

Learning Assessment Guide

Unit Standard 11629 – Version 3

Explain and apply concepts of external financial reporting

Level 5 – 20 Credits

Assessment Summary			
Learner to complete			
Learner's name:			
Employer:			
NSN no. (ROL):		DOB:	
Signed:		Date:	
Assessor to complete			
<input type="checkbox"/> Meets requirements <input type="checkbox"/> More training required <input type="checkbox"/> More evidence required			
Assessor's name:		Assessor's No.	
Signed:		Date:	

Before you begin...

- As well as this Learning Assessment Guide, you may also want to refer to the unit standard from the NZQA website (<http://www.nzqa.govt.nz>).
- Read the Trainee Information Kit. The kit contains important information and guidelines for Learners and can be found on the Learning State website (<http://www.learningstate.govt.nz>) under Learners, then Learning Assessment Guides.
- Check the learning resources available for this unit standard on the Learning State website (<http://www.learningstate.govt.nz>) under Learners, then Learning Assessment Guides.
- Legislation relevant to this unit standard includes but it is not limited to the Companies Act 1993, and its subsequent amendments.
- Competence in this unit standard requires knowledge of Financial Reporting Standards, Statements of Standard Accounting Practice, Framework for Financial Reporting, and Framework for Differential Reporting. These may be obtained from the Institute of Chartered Accountants of New Zealand.
- Standard accounting practice used in this unit standard refers to practices that are accepted by Chartered Accountants in New Zealand, or complying with standards published by the Institute of Chartered Accountants of New Zealand
- Evidence for this unit standard may pertain to your workplace. For learners unable to obtain workplace evidence, refer to instructions given in each assessment task on how to collect evidence
- Prepare a portfolio where you can store all evidence as well as the completed tasks. Once your manager or nominated supervisor has approved the evidence collected, the portfolio should be forwarded to the assessor for evaluation.
- It is likely that your assessor might contact you at a later date in order to seek clarification or further evidence.

This Learning Assessment Guide is made up of:

- Tasks for you to complete
- A verification form for your manager or nominated supervisor to complete
- Assessor Checklist
- Assessment results that the assessor will use to assess your competence

The tasks in this assessment are designed to show your assessor that you can:

- 1 Explain the nature of external financial reports.
- 2 Explain the nature of general purpose financial reporting.
- 3 Prepare the financial statements for a reporting entity.
- 4 Prepare working papers for the consolidation of a 100% owned holding company-subsidary company relationship, and prepare consolidated financial statements.

Assessment Task One – Element 1

The questions in this task are designed to assess your ability in explaining the nature of external financial reports.

Evidence for this task may pertain to your workplace, for learners unable to use workplace evidence, refer to the annual report of any listed company in New Zealand. Most listed companies like; The Warehouse Group, Fisher & Paykel, Mainfreight Ltd, Telecom NZ, provide the latest annual report on their website. Alternatively hard copies may be acquired from the registered office of individual companies. Please ensure that a copy of the annual report is included in your portfolio.

You are expected to provide written responses to the task questions. Please ensure that your response encompasses all requirements as outlined under the task question.

Task one questions

Explain the nature of external financial report

Your answer must include the following:

- Identifying any **two** potential users of the company's annual report, **two** users from each category of users i.e. internal and external
- Explain the requirements for **one** internal and **one** external user that you have identified.
- Describe the statutory and non-statutory contents of company annual reports

Assessment Task Two – Element 2

This assessment task requires you to explain the nature of general purpose financial reporting

Your evidence for this task may relate to the same entity used in task one. You are expected to provide written responses to the task questions. Please ensure that your response encompasses all requirements as outlined under the task question.

Task two questions

Explain the nature of general purpose financial reporting

Your answer must include the following:

- Distinction between general purpose financial reporting and special purpose financial reporting.
- Description of the purpose of the Framework for Financial Reporting.
- Description of the requirements of the Framework for Differential Reporting.
- Distinction between an exempt company and a reporting entity in accordance with the Companies Act 1993 and its subsequent amendments.

