it is recognised that notes accompanying financial statements are normally all together at the end of the financial statements the notes applicable to each financial statement have been shown immediately following each financial statement for the purposes of clarity

## Notes to the statement of comprehensive income

	\$NZ 000
<b>1. Revenue</b>	
Sales	12,000
<b>2. Other income</b>	
Interest received	490
Dividends received	1,500
Gain on financial assets held for trading	10
	<u>2,000</u>
	0
<b>3 Operating profit</b>	
<i>Operating profit has been determined after taking into account the following</i>	
Auditors' Remuneration	
• Fees for audit	xx
• Fees for assurance and related services	xx
• Fees for tax advice and planning	xx
• Fees for other services (suitably described)	xx
Donations	
Directors' Fees	
<b>4. Classification of expenses by nature</b>	
Advertising	xx
Bad debts	xx
Doubtful debts	xx
Changes in inventories	xx
Raw materials and consumables used	xx
Write down of inventory	xx
Depreciation of property, plant and equipment	xx
Employment benefit expenses	xx
Rental / lease expenses	xx
<b>5. Finance costs</b>	
Interest on overdraft	5
Interest on debentures	90
Interest on mortgage	15
	<u>\$110</u>

### Additional information

- Financial assets held for trading reflects active and frequent buying. This will be limited to shares traded on the New Zealand Exchange The journal entry to recognise the increase in fair value (market value on reporting date) is debit Financial assets held for trading; credit increase in fair value of financial assets held for trading
- This is a list of expenses by nature and does not reconcile to any total expense items in the statement of comprehensive income
- Changes in inventories is the difference between opening and closing inventories. While

*the figure will normally be provided and could be a debit or credit balance, students should know how to calculate the figure from opening and closing inventory figures*

- *The disclosure of statutory items will be limited to those shown in Note 3 above*
- *The disclosure of expenses by nature will be limited to those shown in Note 4.*

## Example Two

Disclosure requirements are to be shown by classification of income and expenses by **nature**.

**The Firm Limited**  
**Statement of comprehensive income**  
**for the year ended 31 March 2006**

	Notes	\$NZ 000
Revenue	1	12,000
Other income	2	2,000
Changes in inventories		(290)
Raw materials and consumables used		(8,660)
Employment benefit expenses		(2,650)
Depreciation of property, plant and equipment		(370)
Directors Fees		(150)
Donations		(50)
Auditor's remuneration	3	(300)
Other expenses <sup>1</sup>		(400)
Finance costs	4	(110)
Profit before tax		1,600
Income tax expense		500
Profit for the year		<u>\$1,100</u>
<i>Other comprehensive income</i>		
Gain on revaluation of land*		5
Gain on revaluation of buildings*		10
Gain on revaluation of available-for-sale financial asset*		3
Other comprehensive income for the year		<u>18</u>
Total comprehensive income for the year		<u>1,118</u>

### Notes to the statement of comprehensive income

	\$NZ 000
<b>1. Revenue</b>	
Sales	12,000
<b>2. Other income</b>	
Interest received	490
Dividends received	1,500
Increase in fair value of financial assets held for trading	10
	<u>2,000</u>
<b>3 Auditors' Remuneration</b>	
• Fees for audit	xx
• Fees for assurance and related services	xx
• Fees for tax advice and planning	xx
• Fees for other services (suitably described)	xx
<b>4. Finance costs</b>	
Interest on overdraft	5
Interest on debentures	90
Interest on mortgage	15
	<u>\$110</u>

\* The journal entries require a credit to revaluation surplus (in line with NZ IAS 16 *Property, Plant and Equipment*) as follows.

### The Firm Limited General Journal

1 April 2004	Dr	Land	5,000	
		Cr Revaluation surplus – Land (OCI)		5,000
<i>Recording revaluation of land to fair value</i>				

For reporting purposes the “Revaluation surplus – Land” is disclosed in the statement of comprehensive income as part of *Other Comprehensive Income* as “Gain on revaluation of land”. Attention is drawn to the *NZ Framework* paragraph 74 and the definition of income which encompasses both revenue and gains. Note that the Guidelines on implementing NZ IAS 1 *Presentation of Financial Statements* use the same wording for financial statement disclosure purposes.

The journal entries to revalue available-for-sale financial asset is as follows. The OCI following the Cr merely serves as a reminder that the item must be disclosed as (Other Comprehensive Income) in the Statement of Comprehensive Income.

