

**Assessment Schedule – 2014****Demonstrate understanding of accounting concepts for an entity that operates accounting subsystems (91174)****Evidence Statement**

Question	Evidence				
<p><b>ONE</b> (a)</p>	<p>The purpose of the Statement of Financial Position is to measure/ show the assets and liabilities of <i>Fancy Pants</i> as at (31 March 2013).</p> <p>Jessica used the loan information in making her decision to buy the business, as it showed there was only a small amount of debt she would have to take on when buying the business.</p> <p>Understandability was important as the Statement of Financial Position is prepared on the assumption that Jessica has reasonable knowledge of <i>Fancy Pants</i> and of the information contained in this statement. Thus, she understood how to use the statement when she made her decision to buy the business, eg she could see that there was a small level of debt that she would be taking on.</p> <p>However, there are limitations as the costumes and shop fittings are recorded at historical cost, which may be outdated, and the accumulated depreciation on these assets is based on estimates. This means the carrying amount may not reflect the current market value of these assets and could, therefore, affect the price Jessica will pay for the business OR The statement does not show non-financial information that can't be given a monetary measurement, eg state of costumes or shop fittings or location. The poor state of costumes may mean customers won't hire them, thus reducing future profitability or mean a significant investment by Jessica to upgrade them if she buys the business. This could affect her decision on whether to buy the business or the price she will pay.</p>				
(b)	<p>The hire fee of \$90 paid in advance by a customer will be reported as income in advance, a current liability in the Statement of Financial Position for <i>Fancy Pants</i>. This is because <i>Fancy Pants</i> is currently obliged to hire out (future outflow of resources) the desired costume to the customer in the future, May 2013, as the customer has already paid the hire fees for the costume. In the Income Statement of <i>Fancy Pants</i>, the income of hire fees will be decreased by \$90 for the period ended 31 March 2013 as the income received relates to the following financial year and needs to be reported in the period to which it relates.</p>				
Not Achieved	<p><b>N0</b> = No response; no relevant evidence</p> <table border="1" data-bbox="268 1279 1487 1659"> <tr> <td data-bbox="268 1279 331 1469">N1</td> <td data-bbox="331 1279 1487 1469"> <p>ONE of:</p> <ul style="list-style-type: none"> <li>• identifies a purpose of the Statement of Financial Position</li> <li>• identifies a limitation of the Statement of Financial Position</li> <li>• partial definition of understandability</li> <li>• partial definition of accrual basis [this applies if there is only reference to RECORDING].</li> </ul> </td> </tr> <tr> <td data-bbox="268 1469 331 1659">N2</td> <td data-bbox="331 1469 1487 1659"> <p>TWO of:</p> <ul style="list-style-type: none"> <li>• identifies a purpose of the Statement of Financial Position</li> <li>• identifies a limitation of the Statement of Financial Position</li> <li>• partial definition of understandability</li> <li>• partial definition of accrual basis [this applies if there is only reference to RECORDING].</li> </ul> </td> </tr> </table>	N1	<p>ONE of:</p> <ul style="list-style-type: none"> <li>• identifies a purpose of the Statement of Financial Position</li> <li>• identifies a limitation of the Statement of Financial Position</li> <li>• partial definition of understandability</li> <li>• partial definition of accrual basis [this applies if there is only reference to RECORDING].</li> </ul>	N2	<p>TWO of:</p> <ul style="list-style-type: none"> <li>• identifies a purpose of the Statement of Financial Position</li> <li>• identifies a limitation of the Statement of Financial Position</li> <li>• partial definition of understandability</li> <li>• partial definition of accrual basis [this applies if there is only reference to RECORDING].</li> </ul>
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Merit	M5	<p>Explains THREE of:</p> <ul style="list-style-type: none"> <li>explains purpose including how Jessica uses the information</li> <li>explains understandability in relation to Statement / Jessica and her decision</li> <li>explains a limitation of the Statement of Financial Position as it relates to <i>Fancy Pants</i></li> <li>explains accrual basis to Statement of Financial Position for income in advance (hire fees \$90)</li> <li>explains accrual basis to Income Statement for income in advance (hire fees \$90).</li> </ul>
	M6	<p>Explains FOUR of:</p> <ul style="list-style-type: none"> <li>explains purpose including how Jessica uses the information</li> <li>explains understandability in relation to Statement / Jessica and her decision</li> <li>explains a limitation of the Statement of Financial Position as it relates to <i>Fancy Pants</i></li> <li>explains accrual basis to Statement of Financial Position for income in advance (hire fees \$90)</li> <li>explains accrual basis to Income Statement for income in advance (hire fees \$90).</li> </ul>
Excellence	E7	<p>Justifies ONE of:</p> <ul style="list-style-type: none"> <li>in the context of buying the business, the understanding of how the information contained in the statement is used by Jessica is conveyed AND it is clear how she is aware of a limitation and its importance in terms of how it could affect her decision to buy the business</li> <li>the accrual basis is applied to the hire fees \$90 received in advance, with clear explanation of how it is reported in the Statement of Financial Position AND Income Statement.</li> </ul>
	E8	<p>Justifies TWO of:</p> <ul style="list-style-type: none"> <li>in the context of buying the business, the understanding of how the information contained in the statement is used by Jessica is conveyed AND it is clear how she is aware of a limitation and its importance in terms of how it could affect her decision to buy the business</li> <li>the accrual basis is applied to the hire fees \$90 received in advance, with clear explanation of how it is reported in the Statement of Financial Position AND income statement.</li> </ul>