Assessment Task Three – Element 3

This assessment task requires you to prepare the financial statements of a reporting entity. Evidence for this task may pertain to a workplace or an organisation that you are familiar with and may relate to the same entity used in previous tasks. For learners intending to provide evidence from a workplace should attempt part A of the task question. Those unable to obtain workplace evidence should attempt part B. However part B must be attempted only in a controlled environment (in the presence of manager or nominated supervisor) which is to ensure that the work submitted is of an original nature, completed without any help from other learners.

Task three questions

Part A

Prepare the financial statements for a reporting entity.

Your evidence must include:

A range of financial statements including (but not limited to); Statement of Financial Performance, Statement of Movements in Equity, Statement of Financial Position, Statement of Cash Flows

All statements must comply with Financial Reporting Standards and Statements of Standard Accounting Practice. Range of disclosure to include (but not limited to) accounting policies, presentation of financial reports, depreciation, inventories, events after balance date, extraordinary items and fundamental errors, cash flows, research and development, contingencies, and fixed assets.

Part B

From the Case Study given below you are required to prepare an Annual Report as on 31 March 2005

Your presentation should be in the following sequence:

- Statement of Financial Performance
- Statement of Movements in Equity
- Statement of Financial Position
- Notes to the Accounts, including a Statement of Accounting Policies

Guidelines

- The accounts should be prepared in accordance with the Companies Act 1993, the Financial Reporting Act 1993 and the relevant Financial Accounting Standards.
- Differential Reporting does not apply to this case.
- Round your calculations to the nearest dollar.
- Ignore GST, Provision for Income Tax and Imputation Tax Credits for this assessment. All amounts are stated exclusive of GST.

Case Study

One of the peculiar features of life in New Zealand is the chilly nature of winters. The changing climate patterns world around has meant that New Zealand had to witness extended winter in recent years, where demand for electricity has been high. Ever increasing demand for electricity has put pressure on existing sources of energy and created demand for alternative sources.

One investor, Dr. Ian Ferguson, saw potential for developing wind turbine technology in New Zealand. Dr. Ferguson, a leading property developer and entrepreneur in Chicago has been at the forefront of several wind technology projects in several states within North America since 1985.

Dr. Ferguson arrived in Alexandra on 23 February 1999 and worked hard to set up a company that he thought would become a pioneer in the wind power industry. On 1 April 2003 he registered Windstorm Ltd under the Companies Act 1993, with share capital of 820,000 shares @ \$1 per share. All management and staff appointments as well as asset acquisitions were completed by 30 June 2003.

Windstorm Ltd has recently completed two years of operations and the following persons make the composition of its board of directors:

- Dr. Ian Ferguson (Chairman)
- Martin Robb (CEO)
- Neil Bell
- Duncan Patterson
- Patricia Cheung
- Justin Hohepa
- Debbie Boyd-Wilson

Martin Robb is a certified energy consultant by trade, has extensive experience in Turbine Technology. Recently held positions include, Senior Consultant with the Calgary Energy Division, Government of Canada. He draws an annual salary of \$175,000 in addition to director's fees of \$5,000. All other directors receive \$5,000 each per annum.

Sheila Sharma is the Chief Financial Officer drawing an annual salary of \$100,000. All the other employees draw less than \$60,000 a year. During the year the company spent \$10,000 on research towards designing a new technology, which combines two proven technologies in order to reduce turbine fatigue loads. The new technology would allow the turbine rotor to absorb wind

gusts by moving in response to them rather than resisting them. A further \$10,000 was spent on development after it was found that the plan was economically feasible.

