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NZQA

NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

QUALIFY FOR THE FUTURE WORLD
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Level 1 Accounting, 2019

90976 Demonstrate understanding of accounting concepts for small entities

9.30 a.m. Friday 22 November 2019
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

QUESTION ONE

Chris Wheel is the sole proprietor owner of *Cycle Supreme*.

Cycle Supreme sells bikes and accessories, as well as offering a bike repair service.

Chris prepares a Cash Budget for *Cycle Supreme* each month.

(a)   Describe one main role of the financial accountant for *Cycle Supreme*.

(b)   Describe the purpose of the Cash Budget for *Cycle Supreme*.

(c)   Fully explain how and why *Cycle Supreme* is following the period reporting concept by preparing a monthly Cash Budget.

Cycle Supreme receives bike repair fees.

(d) Fully explain why bike repair fees are an income for *Cycle Supreme*.

Chris took a bike costing $850 home to give to his son for his birthday present.

(e) Fully explain, using the accounting entity concept, how and why the bike will be reported in the Statement of Financial Position for *Cycle Supreme*.

QUESTION TWO

Cycle Supreme had the following accounts in its financial statements as at 31 March 2019.

• Accounts payable	• GST payable	• Prepayments
• Advertising	• Insurance	• Sales
• Bank	• Interest on mortgage	• Shop fittings
• Drawings	• Inventory	• Supplies used
• Electricity	• Mortgage	• Wages

(a) Identify THREE assets from the list above.

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(b) As the sole proprietor of *Cycle Supreme*, Chris has unlimited liability. Explain what unlimited liability means for Chris.

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To improve the bike repair service, *Cycle Supreme* has purchased some new repair tools costing $14 500, excluding GST. The repair tools will require ongoing maintenance.

(c) (i) Fully explain, using the historical cost concept, how and why the new repair tools would be reported in the financial statements for *Cycle Supreme*. Ignore GST.

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(ii) Fully explain why the **maintenance** on tools will be revenue expenditure for *Cycle Supreme*.

Cycle Supreme purchased the building that it operates its business from in 2009.

(d) Fully explain why the building is an asset for *Cycle Supreme*.

QUESTION THREE

(a) Using the accounting equation and the information below, calculate total liabilities for *Cycle Supreme*.

Accounts receivable	$3 800	Prepayments	$1 000
Bank	$7 600	Repair tools	$45 900
Capital	$94 000	Shop fittings	$12 700
Inventory	$84 000	Supplies on hand	$4 400

Show working

Liabilities $ _____

(b) *Cycle Supreme* pays $350 per week in wages. Describe the weekly impact this has on the assets and expenses for *Cycle Supreme*.

In your answer include:
- the account name of the specific asset(s) and expense(s) that will be affected
- whether the specific asset and expense will increase or decrease, and by how much (state dollar amounts).

Assets: _____

_____

Expenses: _____

_____

Cycle Supreme has a mortgage that is due to be fully paid by 2029.

(c) Fully explain why the mortgage is a liability for *Cycle Supreme*.

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(d) Fully explain, using the going concern concept, how and why the mortgage will be reported in the financial statements for *Cycle Supreme*.

On balance day, 31 March 2019, *Cycle Supreme* owes $950 interest on mortgage.

(e) Fully explain, using the accrual basis, how and why the $950 owing for interest on mortgage will be reported in *Cycle Supreme*'s Income Statement for the year ended 31 March 2019.

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

QUESTION NUMBER

90976