Question	Evidence				
<p><b>TWO</b></p> <p>(a)</p>	<p>Hire fees on credit is an income for <i>Fancy Pants</i>, as it increases economic benefits in the form of an increase in the asset Accounts Receivable, which causes an increase in profit, which leads to an increase in equity and is not related to a contribution by Jessica, the owner. It is probable that the hire fees will flow to <i>Fancy Pants</i> because it is likely that the customer will pay their account as they will want to continue to buy on credit/have a good credit history/passed the credit check. The amount of \$10 000 will be measured reliably by the invoices issued to the credit customers.</p>				
<p>(b)</p>	<p>The accessory sales are relevant because relevant information is information that will influence decisions made by the users of it. In this case, the accessory sales information will help Jessica confirm whether the decision to introduce accessory sales was a good decision.</p> <p>It is important that the accessory sales are reported separately from hire fees income, as the <b>nature</b> of a new product is important. Thus, the impact of accessory sales needs to be shown separate from hire fees income. To omit accessory sales as a separate piece of information will make it difficult to see how much they have contributed to the total income of the business. OR The <b>amount</b> of \$5 700 for the new product is material, thus it is important that the accessory sales are reported separately from hire fees income. The size of \$5 700 will show how much of an impact that new products have had on total income. To not make accessory sales a separate piece of information would make it difficult to see how much they have contributed to the total income of the business.</p>				
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Merit	M5	<p>Explains TWO of:</p> <ul style="list-style-type: none"> <li>• correctly explains why hire fees is income – must use all three parts and refer to profit and accounts receivable increasing</li> <li>• explains that it is probable that cash / money will flow to <i>Fancy Pants</i> with a valid reason why OR explains a source document that provides a reliable measure</li> <li>• explains how accessory sales are relevant in terms of predictive value or confirmatory value and decision-making</li> <li>• explains how accessory sales are material in terms of separation due to size or nature and the importance of this separation in the context of the new accessory line.</li> </ul>
	M6	<p>Explains THREE of:</p> <ul style="list-style-type: none"> <li>• correctly explains why hire fees is income – must use all three parts and refer to profit and accounts receivable increasing</li> <li>• explains that it is probable that cash / money will flow to <i>Fancy Pants</i> with a valid reason why OR explains a source document that provides a reliable measure</li> <li>• explains how accessory sales are relevant in terms of predictive value or confirmatory value and decision-making</li> <li>• explains how accessory sales are material in terms of separation due to size or nature and the importance of this separation in the context of the new accessory line.</li> </ul>
Excellence	E7	<p>Justifies ONE of:</p> <ul style="list-style-type: none"> <li>• uses the definition of income linked to accounts receivable increasing AND net profit increasing equity AND not a contribution from the owner, AND both parts of the recognition criteria explained in detail</li> <li>• links the definition of relevance and materiality and compares and contrasts why accessory sales are reported separately to hire fees.</li> </ul>
	E8	<p>Justifies TWO of:</p> <ul style="list-style-type: none"> <li>• uses the definition of income linked to accounts receivable increasing AND net profit increasing equity AND not a contribution from the owner, AND both parts of the recognition criteria explained in detail</li> <li>• links the definition of relevance and materiality and compares and contrasts why accessory sales are reported separately to hire fees.</li> </ul>