The company made a fresh issue of 100,000 shares @ \$2 each on 18 November 2003. Share issue expense came to \$20,000 and has not been accounted for. The proceeds will fund the development of the new technology, to be executed in three stages. The first stage is called Project 'Storm 101' led by the CEO, Martin Robb. The team is a small one comprising:

- two engineers
- one draughtsman
- auto-cad technician

The team will be expanded through additional appointments at the end of stage1, which will be at the beginning of year 2006 Two fresh equity issues have been planned after the completion of each stage. Directors' shareholdings after the current issue would be:

- Martin Robb 100,000 shares
- Neil Bell 7,000 shares
- Duncan Patterson 10,000 shares
- Patricia Cheung 7,000 shares

Martin Robb is a trustee of Christian Youth Trust , which holds 4,000 shares in Windstorm Ltd. Patricia Cheung's husband, Tony, holds 3,000 shares, the balance of shares are held by the public. The remaining two directors, Justin Hohepa and Debbie Boyd-Wilson, are independent. Justin Hohepa is a stockbroker with extensive experience in venture capital projects. He had spearheaded the new equity issue in November 2003 for which he was paid \$2,000 as an honorarium for his services (included in the share issue expenses). His skills are considered key for the company's future. Debbie Boyd-Wilson is a practicing chartered accountant and member of the Accounting Standards Board (ASB).

Present revenue comes through consulting services to the following clients:

	2004 (\$)	2005 (\$)
Glasgow Electric Corporation (Glasgow)	670,000	750,000
Cognitus Electricity Ltd (Perth)	384,000	454,000
Kruger Power Company (South Africa)	115,000	186,000
Sukomvit Thermal Corporation (Bangkok)	100,000	82,000

Despite being a New Zealand-based company committed to serving New Zealand the Board is aware of a lack of government policy on the use of renewable energy. In sharp contrast, the Australian Federal Government has set a mandatory target to increase the contribution of renewable energy sources in Australia's electricity sector from 10.7% in year 1998 to 12.7% in year 2010. The policy provides strong incentives for a manufacturing sector intending to shift towards renewable sources of energy. In order to take advantage of government policy in Australia, the company wishes to find avenues for making strategic alliances with stakeholders in that country.

A plot of land has been acquired in Alexandra this will house the company's pilot farm. A mortgage was raised to finance the purchase on 1 September 2002 at 8.7% p.a. and the principal matures on 31 October 2010. Investments have been held for more than 12 months and are listed at cost. The total comprises 10% government stock. Depreciation is charged as per the following rates:

Buildings 2% on cost
Office Equipment 20% diminishing value
Motor Vehicles 20% diminishing value

Legal Action

On 23 February 2005 a farmer whose farm is adjacent to the plot, which is being used as a testing ground for the company's project, threatened legal action against the company claiming that the sound from the turbine was having an adverse effect on the productivity of his dairy cattle. The Board holds the view that the noise is at a tolerable level and is not having an adverse effect on the animals. The farmer estimates the damage to be \$50,000.

Trial Balance for year ended 31 March 2005 (without balance day adjustments) is as follows:

	2004		2005	
	Dr (\$)	Cr (\$)	Dr (\$)	Cr (\$)
Revenue		1269,000		1472,000
Issued Capital		820,000		1020,000
Office Equipment	170,000		170,000	
Acc Depreciation				34,000
Motor Vehicles	200,000		200,000	
Acc Depreciation				40,000
Land	500,000		500,000	
Buildings	800,000		800,000	
Acc Depreciation				16,000
Audit Fees	24,000		26,000	
Directors Fees	30,000		30,000	
Interest		20,300	43,500	20,300
Bank	74,060		356,500	
Wages	580,000		617,800	
Admin Expenses	70,000		115,400	
Investments	203,000		203,000	
Other fees paid to auditors	3,200		3,600	
Donations	3,000		5,000	
Employee Entitlements		23,400		25,800
Retained Earnings				485,475
Provision for doubtful debts		1,800		2400
Accounts Receivable	18,000		421,600	
Accounts Payable		40,760		40,000
Interim Dividend			147,200	
Mortgage		500,000		500,000
Research & Development			20,000	
Accrued Interest				3,625
Totals	2,675,260	2,675,260	3,659,600	3,659,600

Additional Information:

Directors signed off 2003/04 accounts on 21 April 2004 and declared a final dividend of \$132,660 for the year ended 31 March 2004.

Directors signed off 2003 accounts on 25 April 2005 having declared a final dividend of \$236,440 on 30 April 2005.

