





NEW ZEALAND QUALIFICATIONS AUTHORITY MANA TOHU MĀTAURANGA O AOTEAROA

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## Level 1 Accounting, 2017

# 90976 Demonstrate understanding of accounting concepts for small entities

9.30 a.m. Tuesday 21 November 2017 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	

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ASSESSOR'S USE ONLY

Alex owns *Fun Games*, a shop in Timaru that sells a selection of board games in store and online. *Fun Games'* balance date is 31 March each year.

Alex works full time and employs several part-time office and sales staff, as well as an accounting technician.

*Fun Games* operates from a large building and has more space than it needs. It rents out one of the back rooms to the neighbouring clothes shop for storage.

#### **QUESTION ONE**

Note: Ignore GST in this question.

(a) Describe the main role of the accounting technician for *Fun Games*.

On 31 March 2017, *Fun Games* purchased a new computer costing \$3 000 on credit.

- (b) Describe the impact that purchasing the computer had on *Fun Games*' assets and liabilities.
  In your answer, include:
  - any specific assets and liabilities that will increase or decrease
  - dollar amounts (ignore GST).

Assets:

Liabilities:

(c) Alex has been told that because he is the sole proprietor of *Fun Games*, he has unlimited liability. Explain what unlimited liability means for Alex in relation to *Fun Games*.

Recently, *Fun Games* imported a new range of board games from the USA. The board games totalled US\$1 500, which is NZ\$2 200.

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(d) Fully explain, using the monetary measurement concept, how and why the board games are reported in the financial statements of *Fun Games*.

Alex has arranged a Telephone and Internet package that includes both the business and his home. The monthly package totals \$230, which is paid for by *Fun Games*; and it is split \$150 for *Fun Games* and \$80 for Alex's home.

(e) Fully explain, using the accounting entity concept, how and why the \$230 Telephone and Internet will be reported in both the Income Statement and the Statement of Financial Position for *Fun Games*.

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### **QUESTION TWO**

(a) Describe the purpose of the Statement of Financial Position for *Fun Games*.

*Fun Games* had the following assets and equity as at 31 March 2017:

Bank	\$3500	Office equipment	\$9400
Building	\$100000	Shop fittings	\$28400
Capital	\$120670	Term deposit	\$8000
Inventory	\$14400		

(b) Using the accounting equation, calculate the total liabilities that *Fun Games* has as at 31 March 2017. Show your working.

Working Liabilities \$

One of *Fun Games*' liabilities is a 6-year loan of \$28500 due in 2020, with an interest rate of 6.5% p.a.

(c) Fully explain how the loan meets the characteristics of a liability for *Fun Games*.

(i)	
	Fully explain, using the going concern concept, how and why the loan will be reported in the financial statements of <i>Fun Games</i> .
(ii)	Fully explain why the interest on the loan is revenue expenditure for <i>Fun Games</i> .

#### **QUESTION THREE**

Note: Ignore GST in this question.

(a) Describe the purpose of the Cash Budget for *Fun Games*.

*Fun Games* has the following accounts in its financial statements:

- Accounts payable
- Depreciation on shop fittingsDrawings
- Accounts receivable
  - Advertising
- Capital

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- Interest on loan
- Interest received
- Office equipment

• Inventory

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- Sales
- Wages
- (b) Identify THREE expenses from the list above.

Fun Games has several sources of income, including sales and rent received.

(c) Fully explain how sales meets the characteristics of income for *Fun Games*.

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At the end of the financial year, 31 March 2017, *Fun Games* had received \$400 rent from the neighbouring clothes shop, for storage to be used in April 2017.

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

Source (adapted): NZ Framework

(d) Fully explain, using the accrual basis concept above, how and why the rent that *Fun Games* has received in advance will be reported in *Fun Games*' financial statements for the year ended 31 March 2017.

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