

Assessment Schedule – 2012**Accounting: Demonstrate understanding of accounting concepts for small entities (90976)****Evidence Statement**

Question	Evidence
<p>ONE (a)</p>	<p>To provide Alex with / communicate financial information to enable / help him to make financial decisions regarding <i>AJ Builders</i>.</p>
<p>(b) (i)</p> <p>(ii)</p>	<p>Describe: A cash budget shows Alex the estimated cash payments and estimated cash receipts for the next six months / what the expected bank balance might be for <i>AJ Builders</i> in 6 months' time / for a period of time. (Not profit, etc)</p> <p>Explain (in addition to describe): This enables Alex to make decisions about <i>AJ Builders</i> cash in and cash out / provide guidelines for future spending / arrange finance / purchasing an asset or not for the next 6 months.</p> <p>An appropriate accounting concept is applied to <i>AJ Builders</i> and the 6 monthly cash budget (Note, not all appropriate concepts can provide evidence to excellence level). Examples include:</p> <p>Mallika is following the reporting period concept by breaking the life of <i>AJ Builders</i> up into time periods of equal length, in this case preparing the cash budget every six months. This ensures that the information is timely so that comparisons in cash-flow can be made / can be used to indicate the need for a loan/whether <i>AJ Builders</i> can afford to buy the new equipment / can compare the budget to the cash flow statement.</p> <p>Mallika is following the going concern concept by preparing the cash budget detailing the estimated future receipts and payments for the next 6 months, which assumes that <i>AJ Builders</i> will continue into the foreseeable future.</p> <p>Mallika is following the accounting entity concept by preparing the cash budget for predicted cash transactions for the next 6 months for <i>AJ Builders</i> only, and not having Alex's personal payments / receipts in the budget.</p>
<p>(c)</p>	<p>Assets: The asset Bank decreases by \$800 Expenses: The expense (Apprentice) wages increases by \$800</p>
<p>(d)</p>	<p>Example: The accounting entity concept is applied by <i>AJ Builder</i>. They will report the timber as drawings in the Statement of Financial Position to keep the business expenses / transactions separate from Alex's personal expenses / transactions, because the timber for the deck is a personal expense, not a business expense, therefore it is not reported in the Income Statement of <i>AJ Builders</i>.</p>

Judgement Statement – Question One

N1	N2	A3	A4	M5	M6	E7	E8
<p>ONE of:</p> <ul style="list-style-type: none"> identifies one appropriate concept partial description of cash budget. 	<p>ONE of:</p> <ul style="list-style-type: none"> describes purpose of accounting describes components of cash budget describes a relevant concept in (b) (ii) recognises that assets decrease or expenses increase describes entity concept or recognises that the transaction will be reported as drawings. 	<p>TWO of:</p> <ul style="list-style-type: none"> describes purpose of accounting describes components of a cash budget describes a relevant concept in (b) (ii) recognises that assets decrease or expenses increase describes entity concept or recognises that the timber purchase will be reported as drawings. 	<p>THREE of:</p> <ul style="list-style-type: none"> describes purpose of accounting describes components of a cash budget describes a relevant concept in (b) (ii) recognises that assets decrease and expenses increase describes entity concept or recognises that the timber purchase will be reported as drawings. 	<p>TWO of:</p> <ul style="list-style-type: none"> explains purpose of cash budget in context explains in context a relevant concept applied to the preparation of the 6 monthly budget explains that asset bank decreases by \$800 <p>OR</p> <ul style="list-style-type: none"> wages expense increases by \$800 explains why the timber purchase is reported as drawings to ensure separation of AJ Builders & Alex's personal finances in context. 	<p>THREE of:</p> <ul style="list-style-type: none"> explains purpose of cash budget explains in context a relevant concept applied to the preparation of the 6 monthly budget explains that asset bank decreases by \$800 <p>AND</p> <ul style="list-style-type: none"> wages expense increases by \$800 explains why the timber purchase is reported as drawings to ensure separation of AJ Builders & Alex's personal finances in context. 	<p>ONE of:</p> <ul style="list-style-type: none"> applies an appropriate accounting concept to the use of the cash budget for AJ Builders for 6 months / detailing how it would be used for decisions applies the timber purchase to the accounting entity concept of financial separation of AJ Builders & Alex's personal finances in context AND how the timber purchase is reported as drawings in the statement of financial position / not an expenses in the Income statement no detracting accounting error. 	<p>ALL of:</p> <ul style="list-style-type: none"> applies an appropriate accounting concept to the use of the cash budget for AJ Builders for 6 months / detailing how it would be used for decisions applies the timber purchase to the accounting entity concept of financial separation of AJ Builders & Alex's personal finances in context AND how the timber purchase is reported as drawings in the statement of financial position AND not an expenses in the Income statement no detracting accounting error.

