

ACHIEVED EXEMPLAR comments (to be inserted in a bubble next to the appropriate question)

Question Number	Comment
PART A	
(a)	Candidate has missed the context of the question as Mary would be the only shareholder so there will not be “more than one owner”.
(b)	The word “she” should have been replaced with the company / clinic for the A grade to be awarded.
(c)	No comment – straightforward.
(d)	Mary must just not choose a name but she must also register that name – No grade awarded.
(e)	This question has only an E grade available so a candidate’s answer must be complete with no errors in wording and must be answered in context. The word “dividends” makes this answer incorrect. Replace this word with expense (context of the question) and the E grade would have been awarded.
(f) (i)	No comment – straightforward.
(f) (ii)	D grade only as the candidate has made no reference to the clinic being small or closely held.
PART B	
(a) (i)	No grade awarded as the candidate makes no reference to giving up money and has just repeated the wording of the given characteristic.
(a) (ii)	A grade only as the candidate has not made a link from the loan source documents to an aspect of reliability.
(b) (i)	D only as the candidate has just provided the definition of predictive value and has not given an example of what kind of information is predicted in the budget
(b) (ii)	A grade only as no example has been provided of how Mary may be bias when preparing her budget
(b) (iii)	D only as candidate has not provided a reason why Mary compares budget with actual results – to “identify similarities and differences between them” is not sufficient evidence, it is the definition repeated.
(c)	No grade awarded as the candidate has missed the context of the question. The candidate refers to the increase in assets is due to an increase in bank NOT Accounts Receivable and has described why cash fees meets the definition of income NOT the accounts receivable fees received from ACC.
(d)	No grade awarded as the candidate has written two separate sentences and has made no link. The first sentence does not clearly make reference to wages being reported in the period they relate to and the second sentence has just described that wages owing are accrued expenses and makes no reference to being reported on balance day.
(e)	D grade awarded as candidate refers to dividends being a distribution to owners. No E grade is awarded as the candidate refers to another aspect of the expense definition “that decrease the asset which is bank” – dividends do decrease bank and therefore satisfy this part of the expense definition.
(f)	No grade awarded because of the bad wording “not impact any decision” – candidate should have used the word influence not impact
Overall Comment	Candidate has not consistently answered in context (indicated by the number of D grades awarded as opposed to A or E grades)

You are advised to spend 40 minutes answering the questions in this booklet.

PART A

Mary Peters is a sole-proprietor physiotherapist, who has her main clinic in Thames. She employs two other physiotherapists, so she is able to run a twice-weekly clinic in Waihi.

Mary has decided to expand her business by turning it into a company and opening a new clinic in Whangamata. She has nearly half the finance she needs for the expansion, and the bank has agreed to lend her the rest, secured over her business assets.

Mary is married with two young children and is concerned that the family assets be protected from her business, should it experience financial difficulty.

- (a) State ONE disadvantage for Mary of turning her business into a company.

if she turns her business into a company
there will be more than one owner
so the profit will be shared.

- (b) Explain the main advantage for Mary of turning her business into a company.

She will have Limited Liability. This
means if she experiences financial difficulty
her personal assets will be protected.

- (c) State ONE reason why Mary chose not to go into partnership with her employees.

Mary don't want to share profit with her
employees as once the business go into Partnership
the other partners can get residue profit beside the
general salaries.

- (d) State ONE step Mary must take in the process of registering her company.

Choose a name for that company

- (e) As a sole proprietor, Mary's wages were reported as drawings. As a company, Mary's wages are reported as an expense.

Fully explain the **different treatment** of Mary's wages in a sole proprietorship compared with a company.

The proprietorship and Mary ^{are} the same legal entity and Mary's wage reported as drawings as it's the transaction of the business and the owner.

The company is a separate legal entity from Mary so the "wages" paid to Mary is treated as dividends as the investment return go back to the owners.

- (f) Mary's business will be an exempt company for the purposes of the Financial Reporting Act.

- (i) State ONE requirement for a company to be classified as exempt.

It shouldn't be too large: with turnover less than 1milion and total assets less than 450,000. D

- (ii) Explain why exempt companies are **not required** to prepare financial statements in accordance with Financial Reporting Standards.