Question	Evidence			
<p><b>THREE</b> (a)</p>	<p>The diminishing value method of depreciation assumes that the loss of future service potential of the office computer is highest in the earliest years of the asset's useful economic life. This is an appropriate method for the office computer as technology changes quickly and new advances in computing can replace the existing technology almost on a yearly basis. The units of use method of depreciation, assumes that the loss of future service potential of the costumes is based on the costume use. Costumes, do not necessarily get out of date, eg a Dracula costume will be the same for a number of years. The only time that the costume will suffer wear and tear and hence loss of useful economic life is when it is used by a customer. Therefore, it would be most appropriate for the costumes to use the units of use method of depreciation.</p>			
(b)	<p>The cleaning equipment is an asset for <i>Fancy Pants</i>, as it resulted from a past transaction when the credit agreement was signed to purchase the equipment. It is now under the control of <i>Fancy Pants</i>, which has exclusive rights to use the equipment to clean the various costumes, dresses, and suits and will provide future economic benefit, as it will ensure that all costumes and dresses are clean and ready for hire by future customers who will pay hire fees to use them. The cost of the cleaning equipment (\$2 800) can be verified, as there will be documentation (invoice or receipt) providing proof of the amount that any independent expert/ accountant would agree to as the amount to be reported. The cleaning equipment is capital expenditure, as it is of a one-off nature and will be purchased just once. It will benefit <i>Fancy Pants</i> beyond 12 months and is, therefore, classified as a non-current asset.</p>			
<p>Not Achieved</p>	<p><b>N0</b> = No response; no relevant evidence</p>			
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Merit	M5	<p>Explains THREE of:</p> <ul style="list-style-type: none"> <li>the diminishing value method is used for the office computer because the computer loses economic benefit more quickly in its early years due to changes in technology / becomes obsolete</li> <li>the units of use method is appropriate for costumes because the amount of economic benefit consumed is not the same each year because of wear and tear being inconsistent</li> <li>why the cleaning equipment meets the past, present control, and future economic benefit of an asset</li> <li>how an appropriate source document meets verifiability</li> <li>how the cleaning equipment is capital expenditure.</li> </ul>
	M6	<p>Explains FOUR of:</p> <ul style="list-style-type: none"> <li>the diminishing value method is used for the office computer because the computer loses economic benefit more quickly in its early years due to changes in technology / becomes obsolete</li> <li>the units of use method is appropriate for costumes because the amount of economic benefit consumed is not the same each year due to wear and tear being inconsistent</li> <li>why the cleaning equipment meets the past, present control, and future economic benefit of an asset</li> <li>how an appropriate source document meets verifiability</li> <li>how the cleaning equipment is capital expenditure.</li> </ul>
Excellence	E7	<p>Justifies ONE of:</p> <ul style="list-style-type: none"> <li>both methods of depreciation are accurately explained AND the pattern of consumption accurately explained for both the costumes and the office computer</li> <li>why the cleaning equipment meets the past, present control, and future economic benefit definition requirements of an asset AND how an appropriate source document provides a verifiable measure of the cost AND how the cleaning equipment is capital expenditure.</li> </ul>
	E8	<p>Justifies TWO of:</p> <ul style="list-style-type: none"> <li>both methods of depreciation are accurately explained AND the pattern of consumption accurately explained for both the costumes and the office computer</li> <li>why the cleaning equipment meets the past, present control, and future economic benefit definition requirements of an asset AND how an appropriate source document provides a verifiable measure of the cost AND how the cleaning equipment is capital expenditure.</li> </ul>

**Cut Scores**

	<b>Not Achieved</b>	<b>Achievement</b>	<b>Achievement with Merit</b>	<b>Achievement with Excellence</b>
<b>Score Range</b>	0 – 6	7 – 12	13 – 18	19 – 24