Assessment Task Four – Element 4

This assessment task requires you to prepare working papers for the consolidation of a 100% owned holding company- subsidiary company relationship, and consolidated financial statements.

Evidence for this task may pertain to a workplace or an organisation that you are familiar with and may relate to the same entity used in previous tasks. Learners intending to provide evidence from a workplace should attempt part A of the task question. Those unable to obtain workplace evidence should attempt part B. However part B must be attempted only in a controlled environment (in the presence of manager or nominated supervisor) which is to ensure that the work submitted is of an original nature, completed without any help from other learners.

Task Four questions

Part A

Prepare working papers and financial statements of a 100% owned holding company- subsidiary company.

The statements should be prepared using the purchase method. All statements must comply with Financial Reporting Standards and Statements of Standard Accounting Practice. Range of disclosure to include (but not limited to) goodwill on consolidation, inter-company transactions, pre-acquisition dividends, inter-company loans.

Part B

Case Study

Bikes Ltd, a major dealer of motor bikes has bought 100 per cent shares of Spares Ltd on 1 April 2004. The purchase consideration amounted to \$100,000. All assets of Spares Ltd were taken over at book value. Further the estimated life of goodwill is estimated to be 10 years.

During the financial year of 2004/05 Spares Ltd had sold inventory to Bikes Ltd to the tune of \$20,000 (costing \$12,000). As on balance date half of the purchased inventory has been included in the closing inventory figure of Bikes Ltd. Taxation is to be charged at 30% on gross surplus.

The financial statements of Bikes Ltd and Spares Ltd as at 31 March 2004 are as follows:

Statement of Financial Performance (figures in \$000)		
	Bikes Ltd	Spares Ltd
	\$	\$
Revenue	120	40
Opening Inventory	51	12
Add: Purchases	59	32
Less: Closing Inventory	60	30
Cost of goods sold	50	14
Gross Surplus	70	26
Less: Other Expenses	6	3
Other Revenue	7	2.5
Operating Surplus	71	25.5
Less: Tax	20	10
Operating Surplus After Tax	51	15.5
Retained Earnings as on 1 April 2004	100	40
	151	55.5
Less: Dividends Paid	20	4
Retained Earnings as on 31 March 2005	131	51.5

Statement of Financial Position (figures in \$000)		
Share Capital	400	50
Retained Earnings	151	69.5
Current Liabilities:		
Accounts Payable	14	9
Non-current Liabilities		
Loans	59	24
TOTAL LIABILITIES	624	152.5
Current Assets:		
Cash	27	3.5
Accounts Receivable	22	19
Inventory	75	45.5
Non-current Assets:		
Land	144	40
Plant	245	39
Investment in Spares Ltd	100	
Future Tax Benefit	11	5.5
	624	152.5

Required:

You are required to produce Consolidated Worksheets for Bikes Ltd and its fully owned subsidiary, Spares Ltd, for year ended 31 March 2005. The information from the worksheets will form the basis for preparing the Statement of Financial Performance and Statement of Financial Position for both years.

Learner Verification Form – Unit Standard 11629

Name of Learner:	
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The learner is being assessed towards unit standard 11629 – Explain and applies concepts of External Financial Reporting. Your knowledge of the learner is being sought to verify whether the learner is able to:

- 1 Explain the nature of external financial reports.
- 2 Explain the nature of general purpose financial reporting.
- 3 Prepare the financial statements for a reporting entity.
- 4 Prepare working papers for the consolidation of a 100% owned holding company-subsidary company relationship, and prepare consolidated financial statements.

Please examine the learner's portfolio and complete this form and arrange for it to be sent to the assessor of US 11629. It is important to ensure that the confidentiality of the organisation is protected. Learners have been instructed to strike-off or erase names or any identification that may reveal the identity of the organisation.