N0 = No response; no relevant evidence.

Question	Evidence
<p>TWO (a)</p>	<ul style="list-style-type: none"> • advertising • building supplies used • interest on loan • repairs to tools and equipment.
(b)	<p>Describes / explains / fully explains the THREE characteristics of income:</p> <ul style="list-style-type: none"> • building fees is income for <i>AJ Builders</i> because building fees will increase the economic benefits in the form of inflows of cash from the customers paying the building fees to have their houses built. This increases assets of <i>AJ Builders</i> by increasing the bank account • the building fees increase profit which leads to an increase in Alex's equity in <i>AJ Builders</i> • it is not the owner Alex making a contribution to <i>AJ Builders</i>.
(c)	<p>Describes / explains / fully explains the features of Capital and revenue expenditure:</p> <p>The purchase of the vehicle is capital expenditure, because the vehicle is a one-off purchase that will provide economic benefit AJ builders beyond the current year because the apprentice will be able to use the vehicle to get to building jobs to earn income for <i>AJ Builders</i>. The vehicle will be reported as an asset in the Statement of Financial Position.</p> <p>The purchase / payment of the insurance of the vehicle is revenue / income expenditure as it is day to day / recurring / on-going expenditure that will only benefit <i>AJ Builders</i> for the current year / year of use. The insurance will be reported as an expense / decrease profit in the Income Statement.</p> <p>Note: features written as opposites will only receive credit for one expenditure, eg a vehicle is a one-off purchase / insurance is not a one-off purchase</p>

Judgement Statement – Question Two

N1	N2	A3	A4	M5	M6	E7	E8
<p>ONE of:</p> <ul style="list-style-type: none"> recognise ONE expense partial definition. 	<p>ONE of:</p> <ul style="list-style-type: none"> recognises two expenses describes two characteristics of income recognises vehicle is capital expenditure OR insurance is revenue expenditure. 	<p>TWO of:</p> <ul style="list-style-type: none"> recognises three expenses (maximum one incorrect account) describes all three characteristics of income describes one feature of capital expenditure with correct example describes one feature of revenue expenditure with correct example correctly identifies that Vehicle is capital expenditure and insurance is revenue expenditure (if no correct feature described) 	<p>ALL of:</p> <ul style="list-style-type: none"> recognises three expenses (maximum one incorrect account) describes all three characteristics of income describes one feature of capital expenditure with correct example describes one feature of revenue expenditure with correct example. 	<p>ONE of:</p> <ul style="list-style-type: none"> explains that building fees / fees received is income in context by elaborating on how assets and / or equity increase explains that vehicle meets two features of capital expenditure explains that insurance meets two features of revenue expenditure. 	<p>ALL of:</p> <ul style="list-style-type: none"> explains that building fees / fees received is income in context by elaborating on how assets and equity increase explains that vehicle meets two features of capital expenditure explains that insurance meets two features of revenue expenditure. 	<p>ONE of:</p> <ul style="list-style-type: none"> in addition to Merit: applies how building fees is income for AJ Builders by explaining the receipts of cash from building houses, and not Alex contribution fully explains the difference between capital and revenue expenditure by detailing at least two features for AJ Builders using vehicle and insurance as the examples no detracting accounting error. 	<p>ALL of:</p> <ul style="list-style-type: none"> in addition to Merit: applies how building fees is income for AJ Builders by explaining the receipts of cash from building houses for paying customers / clients, and not Alex contribution fully explains the difference between capital and revenue expenditure by detailing at least two features for AJ Builders using vehicle and insurance as the examples no detracting accounting error.