### The Firm Limited General Journal

1 April 2004	Dr	Available-for-sale financial asset	3,000	
		Cr Revaluation surplus – Available for sale financial asset (OCI)		3,000
<i>Recording revaluation of available-for-sale financial asset to fair value</i>				

As in the revaluation of land illustration, for reporting purposes the “Revaluation surplus – Available for sale financial asset” is disclosed in the Statement of Comprehensive Income as part of *Other Comprehensive Income* as “Gain on revaluation of available-for-sale financial asset”. Attention is drawn to the *NZ Framework* paragraph 74 and the definition of income which encompasses both revenue and gains. Note that the Guidelines on implementing NZ IAS 1 *Presentation of Financial Statements* use the same wording for financial statement disclosure purposes.

#### **Additional information**

- *While the format shown above complies with the illustration provided by NZ IAS 1, for practical purposes other expenses would be disaggregated into items such as bad debts, doubtful debts, advertising, loss on sale of property, plant and equipment write down of inventory. For assessment purposes items provided in the trial balance and adjustments would all be shown as separate line items, except that all wages and salaries should be combined for employment benefits expense depreciation expenses on different asset classes should be combined, all interest expenses should be combined as finance costs*
- *Changes in inventories is the difference between opening and closing inventories. While the figure will normally be provided and could be a debit or credit balance, students should know how to calculate the figure from opening and closing inventory figures*
- *Financial assets held for trading reflects active and frequent buying. This will be limited to shares traded on the New Zealand Exchange. The journal entry to recognise the increase in fair value (market value on reporting date) is*

	Dr	Financial assets held for trading	XXX	
		Cr Gain on financial assets held for trading		XXX
<i>Recognising unrealised gain on revaluation of available-for-sale financial asset</i>				

- *Statutory items of expense should be shown by way of note as shown above*
- *Operating profit, taxation and profit for the year remain the same irrespective of the format used*

**Statement of Changes in Equity  
Paragraph 106**

An entity shall present a statement of changes in equity showing in the statement:

- (a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;
- (b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with NZ IAS 8; and
- (c) [deleted by IASB]
- (d) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:
  - (i) profit or loss;
  - (ii) each item of other comprehensive income; and
  - (iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

**Paragraph 107**

An entity shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to owners during the period, and the related amount per share.

**The Firm Limited  
Statement of Changes in Equity  
for the year ended 31 March 2006**

	Notes	Contributed equity	Land Revaluation Surplus	Buildings Revaluation Surplus	Available- for-sale financial asset Revaluation Surplus	Retained earnings	Total equity
<b>Balance at 31 March 2005</b>		1,200	20	30	7	693	1,950
Changes in equity for 2006							
Total comprehensive income for the year			5	10	3	1,100	1,118
Proceeds from share issue	6	300					300
Distributions	6,7	(50)				(505)	(555)
<b>Balance at 31 March 2006</b>		1,450	25	40	10	1,288	2,813

**Additional information**

- *Contributed Equity is the term for the shares issued by the company. Alternative terms commonly used include Paid-up Capital, Contributed Capital; Issued Shares; Issued Capital. For all assessment purposes the term Contributed Equity will be used.*
- *The term surplus replaces the term reserve in revaluation accounts. For all assessment purposes the term surplus will be used as in Land Revaluation Surplus.*
- *Available-for-sale financial assets are financial assets including equity securities other than those classified for trading. It is management who designate the classification of the financial instruments at acquisition as either "available-for-sale" or "held for trading". The journal entry to recognise the increase in fair value (market value at reporting date) of an available-for-sale financial asset is*

Dr	Available-for-sale financial asset	XXX	
	Cr	Revaluation surplus – Available-for-sale financial asset (OCI)	XXX
<i>Recognising unrealised gain on revaluation of available-for-sale financial asset</i>			

- *The \$505 in the Retained Earnings column for Distributions represents \$480 dividends + \$25 from the share repurchase*

## Notes to the Statement of Changes in Equity

### 6. Contributed Equity

	Number of shares	\$NZ000
Balance at 1 April 2005	1,200,000	1,200
Bonus issue	100,000	
Shares fully paid for cash	150,000	300
Share repurchase	-40,000	50
Balance at 31 March 2006	1,410,000	1,450

### 7. Distributions

	Cents per share	\$NZ000
Final dividend 2005	16.5c	198
Interim dividend 2006	20c	282
Total dividends paid		480
Share repurchase		75
Total distributions		555

### Paragraph 137

*An entity shall disclose in the notes:*

- (a) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to owners during the period, and the related amount per share; and*
- (b) the amount of any cumulative preference dividends not recognised.*

### 8. Dividends declared after reporting date

On 31 May 2006 directors proposed a final dividend for 2006 of 20c per share totaling \$270,000 to be paid on 7 July 2006.

