

SUPERVISOR'S USE ONLY

91174



# Level 2 Accounting, 2014

# 91174 Demonstrate understanding of accounting concepts for an entity that operates accounting subsystems

2.00 pm Wednesday 26 November 2014 Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of accounting concepts for an entity that operates accounting subsystems.	Demonstrate in-depth understanding of accounting concepts for an entity that operates accounting subsystems.	Demonstrate comprehensive understanding of accounting concepts for an entity that operates accounting subsystems.

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 2–11 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**

On 10 April 2013, Jessica purchased a small business called *Fancy Pants*, a fancy dress and costume hire shop. Jessica made this decision after careful consideration of the financial statements and consultation with her bank manager.

Below is an extract of the Statement of Financial Position for *Fancy Pants* used by Jessica in her decision to buy the business.

Fancy Pants Statement of Financial Position ( as at 31 March 2013	extract)
	\$NZ
Assets	
Accounts receivable	1600
Prepayments	250
Property, plant and equipment (Note)	37 300
Goodwill	8000
Total assets	47 150
Liabilities	
Accounts payable	2100
Income in advance (hire fees)	90
Bank loan	7000
Total liabilities	9190

## Note: Property, plant and equipment

As at 31 March 2013	Costumes	Office computer	Shop fittings	Total
	\$NZ	\$NZ	\$NZ	\$NZ
Cost	26 000	5400	22 000	53400
Accumulated depreciation	7300	2200	6600	16 100
Carrying amount	18700	3200	15400	37300

With reference to the extract on the previous page, justify how the Statement of Financial (a) Position was useful to Jessica when she made her decision to purchase the business Fancy Pants. Include in your answer: the **purpose** of *Fancy Pants*' Statement of Financial Position an explanation of how Jessica may have used information in Fancy Pants' Statement of Financial Position when making her decision an explanation of how the qualitative characteristic of understandability was important to Jessica's use of Fancy Pants' Statement of Financial Position in her decision a limitation of Fancy Pants' Statement of Financial Position and the importance of Jessica being aware of the limitation when making her decision.

At the end of the financial year (31 March 2013), Fancy Pants had received \$90 from a customer

Using the <b>accrual ba</b> was reported in both Pants.	sis, fully explain how are the Statement of Financ	nd <b>why</b> the hire fee of \$90 ial Position and the Incon	O received in advance ne Statement for <i>Fancy</i>

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#### **QUESTION TWO**

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The main source of income for *Fancy Pants* is hire fees from costume hire. During her first year of operating, Jessica introduces the sale of accessories such as make-up to match the Dracula costume and masks for Halloween. Below is an extract from the Income Statement for *Fancy Pants* for 2013 and 2014.

Fancy Pants Income Statement (extract) for the period ended 31 March					
	\$NZ	\$NZ			
	2013	2014			
Revenue					
Hire fees	75 000	80 000			
Other income					
Accessory sales	0	5700			
Total income	75 000	85700			

In 2014, hire fees for Fancy Pants are \$70000 cash and \$10000 credit transactions.

- (a) Justify why hire fees on **credit** are an income for *Fancy Pants*. Include in your answer:
  - the definition of an income to explain why the hire fees on credit are an income
     an explanation of the recognition criteria of an income as related to hire fees on credit

Following one year of trading, Jessica is not sure if she is reporting the Revenue and Other Income ASSESSOR'S USE ONLY for Fancy Pants correctly. With reference to the Income Statement extract on the previous page, justify in terms of (b) relevance and materiality why accessory sales are reported separately from the hire fees income. Include in your answer: an explanation of how the qualitative characteristic of relevance has been applied in the reporting of accessory sales an explanation of how the qualitative characteristic of materiality has been applied in reporting accessory sales separately from hire fees income.

#### **QUESTION THREE**

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Fancy Pants currently uses different methods for the depreciation of its non-current assets. However, Jessica is not sure that she is using the correct methods. The office computer is depreciated using the diminishing value depreciation method, and the costumes are depreciated using the units of use depreciation method.

- Justify to Jessica the methods of depreciation chosen for reporting both the office computer and the costumes in the financial statements of Fancy Pants. Include in your answer:
  - a description of the **diminishing value** method of depreciation

<ul> <li>a description of the units of use method of depreciation</li> </ul>							
•	explanations for whether the correct depreciation method is being used for the office						
	computer and the contumes						
	computer and the costumes.						

(b) Jessica has recently expanded the business into providing formal wear for hire at weddings and school balls.

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A consequence of expanding the business is that Jessica had to purchase on credit more **cleaning equipment**, at a cost of \$2,800, to clean and launder the various costumes, dresses, and suits available for hire.

Justify why *Fancy Pants* will report the **cleaning equipment** as a non-current asset in the Statement of Financial Position.

Include in your answer:

- the use of the **definition** of an **asset** to explain why the cleaning equipment is an asset
- an explanation of a cost for the cleaning equipment that meets the qualitative characteristic of verifiability

an explanation of how the purchase of the cleaning equipment meets the definition of capital expenditure.		characteristic of <b>verifiability</b>					
	•	an explanation of how the purchase of the cleaning equipment meets the definition of <b>capital expenditure</b> .					

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