N0 = No response; no relevant evidence.

Question	Evidence
THREE (a)	<p>Equity = Assets – Liabilities</p> <p>Equity = Assets (Tools and Equipment \$5 000 + Vehicle \$10 000)</p> <p>– Liabilities (Accounts Payable \$800 + Bank overdraft \$1 200 + Loan from family \$2 000)</p> <p>Equity = \$11 000</p>
(b)	<p>Examples include:</p> <p>Alex's personal assets may be forced to be used / sold to pay off <i>AJ Builders'</i> debts if it gets into financial difficulty and is not able to pay its debts.</p> <p>Alex is personally liable to pay off <i>AJ Builders'</i> debts if <i>AJ Builders</i> get into financial difficulty because Alex and his business have no legal separation.</p> <p>Not: Bankrupt / if Alex can't pay his debts.</p>
(c)	<p>Characteristics of the Loan as a liability described / explained / fully explained.</p> <p>The bank loan is reported as a non-current liability in the Statement of Financial Position as it meets the characteristics of a liability.</p> <ul style="list-style-type: none"> • The \$6000 bank loan was received by <i>AJ Builders</i> in the past from the bank to purchase the tools. • <i>AJ Builders</i> have a present obligation to pay the loan back to the bank / as stated on loan contract / before the 5 years is up • <i>AJ Builders</i> has a future sacrifice of assets because when they pay back the loan it will decrease their bank account each payment that is made in the future <p>Identify and describe / explain / apply an appropriate concept: (Note: not all can provide evidence for Excellence).</p> <p>Examples include:</p> <p>Going Concern: As the loan has been taken out by <i>AJ Builders</i> for a period of 5 years, it indicates that the business will continue to operate at least that long which means they will continue to operate for the foreseeable future, and this is why it is classified as a non-current liability</p> <p>Historical Cost: The bank loan is reported as \$6 000 in the Statement of Financial Position as this is the original acquisition cost of the loan to / amount borrowed by <i>AJ Builders</i>. It is the loan principal and does not include any interest owing</p> <p>Monetary Measurement: The monetary measurement concept means that the bank loan is reported in the Statement of Financial Position of <i>AJ Builders</i> in the common currency of New Zealand dollars. The 5 year bank loan will be reported as NZ\$6 000 as <i>AJ Builders</i> is based in Taupo and New Zealand dollars is the currency of New Zealand.</p>

(d)	<p>Clearly describes the concept of accrual accounting which is in essence is the reporting of financial events / transaction / claims to the event in the financial statements of the accounting period they relate to, regardless of when the cash changes hands.</p> <p>Examples of accrual description:</p> <p>Accrual accounting requires that transactions are reported in the financial statements in the period to which they relate, regardless of when the cash changes hands</p> <p>OR</p> <p>Accrual accounting requires an entities economic resource to be reported in the period effects and claims of the transactions occur, regardless of when the cash is paid or received</p> <p>Explanation (how) and application (how and why) the accrual accounting concept applies to the reporting of the prepaid rent for both the Income statement and statement of financial position.</p> <p>Examples include:</p> <p>The \$600 prepaid rent is deducted from the rent paid and \$7 200 is the rent in this year's Income Statement for <i>AJ Builders</i> (or the \$600 is reported in next year income statement), as that is the rent that has been used this year and effect this years' profit, and the \$600 rent for the office that has been paid in advance has not been used this year so it doesn't belong / the office will be used next year.</p> <p>Prepayments \$600 will be reported as a current asset in the Statement of Financial Position of <i>AJ Builders</i>. This represents the future benefit AJ Builders will receive in the next financial year in the form of office space / use of building in the next accounting period/rent owed to <i>AJ Builders</i>, which has already been paid for this year.</p>
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Judgement Statement – Question Three

