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

Question Number	Comment
PART A	
(a)	No grade awarded as the candidate has not provided a valid disadvantage.
(b)	A grade is not awarded as the word "owners" indicates that the candidate has missed the context of the question as Mary would be the only shareholder.
(c)	No comment – straightforward.
(d)	No comment – straightforward.
(e)	E grade awarded – model answer
(f) (i)	No comment – straightforward.
(f) (ii)	No comment – straightforward.
PART B	
(a) (i)	No grade awarded as using revenue such as sales is not acceptable when explaining the sacrifice of future economic benefit – this can only be described by referring to giving up money
(a) (ii)	E grade awarded as the candidate has made a link from the loan source documents to more than one aspect of reliability.
(b) (i)	A grade awarded as the candidate refers to future receipts and payments as an example to explain how information is predicted in the budget.
(b) (ii)	E grade awarded as the candidate has given an example of how Mary may be bias when preparing her budget "make the budget have a more positive surplus"
(b) (iii)	A grade awarded as "to see the financial performances and inefficiencies to make useful decisions" is sufficient evidence for a reason why Mary compares budget with actual results.
(c)	A grade awarded as the candidate refers to ACC Fees Receivable. The E grade is not awarded as the candidate has not explained the inflow of future economic benefit.
(d)	A grade only as the **how** the wages owing will be reported is missing for the E grade i.e. added to the wages expense or as Accrued Expenses
(e)	E grade awarded as the candidates states the expense definition in the first sentence and in the second sentence states that dividends are a distribution to shareholders and therefore not an expense
(f)	No E grade awarded as the candidate has not recognised that the chairs do have future economic benefit or could be recorded as an asset
Overall Comment	None

E

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

Assessor's use only

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.

Profits will be shared in the form ~~of~~ of divident payments that are paid out to shareholders.

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

A company has limited liability. Therefore the owners of the company are not ~~liable for any~~ personally liable for any debts incurred by the company. D

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

~~The partners~~ A partnership has unlimited liability, therefore the partners are personally liable for any debts incurred by the partnership. D

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

Give the names of the directors of the company.

Assessor's use only

(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.

A sole proprietorship and Mary are the same legal entity. As Mary controls the business, drawings are what she takes out of the her business. A company is a separate legal entity from that of the owners. Mary's wages are recorded as an expense to the company as the company is paying money to Mary. E

(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**.

Must not own or be owned by another company D

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

The costs of preparing the financial statements outweigh the benefits of providing the financial reports. The directors may already ~~know a significant~~ have a strong knowledge of the firm and its operations. As exempt companies do not offer securities to the public, there is likely to be few ~~other~~ people who are interested in the company's financial reports A

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PART B

Assessor's use only

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)

by taking out the loan Dynamic Physio has financed the expansions of the company which is an increase in Net Assets but the Dynamic Physio Ltd is now obliged to pay back the mony owing to the bank which results in sacrifice ~~futo~~ of furr economic benefit or service potential by paying the amount of loan by the revenue such as sales . which

(ii) the following **recognition criterion of a liability:** ~~decrease~~ ~~lost~~ .
"the amount of the liability can be measured with reliability" (ICANZ Statement of Concepts)

the amount of the mony given by the loan by bank can be measured reliably as a contract is signed by Dynamic Physio Ltd and the Bank stating how much the loan worths so it is verificable. And there fore it is biasd as it can be supported with the contract and represantationally faithful as the amount of loan represents what is supposed ~~to~~ to in the statements.

E

(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**.

Budget shows the future receipts and payments that Dynamic Physio Ltd is expected to get and Mary can therefore predict the future ~~an~~ by knowing ~~how much~~ how much she is expected to recieve and pay by the expansion of busness ~~operations~~. So it is relevant information to the ~~busines~~ company.

A

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

It is not ~~neutral~~ reliable as budget is not neutral. As mary and her husband is the shareholders and is making the budget she can have ~~inflund~~ influence the information contained in the budget to make the budget have a more positive surplus so that the bank will lend a loan. Information can be biased so it is not reliable.

E

(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.

She will be able to identify similaries and ~~the life time of the Dynamic Physio Ltd is~~ differences between the budget and actual statements ~~divided in to periods of equal time periods~~. So that Mary can compare with the budget figures she has done 6 months ago and the actual performance in order to see the financial performances and ~~of~~ inefficiencies to make useful decisions.

A

(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.)

Because it reflects inflows of future economic benefit ~~as~~ more customers will come to Mary as the cost they should pay by themselves is less and increase the total value of revenue for Mary. It arises from increase in assets as it increases Accounts receivable asset account that cause Owner's equity to increase by not from contributions by owners of Dynamic physio Ltd.

A

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

Under the accrual basis - events & transactions are recognised when they occur & are reported in the financial reports to which they relate. As wages owing to physiotherapists are the result of events during the current period - they are recognised when they occur & are reported in the period to which they relate.

A

(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*.

A dividend is not an expense of Dynamic Physio Ltd as an ~~...~~ expense is a consumption or loss of future economic benefit ~~...~~ in the form of decreasing assets or increasing liabilities other than those that relate to distributions to owners/shareholders. A dividend is a distribution to shareholders and therefore is not an expense. E

(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**.

Because the cost of the new chairs is small proportionate to the asset furniture & equipment ($150 to $30 000) it is not of a nature or amount that its disclosure is likely to influence users of the financial reports in making decisions or assessments. Therefore Mary is able to treat it as an expense rather than an asset in the records of Dynamic Physio Ltd.

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