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Level 1 Accounting 2021

90976 Demonstrate understanding of accounting concepts for small entities

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.

Do not write in any cross-hatched area (///). This area may be cut off when the booklet is marked.

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

Ignore GST in this paper.

QUESTION ONE

Cheap Costumes is owned by sole proprietor, Ariana.

Cheap Costumes hires out a wide range of fancy-dress costumes and receives costume-hire fees as income. All clothing and costumes that are hired are reported as a property, plant, and equipment asset.

- (a) Using the accounting equation and the information below, calculate total assets.

| | | | |
|------------------|---------|-------------|----------|
| Accounts payable | \$2 320 | Capital | \$46 150 |
| Accrued expenses | \$970 | GST payable | \$1 940 |
| Bank overdraft | \$2 460 | Loan | \$35 000 |

Show working

Assets \$ _____

Cheap Costumes is considering extending its range into formal wear for school balls and other formal events. To do this, it will need to borrow more money from the bank.

- (b) (i) Describe the purpose of the Statement of Financial Position for *Cheap Costumes*.

- (ii) Explain how the bank manager, the potential lender to *Cheap Costumes*, could use the Statement of Financial Position to make an informed decision.

If *Cheap Costumes* extends its clothing range, it will report the formal wear as an asset.

(c) Fully explain why the formal wear is an asset for *Cheap Costumes*.

(d) Fully explain, using the going concern concept, how and why the formal wear will be reported in the Statement of Financial Position for *Cheap Costumes*.

QUESTION TWO

Cheap Costumes had the following accounts in their financial statements.

| | | |
|--------------------|---------------------------|--------------------|
| • Accounts payable | • Depreciation – costumes | • Loan |
| • Accrued expense | • Drawings | • Office equipment |
| • Bank overdraft | • GST payable | • Shop fittings |
| • Capital | • Interest on loan | • Shop rent |
| • Costumes | • Interest received | • Wages |

(a) Identify three expenses from the list above.

(1) _____

(2) _____

(3) _____

Cheap Costumes recently purchased some new costumes from the USA, costing US\$8 000. This exchanges to NZ\$11 200 excluding GST.

(b) Explain how and why the new costumes purchased from the USA will be reported in the financial statements of *Cheap Costumes* following the monetary measurement concept.

Cheap Costumes prepares an Income Statement for the year ending 31 March each year.

(c) Fully explain how and why *Cheap Costumes* preparing an Income Statement for the year ended 31 March each year follows the period reporting concept.

When costumes are returned from being hired, they are sent to a drycleaners to be thoroughly cleaned before being hired out again.

- (d) Fully explain why costume cleaning is an expense for *Cheap Costumes*.

The new costumes will be depreciated by \$2 240 per year.

- (e) Fully explain, using the definition of depreciation, how and why *Cheap Costumes* depreciates the costumes each year.

QUESTION THREE

- (a) Describe the purpose of accounting for *Cheap Costumes*.

- (b) Show the effect of the transactions on the accounts in the table below. You should indicate the dollar amount and whether the account is increasing (+) or decreasing (-).

An example has been completed for you. **Ignore GST.**

| Transaction | Bank | Property, plant, & equipment | Expenses | Loan | Equity | Income |
|---|----------|------------------------------------|----------|----------|--------|--------|
| <i>Example: Took out a \$10 000 loan</i> | + 10 000 | | | + 10 000 | | |
| (1) Paid advertising \$720 | | | | | | |
| (2) Ariana contributed to <i>Cheap Costumes</i> : \$3 000 cash and a computer valued at \$4 500 | | | | | | |

- (c) Fully explain how and why costume-hire fees received are an income for *Cheap Costumes*.

On balance day, 31 March 2021, *Cheap Costumes* has received \$800 in deposits for costume-hire fees received for the following year.

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

Source (adapted): NZ Framework

- (d) Fully explain, using the accrual basis concept, how and why the deposits of \$800 already received for costume-hire fees received will be reported in *Cheap Costumes*' **income statement** and the **statement of financial position** for the year ended 31 March 2021.

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

QUESTION
NUMBER

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