#### *Additional information*

*Note 8 would normally be at the end of the notes to the financial statements. It is not necessarily a note to the Statement of Changes in Equity.*

*Notes 12 and 13 are statement of financial position notes – see below.*

## Statement of financial position

Disclosure requirements to be shown by:

- Assets divided into Current and Non-current
- Liabilities divided into Current and Non-current
- Equity
- Appropriate notes

### *The Firm Limited* Statement of financial position at 31 March 2006

	Note	\$NZ000	\$NZ000
<b>Current Assets</b>			
Bank		100	
Accounts Receivable	9	260	
Inventory	10	440	
Prepayments		60	
Financial assets held for trading	11	100	
Total Current Assets			960
<b>Non-current Assets</b>			
Property, Plant and Equipment	13	3,250	
Goodwill		50	
Available-for-sale financial asset	12	143	
Total Non-current Assets			3,443
Total Assets			4,403
Less Liabilities:			
<b>Current Liabilities</b>			
GST Payable		60	
Taxation Payable		10	
Accounts Payable		350	
Accrued Expenses		40	
Income in Advance		30	
Total current liabilities		490	
<b>Non-current Liabilities</b>			
Mortgage	14	150	
Debentures	15	950	
Total Non-current Liabilities		1,100	
<b>Total Liabilities</b>			1,590
<b>NET ASSETS</b>			<b>\$2,813</b>
<b>Equity</b>			
Contributed Equity			1,450
Land Revaluation Surplus			25
Buildings Revaluation Surplus			40
Available-for-sale financial asset Revaluation Surplus			10
Retained Earnings			1,288
Total Equity			<b>\$2,813</b>

#### *Additional information*

- *Financial assets held for trading reflects active and frequent buying. This will be limited to shares traded on the New Zealand Exchange. It is management who designate the classification of the financial instruments at acquisition as either "available-for-sale" or "held for trading". The journal entry to recognise the increase in fair value (market value at reporting date) is:*

	Dr	Financial assets held for trading	XXX	
	Cr	Gain on financial assets held for trading		XXX
		<i>Recognising unrealised gain on revaluation of available-for-sale financial asset</i>		

- *Available-for-sale financial assets are financial assets including equity securities other than those classified for trading. The journal entry to recognise the increase in fair value (market value at reporting date) is:*

	<i>Dr</i>	Available-for-sale financial asset	XXX
	<i>Cr</i>	Revaluation surplus – Available-for-sale financial asset (OCI)	XXX
<i>Recognising unrealised gain on revaluation of available-for-sale financial asset</i>			

- *The number of shares issued and fully paid up can be disclosed either on the face of the Statement of financial position or in the notes as per NZIAS 1. However, if movements in the number shares has occurred the movements should be detailed in the notes.*

## Notes to the Statement of financial position

### 9. Accounts Receivable

	\$NZ000
Accounts Receivable	280
Less Allowance for doubtful debts	20
	260

### 10. Inventory

	\$NZ000
Goods for sale	340
Work-in-progress	100
	440

### 11. Financial assets held for trading

	\$NZ000
Balance at beginning of the year	110
Additions (disposals)	(20)
Gain on financial assets recognised in profit or loss (top half of Statement of Comprehensive income)	10
Balance at end of the year	100

Financial assets held for trading comprise shares in *The Warehouse Ltd.*

### 12. Available-for-sale financial assets

	\$NZ000
Balance at beginning of the year	115
Additions(disposals)	25
Revaluation surplus recognised in other comprehensive income	3
Balance at end of the year	143

Available-for-sale financial assets comprise investment in .....

### 13. Property, Plant and Equipment

	Land	Buildings	Vehicles	Plant and Equipment	Total
	\$NZ000	\$NZ000	\$NZ000	\$NZ000	\$NZ000
<b>For year ended 31 March 2006</b>					
Opening carrying amount	75	212	2,810	550	3,647
Additions				30	30
Disposals				(20)	(20)
Depreciation		(2)	(340)	(80)	(422)
Revaluation	5	10			15
Closing carrying amount	80	220	2,470	480	3,250

### As at 31 March 2006

Cost or valuation	80	220	3,400	800	4,500
Accumulated depreciation			(930)	(320)	(1,250)
Carrying amount	80	220	2,470	480	3,250

Land and buildings were revalued on 14 March 2006 by C Collins MIVNZ, an independent valuer to fair value based on the market value of surrounding property.

The revaluation surpluses have been credited to the land and buildings revaluation surpluses in equity.

Had land not been revalued the carrying amount under the cost model would be \$50,000

Had buildings not been revalued the carrying amount under the cost model would be \$180,000.

Land and buildings are mortgaged to the value of \$150,000. See note 14.

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

Buildings 2% per annum.

Plant and equipment 10% per annum

Vehicles 10% per annum

#### **14. Mortgage**

The mortgage is secured over the company's land and buildings with a maturity date of July 2010 (see note 13). The rate of interest is 10% p.a.

