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SUPERVISOR'S USE ONLY

## Level 1 Accounting, 2015

### 90976 Demonstrate understanding of accounting concepts for small entities

9.30 a.m. Tuesday 1 December 2015  
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 2–8 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

*Kids Cuts* is a hairdressing salon owned by Alana that specialises in haircuts for children. The salon is located in a busy mall in Christchurch.

### QUESTION ONE

*Kids Cuts* has the following accounts included in their financial statements:

- advertising
- bank
- building
- capital
- depreciation on office equipment
- electricity
- interest on term deposit
- mortgage
- office equipment
- rates
- term deposit
- wages

(a) Identify THREE assets from the list above.

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(b) Describe the purpose of the Statement of Financial Position for *Kids Cuts*.

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(c) Fully explain how hairdressing chairs owned by *Kids Cuts* meet the characteristics of an asset.

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*Kids Cuts* has \$10 000 invested in a term deposit. At the end of the financial year *Kids Cuts* is owed \$50 interest on that term deposit.

Definition of accrual basis:  
The effects of transactions are recognised when they occur and are reported in the financial statements of the periods to which they relate.

(d) Fully explain how the interest on the term deposit that is owed to *Kids Cuts* will be reported in this year's financial statements of *Kids Cuts*, using the above definition.

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**QUESTION TWO**

Note: Ignore GST in this question.

Every week *Kids Cuts* pays wages of \$900 by automatic payment.

- (a) Describe the impact paying \$900 wages has on *Kids Cuts* assets and expenses. In your answer, include:
  - any specific assets and expenses that will increase or decrease
  - dollar amounts.

Assets:

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Expenses:

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- (b) Fully explain, using the definition of income, how hairdressing fees are income for *Kids Cuts*.

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Alana has taken home shampoo and conditioner that cost \$60 from *Kids Cuts* for her and her family to use.

- (c) Fully explain, using the accounting entity concept, how and why taking home the \$60 shampoo and conditioner should be reported in the financial statements of *Kids Cuts*.

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*Kids Cuts* has office equipment that cost \$3 000. It is expected to last six years and not to have any residual value at the end, so is depreciated annually by \$500.

- (d) Fully explain, using the definition of depreciation, why the office equipment is depreciated every year by \$500.

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**QUESTION THREE**

*Kids Cuts'* accountant prepares a Statement of Financial Position for Alana at the end of every financial year.

At the end of the last financial year the Statement of Financial Position was showing:

• Accounts payable	\$2 000
• Bank	\$3 500
• GST payable	\$1 500
• Mortgage	\$80 000
• Property, plant and equipment	\$210 000
• Term deposit	\$10 000

- (a) Using the accounting equation, calculate the amount of equity Alana has in *Kids Cuts*. Show your working.

**Working**

**Equity \$ \_\_\_\_\_**

- (b) Fully explain how and why *Kids Cuts* is following the period reporting concept by preparing a Statement of Financial Position at the end of every financial year.

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*Kids Cuts* owns the building where its salon is. Every week they pay a window cleaning business to wash the front windows of the salon.

The purchase of the building was capital expenditure, and the window cleaning expense is revenue expenditure.

- (c) (i) Fully explain why the building purchase is capital expenditure.

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- (ii) Fully explain why the window cleaning expense is revenue expenditure.

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*Kids Cuts* has a mortgage that was used to purchase the building where its salon is.

- (d) Fully explain how the mortgage for *Kids Cuts* meets the characteristics of a liability.

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