N1	N2	A3	A4	M5	M6	E7	E8
Some partially correct equation or definition.	<p>TWO of:</p> <ul style="list-style-type: none"> equation and some correct working in (a) <p>OR</p> <p>equity of \$11 000 is shown (no working)</p> <ul style="list-style-type: none"> recognises that unlimited liability is about personal liability definition of a liability recognises that the bank loan is a non-current liability identifies an appropriate concept definition of accrual or recognises that rent expense has to decrease by \$600 or prepaid rent is an asset. 	<p>THREE of:</p> <ul style="list-style-type: none"> accounting equation and some working (one classification error / omission) in (a) <p>OR</p> <p>equity of \$11 000 is shown (no working)</p> <ul style="list-style-type: none"> recognises that unlimited liability is about personal/ owners liability for the business debts description of the characteristics of a liability or recognises the loan is a non-current liability defines an appropriate concept linked to the loan defines / describes accrual accounting <p>OR</p> <p>recognises that rent expense has to decrease by \$600 or prepaid rent is an asset \$600.</p>	<p>FOUR of:</p> <ul style="list-style-type: none"> accounting equation and some working (one classification error / omission) in (a) <p>OR</p> <p>equity of \$11 000 is shown (no working)</p> <ul style="list-style-type: none"> recognises that unlimited liability is about personal/ owners liability for the business debts description of the characteristics of a liability or recognises the loan is a non-current liability defines an appropriate concept linked to the loan defines / describes accrual accounting <p>OR</p> <p>recognises that rent expense has to decrease by \$600 or prepaid rent is an asset \$600.</p>	<p>THREE of:</p> <ul style="list-style-type: none"> accounting equation & equity \$11000 (or correct working with minor arithmetic error) explains unlimited liability including when it would take effect for Alex describes 3 characteristics of a liability and explains some for the loan for AJ Builders explains an appropriate concept in terms of the loan for AJ Builders explains for AJ Builders the adjustment as reporting in correct period by rent decreasing \$600 due to expense / on this years' income statement/ on next years' income statement explains for AJ Builders the adjustment in relation to reporting in correct period by prepayment \$600 is current asset being created / asset on Statement of Financial Position. 	<p>FIVE of:</p> <ul style="list-style-type: none"> accounting equation & equity \$11000 (or correct working with minor arithmetic error) explains unlimited liability including when it would take effect for Alex describes 3 characteristics of a liability and explains some for the loan for AJ Builders explains an appropriate concept in terms of the loan for AJ Builders explains for AJ Builders the adjustment as reporting in correct period by rent decreasing \$600 due to expense / on this years' income statement/ on next years' income statement explains for AJ Builders the adjustment in relation to reporting in correct period by prepayment \$600 is current asset being created / asset on Statement of Financial Position. 	<p>TWO of:</p> <ul style="list-style-type: none"> applies loan in terms of the characteristics of liability for AJ Builders fully explains / applies an appropriate concept in terms of the 5 year loan for AJ Builders applies accrual accounting by explaining in detail how and why the prepaid rent \$600 is reported in the Income Statement for the correct period applies accrual accounting by explaining in detail how and why the prepaid rent is reported in the Statement of Financial Position as a current asset, prepayment \$600 for the correct period for AJ Builders office rental no detracting accounting error. 	<p>THREE of:</p> <ul style="list-style-type: none"> applies loan in terms of the characteristics of liability for AJ Builders, being NCL fully explains / applies an appropriate concept in terms of the 5 year loan for AJ Builders applies accrual accounting by explaining in detail how and why the prepaid rent \$600 (deducted / \$7200) is reported in the Income Statement for the correct period applies accrual accounting by explaining in detail how and why the prepaid rent \$600 is reported as a current asset in the Statement of Financial Position as a current asset, prepayment \$600 for the correct period for AJ Builders office rental no detracting accounting error.

N0 = No response; no relevant evidence.

Judgement Statement

	Not Achieved	Achievement	Achievement with Merit	Achievement with Excellence
Score range	0 – 7	8 – 13	14 – 18	19 – 24