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Level 1 Accounting 2022

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.

Determined Driving School (DDS) is owned by sole proprietor Debbie Speedy.

Determined Driving School provides driving lessons. Debbie is a qualified instructor and has recently employed one other instructor.

You can refer to *Determined Driving School* as *DDS* in your answers.

QUESTION ONE

Determined Driving School had the following accounts in its financial statements.

- | | | |
|-----------------------|--------------------------------|---------------------|
| • Accounts payable | • Drawings | • Loan |
| • Accounts receivable | • Driving instructors' wages | • Petrol |
| • Advertising | • Driving lesson fees received | • Safety equipment |
| • Bank | • GST payable | • Vehicle |
| • Capital | • Interest on loan | • Vehicle insurance |

(a) Identify THREE assets from the list above.

- (1) _____
- (2) _____
- (3) _____

Debbie prepares a Cash Budget each month for *Determined Driving School*. This month, she plans to purchase an additional vehicle for the new instructor to provide driving lessons.

(b) (i) Describe the purpose of the Cash Budget for *Determined Driving School*.

(ii) Explain how Debbie could use *Determined Driving School's* Cash Budget to make an informed decision regarding the new vehicle.

The new vehicle is being imported from Germany for €19 000, which converts to \$NZ30 000 excluding GST.

- (c) Fully explain, using the monetary measurement concept, how and why the new vehicle will be reported in the financial statements for *Determined Driving School*.

The new vehicle purchased by *Determined Driving School* is an electric vehicle. The vehicle relies on being charged with electricity each night at *Determined Driving School*.

- (d) Fully explain why electricity will be revenue expenditure for *Determined Driving School*.

QUESTION TWO

- (a) Using the accounting equation and the information below, calculate total liabilities for *Determined Driving School*.

Accounts receivable	\$3 500	Prepayments	\$350
Bank	\$1 250	Safety equipment	\$23 900
Capital	\$67 800	Vehicles	\$67 500
Drawings	\$10 000		

Show working

Liabilities \$ _____

Debbie understands that as a sole proprietor she has unlimited liability.

- (b) Explain what unlimited liability means for Debbie in relation to *Determined Driving School*.

Determined Driving School has a loan due November 2029 with an interest rate of 6% p.a.

- (c) Fully explain, using the going concern concept, how and why the loan will be reported in the financial statements for *Determined Driving School*.

Debbie has agreed to give her niece driving lessons for free. The driving lessons are valued at \$220.

- (d) Fully explain, using the accounting entity concept, how and why the driving lessons for Debbie's niece will be reported in *Determined Driving School's* Statement of Financial Position.

- (e) Fully explain why vehicles are an asset for *Determined Driving School*.

QUESTION THREE

Determined Driving School employs the services of a financial accountant to prepare its financial statements at the end of the year.

- (a) Describe one other service a financial accountant might provide for *Determined Driving School*.

- (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: Paid wages of \$580</i>	– 580		+ 580			
(1) Debbie contributed \$2 000 cash to <i>Determined Driving School</i>						
(2) <i>Determined Driving School</i> made loan repayments of \$1 200, which included \$350 interest on loan						

- (c) Fully explain why vehicle insurance is an expense for *Determined Driving School*.

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

QUESTION
NUMBER

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