NZQA

NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

Level 1 Accounting, 2012

90976 Demonstrate understanding of accounting concepts for small entities

2.00 pm Tuesday 13 November 2012
Credits: Three

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of accounting concepts for small entities.	Demonstrate in-depth understanding of accounting concepts for small entities.	Demonstrate comprehensive understanding of accounting concepts for small entities.

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

You should attempt ALL the questions in this booklet.

If you need more room for any answer, use the extra space provided at the back of this booklet.

Check that this booklet has pages 2–10 in the correct order and that none of these pages is blank.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

TOTAL

ASSESSOR'S USE ONLY

You are advised to spend 60 minutes answering the questions in this booklet.

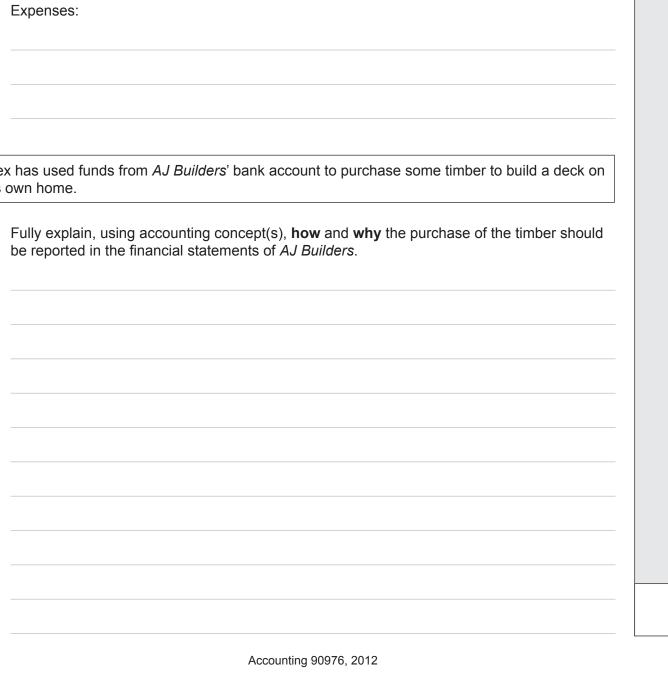**QUESTION ONE**

Ignore GST in this question.

Alex, a builder, owns *AJ Builders*, which builds houses in Taupo. Alex employs an apprentice named William and an accountant named Mallika.

(a)   Describe the purpose of accounting.

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_____

Mallika prepares a cash budget for *AJ Builders* every six months.

(b)   (i)   Explain the purpose of preparing a cash budget for *AJ Builders*.

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(ii)   Fully explain ONE accounting concept Mallika is following by preparing a cash budget for *AJ Builders* every six months.

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AJ Builders has spent $800 on apprentice wages.

(c) Explain the impact that paying for the apprentice wages would have had on the assets and expenses of *AJ Builders*.

Include in your explanation:
- the specific assets and expenses that will increase and / or decrease
- dollar amounts.

Note: The definitions of assets and expenses are not required.

Assets:

_____

_____

_____

Expenses:

_____

_____

_____

Alex has used funds from *AJ Builders*' bank account to purchase some timber to build a deck on his own home.

(d) Fully explain, using accounting concept(s), **how** and **why** the purchase of the timber should be reported in the financial statements of *AJ Builders*.

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QUESTION TWO

(a)   *AJ Builders* has the following accounts included in its financial statements:
   •   accounts payable
   •   accounts receivable
   •   advertising
   •   building supplies used
   •   drawings
   •   interest on loan
   •   loan from family
   •   repairs to tools and equipment
   •   tools and equipment.

   Identify THREE **expenses** from the list above:

   _____

   _____

   _____

(b)   Fully explain how fees received in cash from building houses is **income** for *AJ Builders*.

   _____

   _____

   _____

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   _____

AJ Builders recently purchased a new work vehicle for cash and paid the first year of insurance for the vehicle.

(c)   Fully explain which payment is **capital expenditure** and which payment is **revenue expenditure**.

Include in your explanation:
- which payment is capital expenditure, and why
- which payment is revenue expenditure, and why.

QUESTION THREE

(a)   At the end of the financial year, *AJ Builders*' Statement of Financial Position was showing:

Accounts payable	$800
Vehicle	$10 000
Bank overdraft	$1 200
Loan from family	$2 000
Tools and equipment	$5 000

Using the accounting equation, calculate Alex's equity in *AJ Builders*.
Show your working.

Working

Equity $_____

Mallika tells Alex that as a sole proprietor, he has unlimited liability.

(b)   Explain what **unlimited liability** means for Alex.

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AJ Builders has just received a five-year bank loan of $6 000 to purchase more tools and equipment.

(c) Fully explain how the five-year bank loan will be reported in *AJ Builders*' Statement of Financial Position.

Include in your explanation:
*   how the five-year bank loan meets the characteristics of a liability
*   concept(s) followed in the reporting of the five-year bank loan.

Question Three continues on the following page

*AJ Builder*s rents a small office in town. At the end of the financial year, *AJ Builders* had paid $7 800 rent, of which **$600** has been **prepaid**.

(d) Using the **accrual accounting** concept, fully explain how this information will be reported in both the **Income Statement** and the **Statement of Financial Position** for *AJ Builders*.

QUESTION NUMBER	Extra space if required. Write the question number(s) if applicable.

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