#### **15. Debentures**

Debentures are secured by a floating charge over assets except land and buildings. The rate of interest is 9.5% p.a. The maturity date is October 2008

#### *Additional information*

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

- *Additions and / or disposals of property, plant and equipment may occur during the year*
- *Amounts provided for additions and disposals will be GST exclusive*

### Information regarding the financial statements of partnerships.

Financial statements for partnerships are special purpose financial statements. The contents and format for a partnership Statement of comprehensive income and a partnership Statement of financial position will be the same as for a sole proprietor as illustrated in the Level 2 Appendix on TKI. The only difference will be the equity section of the statement of financial position.

The format for a partnership equity section will be as follows:

On the face of the Statement of financial position

	Note	\$
<b>Equity</b>	4	
Contributed Capital		<b>X</b>
Current Capital		<b>X</b>
(Total Equity)		<b>X</b>

And by way of Note to the Statement of financial position

#### 4. Equity

	Capital	Current	Total
Partner A	X	X	X
Partner B	X	X	X
Total	<b>X</b>	<b>X</b>	<b>X</b>

Note where a partnership Profit Distribution Statement is assessed a blank two column vertical format will be provided. Students will be expected to clearly indicate whether they are adding or subtracting items from the net profit in the profit distribution statement.

## For Scholarship only

### Reclassification adjustments

Gains or losses on a number of financial assets (for example the available-for-sale financial assets) are recognised under 'Other comprehensive income' in the 'Statement of comprehensive income. How then should these items be accounted for when they are disposed of? This gives rise to a reclassification adjustment which means the amounts are reclassified to profit and loss (the top half of the statement of comprehensive income) in the period the asset was disposed of. The purpose of this reclassification is to provide users with information to assess the effect of the reclassification on profit or loss.

The accounting treatment is simple. Any unrealised gains are deducted from other comprehensive income in the period in which the realised gains are transferred to profit or loss to avoid double counting.

### Illustration

The following example illustrates the position

On 1 April 2004, ABC Limited purchased 1000 equity instruments (shares) on XYZ Limited at \$2.50 per share. On acquisition, this investment was classified as 'available for sale'. At 31 March 2005 the fair value of the equity instruments had increased to \$3.10. At 31 December 2005, the fair value of the equity instruments had increased to \$3.90 at which time they were sold. ABC Limited's reporting date is 31 March.

### Required

- 1 Prepare the journal entries to account for the above transactions.
- 2 Prepare an extract of the statement of comprehensive income and statement of changes in equity for the reporting period ending 31 March 2006 in which the reclassification adjustment for the available-for-sale financial asset is detailed.

#### ABC Limited General Journal

1 April 2004	Dr	Available-for-sale financial asset	2,500	
		Cr Bank		2,500
		<i>Recording acquisition of available-for-sale financial asset at cost</i>		
31 March 2005	Dr	Available-for-sale financial asset	600	
		Cr Revaluation surplus – Available-for-sale financial asset (OCI)		600
		<i>Recognising unrealised gain on revaluation of available-for-sale financial asset</i>		
31 Dec 2005	Dr	Available-for-sale financial asset	800	
		Cr Revaluation surplus – Available-for-sale financial asset (OCI)		800
		<i>Recognising unrealised gain on revaluation of available-for-sale financial asset</i>		
31 Dec 2005	Dr	Bank	3,900	
		Cr Available-for-sale financial asset		3,900
		<i>Recording proceeds on sale of available-for-sale financial asset</i>		
31 Dec 2005	Dr	Revaluation surplus – Available-for-sale financial asset (OCI)	1,400	
		Cr Gain on sale of available-for sale investment		1,400
		<i>Recognising reclassification of amounts previously recorded in 'Other comprehensive income' to profit or loss</i>		

**ABC Limited**  
**Statement of comprehensive income**  
**For the year ended 31 March 2006**

	NZ\$
Gain on available-for-sale financial asset	1,400
Profit for the year (\$1,700* + \$1,400)	<u>3,100</u>
<i>Other comprehensive income</i>	
Gain on available-for-sale financial asset	800
Reclassification adjustment	<u>(1,400)</u>
Other comprehensive income for the year	<u>(600)</u>
Total comprehensive income for the year	<u>2,500</u>

**ABC Limited**  
**Statement of changes in equity**  
**For the year ended 31 March 2006**

	Contributed equity	Available- for-sale financial asset revaluation surplus	Retained earnings	Total
	NZ\$	NZ\$	NZ\$	NZ\$
Balance 1 April 2005	5,000	600	3,400	9,000
Total comprehensive income for year		800	3,100	3,900
Reclassification adjustment		<u>(1,400)</u>		<u>(1,400)</u>
Balance 31 March 2006	<u>5,000</u>	<u>–</u>	<u>6,500</u>	<u>11,500</u>

\* Assumption that profit for the year before reclassification was \$1,700