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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

SUPERVISOR'S USE ONLY

Level 1 Accounting, 2013

90976 Demonstrate understanding of accounting concepts for small entities

2.00 pm Tuesday 12 November 2013
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 2–11 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

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You are advised to spend one hour answering the questions in this booklet.

QUESTION ONE

George owns *Better Burgers*, a takeaway burger bar in Christchurch. *Better Burgers* has the following accounts included in its financial statements:

- accountancy fees
- bank
- capital
- cooking equipment
- depreciation on cooking equipment
- interest on mortgage
- inventory
- purchases
- mortgage
- sales
- wages.

(a) Identify THREE **expenses** from the list above.

(b) Fully explain, using the definition of income, how cash sales is **income** for *Better Burgers*.

During the year, *Better Burgers* paid \$500 off its mortgage principal.

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- (c) Describe the impact paying \$500 off *Better Burgers*' mortgage principal has had on the assets and liabilities of *Better Burgers*.

Include in your answer:

- the specific assets and liabilities that will increase and/or decrease
- dollar amounts.

Assets:

Liabilities:

Question One (d) is on page 4 ►

QUESTION TWO

During the financial year, *Better Burgers* purchased a new drink machine that cost NZ\$500. Following the monetary measurement concept, *Better Burgers* reported the drink machine as an asset in their Statement of Financial Position, for NZ\$500.

Every two months, the drink machine needs to be taken apart and thoroughly cleaned.

- (a) Describe the purpose of the Statement of Financial Position for *Better Burgers*.

- (b) Explain how the purchase of the drink machine is capital expenditure, and the cleaning of the drink machine is revenue expenditure.

Question Two (c) is on page 6 ►

(c) Fully explain how the purchase of the drink machine for \$500 is reported in *Better Burgers'* Statement of Financial Position.

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Include in your answer:

- how the drink machine meets the characteristics of an asset
- the classification of the drink machine in the Statement of Financial Position
- ONE concept, other than the monetary measurement concept, followed in the reporting of the drink machine.

QUESTION THREE

George, the owner of *Better Burgers*, is a member of his local swimming club, *Champs Swim Club Incorporated (CSC)*.

The club started four years ago. Recently, the club has been in financial difficulty.

George pays an annual subscription of \$80, and he always attends the club's annual general meeting.

Note: You may use the abbreviation *CSC* for *Champs Swim Club Incorporated* in your answers.

- (a) *Champs Swim Club Incorporated's* annual financial statements are audited. Describe what an auditor does.

- (b) At the annual general meeting, George takes care to read and understand the financial statements. Explain why George is interested in *Champs Swim Club Incorporated's* financial statements.

Question Three (c) is on page 8 ►

- (c) The members of *Champs Swim Club Incorporated* have limited liability. Explain what **limited liability** means for George, in terms of being a member of the swimming club.

Better Burgers decided to advertise at *Champs Swim Club Incorporated's* major swimming event. At the same time, George's annual membership was due to the swimming club.

George decided to pay both the \$250 for *Better Burgers'* business advertising, and his personal swim club subscription of \$80, from *Better Burgers'* business bank account.

- (d) Fully explain, using the definition of an expense, why the **business advertising** is an expense for *Better Burgers*.

- (e) Fully explain, using the **accounting entity concept**, how and why the payment of George's subscription to the swimming club should be reported in the financial statements of *Better Burgers*.

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