Because the costs of compliance ^{for Mary} outweigh the benefits. Companies are only required to prepare financial statements in accordance with financial reporting standards when the benefits ~~are~~ are generally accepted to outweigh the costs of compliance. D

PART B

Mary has decided to call her company *Dynamic Physio Ltd*, with herself and her husband as the sole shareholders and directors.

(a) Explain why the loan from the bank to finance the business expansion meets,

(i) the following **characteristic of a liability**:

"there must be adverse financial consequences for the entity, in that the entity must be obliged to sacrifice service potential or future economic benefits to one or more other entities" (ICANZ Statement of Concepts)

The loan meets this characteristic as ~~the~~ Dynamic Physio Ltd will ~~be required~~ face adverse financial consequences when they have to sacrifice service potential or future economic benefits in the form of Interest on Loan payments and principle repayments. •

(ii) the following **recognition criterion of a liability**:

"the amount of the liability can be measured with reliability" (ICANZ Statement of Concepts)

Dynamic Physio Ltd's loan can be measured with reliability because they will have a source document from the bank when they took it out saying how much it was. A

(b) Mary prepared a budget for the first six months of operation of the new Whangamata clinic to help her decide whether to expand her business.

(i) Explain how the information in Mary's budget meets the qualitative characteristic of relevance in terms of **predictive value**.

The information contained in Mary's budget meets the qualitative characteristic of relevance in terms of predictive value as ~~the~~ the information can be used to form, revise or confirm ~~the~~ expectations about future events. D

- (ii) Explain why the information in Mary's budget may not be **neutral** in terms of the qualitative characteristic of reliability.

Neutral states that the information must be free from bias. As Mary prepared the budget herself she will likely have a biased opinion on how the new business is going to operate compared to if an independent had prepared it. Therefore the information may not be neutral. A

- (iii) Explain how, after operating the Whangamata clinic for six months, Mary will make use of the **comparability** qualitative characteristic of the information contained in her budget.

Information is comparable when users can identify similarities & differences between that information and information from different entities/time periods. After operating for six months Mary will be able to compare her budgeted information with the actual performance of the Whangamata Clinic, and identify similarities & differences between them. D

- (c) A significant number of Mary's patients are on ACC. This means that their treatment is partly paid for by ACC, the month following their appointment.

Fully explain why Mary treats the accounts receivable from ACC as **Fees Revenue** on the date of the patients' visits in terms of the following definition of revenue:

"revenues are inflows of future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners, that result in an increase in equity during the reporting period." (Adapted from ICANZ Statement of Concepts - definition of Revenues.)

The ACC payments are received by Dynamic Physio Ltd, as ~~cas~~ ~~with~~ providing an inflow of cash (the future economic benefit) which will increase ^{the} ~~the~~ the company's Bank account (ie the increase in assets) and thus increase equity. ~~with~~ The ~~refer~~ money is received from ACC, an ~~the~~ outside party, and therefore the effect ~~of~~ is not a result of contributions by the owners, Mary or her husband. The revenue received is ~~the~~ reported in the period to which it relates (its reporting period) which will be the period in which the patient was treated.

- (d) Fully explain how the **reporting** of wages owing to the physiotherapists on balance day illustrates the accrual basis.

Assess
use

It illustrates the accrual basis as transactions or events are reported when they occur regardless of when the money will be paid. ~~Wages~~ wages are owing on balance date this is an accrual expense to the business.

- (e) When Mary pays a dividend to the shareholders of *Dynamic Physio Ltd* this is reported in the Movements in Equity statement. Explain why a **dividend is not an expense** of *Dynamic Physio Ltd*.

It is not a loss of consumption or a loss of service potential of the entity that decrease the asset which is bank ^{or increase liability}. And it is a decrease in owner's equity that causes from distribution to owners of *Dynamic Physio Ltd* from part of the profit made called dividends. So it not an expense.

- (f) *Dynamic Physio Ltd* has furniture and equipment with a total cost of \$30 000. When Mary buys new chairs costing \$150 for her waiting room, she records this as an expense rather than an asset in the records of *Dynamic Physio Ltd*.

Fully explain why she is able to do this in terms of the concept of materiality.

Materiality is whether if the chairs would impact the users decisions if it was recorded separately or combined. She has decided that this will not impact any decision so has combined it as furniture and equipment.

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