

FREE SAMPLE: THE FIRST QUESTION

Question One (8 marks)

(a) Wiremu owns 18 000 shares in Kōwhai Grove Care Limited, an aged-care provider with rest homes in Hamilton and Tauranga. Wiremu paid \$48 600 for the shares (\$2.70 per share) and the shares are fully paid. Kōwhai Grove Care Limited is a company registered under the Companies Act 1993, and its shareholders have limited liability.

Suppose the company fails and is put into liquidation owing creditors \$900 000, while its assets can be sold for only \$630 000. Explain what limited liability means for Wiremu as a shareholder, using the figures in your answer.

[4 marks]

(b) Kōwhai Grove Care Limited is a Financial Markets Conduct (FMC) reporting entity. Wiremu's shareholding in it cost \$48 600. Its balance date is 30 June 2026. The Financial Markets Conduct Act 2013 requires FMC reporting entities' financial statements to: comply with generally accepted accounting practice in New Zealand (NZ GAAP); be audited by a licensed auditor; and be lodged with the Companies Office within four months of the balance date.

State the latest date by which the financial statements must be lodged, and justify why the audit requirement is important for Wiremu's decision about whether to keep or sell the shares.

[4 marks]

THE WORKED ANSWER TO THAT QUESTION

Question 1 (8 marks) [Features of reporting entities and statutory requirements]

(a) Wiremu owns 18 000 shares in Kōwhai Grove Care Limited, an aged-care provider with rest homes in Hamilton and Tauranga. Wiremu paid \$48 600 for the shares (\$2.70 per share) and the shares are fully paid. Kōwhai Grove Care Limited is a company registered under the Companies Act 1993, and its shareholders have limited liability. Suppose the company fails and is put into liquidation owing creditors \$900 000, while its assets can be sold for only \$630 000. Explain what limited liability means for Wiremu as a shareholder, using the figures in your answer.

(a) Answer: Maximum loss \$48 600; shortfall \$270 000 not payable by Wiremu

- Evidence level: Merit (applies limited liability to the figures).
- Maximum loss for Wiremu = amount paid for the shares = $18\,000 \times \$2.70 = \$48\,600$.
- Shortfall to creditors = $\$900\,000 - \$630\,000 = \$270\,000$; Wiremu is not liable for it.
- Achievement: Limited liability means Wiremu cannot be required to pay the company's debts out of personal assets; the company, not the shareholder, owes the creditors.
- Merit: Limited liability means Wiremu cannot be required to pay the company's debts out of personal assets; the company, not the shareholder, owes the creditors. The most Wiremu can lose is the \$48 600 paid for the shares, because the shares are fully paid and there is no further call on Wiremu.
- Excellence: Limited liability means Wiremu cannot be required to pay the company's debts out of personal assets; the company, not the shareholder, owes the creditors. The most Wiremu can lose is the \$48 600 paid for the shares, because the shares are fully paid and there is no further call on Wiremu. The shortfall of \$270 000 ($\$900\,000 - \$630\,000$) is borne by the creditors, not by Wiremu; this is different from a sole trader, who would be personally liable for the whole shortfall. This protection is why people are willing to invest in a company such as Kōwhai Grove Care Limited.

KEY TAKEAWAY

Limited liability limits a shareholder's loss to the amount paid (or unpaid) on the shares; it does not protect the value of the investment.

(b) Kōwhai Grove Care Limited is a Financial Markets Conduct (FMC) reporting entity. Wiremu's shareholding in it cost \$48 600. Its balance date is 30 June 2026. The Financial Markets Conduct Act 2013 requires FMC reporting entities' financial statements to: comply with generally accepted accounting practice in New Zealand (NZ GAAP); be audited by a licensed auditor; and be lodged with the Companies Office within four months of the balance date. State the latest date by which the financial statements must be lodged, and justify why the audit requirement is important for Wiremu's decision about whether to keep or sell the shares.

(b) Answer: Lodge by 31 October 2026

- Evidence level: Excellence (gives the deadline and justifies the audit for the decision).
- Four months after 30 June 2026 is 31 October 2026.
- Achievement: The financial statements must be lodged by 31 October 2026 (four months after the balance date of 30 June 2026).
- Merit: The financial statements must be lodged by 31 October 2026 (four months after the balance date of 30 June 2026). An audit means an independent licensed auditor has checked that the statements comply with NZ GAAP.

- Excellence: The financial statements must be lodged by 31 October 2026 (four months after the balance date of 30 June 2026). An audit means an independent licensed auditor has checked that the statements comply with NZ GAAP. This gives Wiremu confidence that the profit, assets and debts are reliable and not overstated by managers, so Wiremu can base the decision to keep or sell on information that is free from material error. Lodging by the deadline also means the information is timely and publicly available, so Wiremu can compare it with other companies.

KEY TAKEAWAY

An audit does not guarantee the future; it gives users independent assurance that the information they use to decide is reliable.

LOS: Features of reporting entities and statutory requirements (91404)

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