The learner demonstrates understanding of the nature of external financial reports including the potential users and their requirements.	Yes	No
The learner demonstrates understanding of the purpose of general purpose financial reporting including that of the Differential Reporting Framework and 'Exempt' Company.	Yes	No
The learner demonstrates ability to prepare the financial statements of a reporting entity in accordance with the relevant Financial Reporting Standards (FRSs) and Statement of Standard Accounting Practice (SSAPs).	Yes	No
The learner demonstrates ability in terms of preparation of working papers for consolidation and consolidated financial statements.	Yes	No
The work submitted is of an original nature and a genuine attempt of the learner (applicable for learners attempting Part B only)	Yes	No

Comments:

Manager / Supervisor Name:

Position:

Contact Phone:

Email:

Signature:

Date:

Assessor Checklist

Task / Element	Evidence required	Documentation Provided / Assessor Comments	Met?
Task 1 / Element 1 Explain the nature of external financial reports	Written responses identifying any <u>two</u> internal and <u>two</u> external potential users		Yes / No
	Written responses explaining the information requirements for <u>one</u> internal and <u>one</u> external user		Yes / No
	Written responses describing the statutory and non-statutory contents of company annual reports		Yes / No
	Verification from Manager or nominated supervisor		Yes / No
Task 2 / Element 2 Explain the purpose of general purpose financial reporting	Written responses explaining the distinction between general purpose and special purpose financial reporting		Yes / No
	Written responses explaining the purpose of the Framework of Financial Reporting		Yes / No
	Written responses explaining the requirements of the Framework of Differential Reporting		Yes / No
	Written responses explaining the distinction between an exempt company and a reporting entity in accordance with the Companies Act 1993 and its subsequent amendments.		Yes / No

Task / Element	Evidence required	Documentation Provided / Assessor Comments	Met?
	Verification from Manager or nominated supervisor		Yes / No
Task 3 / Element 3 Prepare the financial statements for a reporting entity	<p>Learner's portfolio to include financial statements comprising Statement of Financial Performance, Statement of Movements in Equity, Statement of Financial Position, Statement of Cash Flows.</p> <p><u>Or</u></p> <p>Written responses to Part B questions</p> <p>All statements in line with relevant financial reporting standards and statement of standard accounting practice.</p> <p>Range of disclosure within financial statements to include (but not limited to) accounting policies, presentation of financial reports, depreciation, inventories, events after balance date, extraordinary items and fundamental errors, cash flows, research and development, contingencies, and fixed assets.</p> <p>Verification from Manager or nominated supervisor</p>		<p>Yes / No</p> <p>Yes / No</p> <p>Yes / No</p> <p>Yes / No</p> <p>Yes / No</p>

Task / Element	Evidence required	Documentation Provided / Assessor Comments	Met?
<p><i>Task 4 / Element 4</i></p> <p>Prepare working papers for the consolidation of a 100% owned holding company-subsubsidiary company relationship and prepare consolidated financial statements</p>	<p>Learner's portfolio must include working papers for consolidation and statement of financial performance and financial position</p>		Yes / No
	<p><u>Or</u></p> <p>Written responses to Part B questions</p>		Yes / No
	<p>All statements in line with relevant financial reporting standards and statement of standard accounting practice.</p>		Yes / No
	<p>Range of disclosures include (but not limited to) goodwill on consolidation, inter-company transactions, pre-acquisition dividends and inter-company loans</p>		Yes / No
	<p>Verification from Manager or nominated supervisor</p>		Yes / No

Assessment Results

The Assessor will make his judgements based on this checklist.

Does the learner demonstrate understanding of the nature of external financial reports? (all criteria under element 1 to be satisfied)	Yes	No
Does the learner demonstrate understanding of the purpose of general purpose financial reporting? (all criteria under element 2 to be satisfied)	Yes	No
Does the learner demonstrate ability in terms of preparing the financial statements for a reporting entity? (all criteria under element 3 to be satisfied)	Yes	No
Does the learner demonstrate ability in terms of preparing working papers for the consolidation of a 100% owned holding company- subsidiary company relationship and prepare consolidated financial statements? (all criteria under element 4 to be satisfied)	Yes	No
Verification form completed and signed off by the manager or nominated supervisor.	Yes	No