





NEW ZEALAND QUALIFICATIONS AUTHORITY MANA TOHU MĀTAURANGA O AOTEAROA

QUALIFY FOR THE FUTURE WORLD KIA NOHO TAKATŪ KI TŌ ĀMUA AO!

# Level 2 Accounting, 2015

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

2.00 p.m. Friday 20 November 2015 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 2–12 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.

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# **QUESTION ONE**

*Healthy Greens* is a market gardening business owned by Maia that supplies salad greens and other vegetables to local restaurants and hotels on the west coast of the South Island.

Maia has been in business for three successful years. In October 2014, Maia was given a bank loan to finance the purchase of a new delivery truck after she provided the bank manager with the following information.

<i>Healthy Greens</i> Income Statement (summary) for the periods ended March							
	2012 2013 2						
	\$	\$	\$				
Sales	24000	32000	41000				
Total expenses	12200	13300	15300				
Profit for the year	11 800	18700	25700				

- Justify how important the information in *Healthy Greens* Income Statement was to Maia's bank manager when he considered her loan application. In your answer, explain:
  - the purpose of the Income Statement
  - how the **reporting period** concept has been applied
  - how the qualitative characteristic of **comparability** enabled the bank manager to make the loan decision, with examples.

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Following is an extract of the Statement of Financial Position for Healthy Greens showing the loan that was approved by the bank manager.

<i>Healthy Greens</i> Statement of Financial Position (extract) as at 31 March 2015				
	Note	\$		
Non-current liabilities				
Loan	4	20 000		

#### Note to the Financial Statement

#### 4. Loan

The loan has an interest rate of 10% and a maturity date of 31 March 2020

Justify why Healthy Greens has reported the loan in the Statement of Financial Position (b) (extract) as a \$20000 non-current liability.

In your answer, explain:

- using the definition of liability, why the loan is a liability •
- how the qualitative characteristic of faithful representation is being met by reporting the loan as non-current.



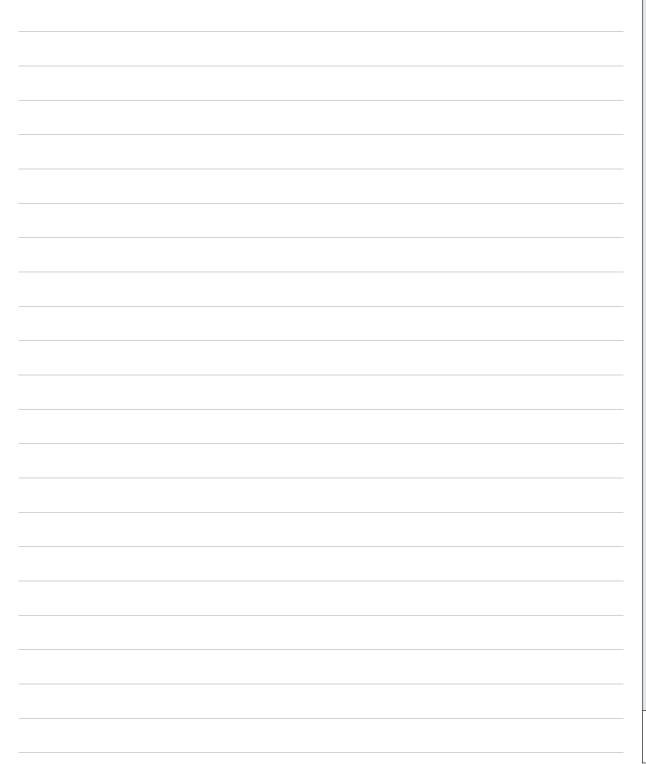
During the year ended 31 March 2015, Maia expanded her business to supply more restaurants and hotels in the South Island.

This has resulted in *Healthy Greens* accounts receivable asset increasing.

- (a) Justify why **accounts receivable** is an **asset** for *Healthy Greens*. In your answer, explain:
  - using the definition of an asset, why accounts receivable is an asset
  - how the asset accounts receivable can be measured reliably.

Maia's accountant advised her that with accounts receivable increasing, the allowance for doubtful debts needed to be adjusted to 2% of accounts receivable for the year ended 31 March 2015.

- (b) Justify the reporting of the adjustment of the allowance for **doubtful debts** to 2% of accounts receivable in the financial statements of *Healthy Greens*.
  In your answer, explain:
  - using the definition of **expense**, why doubtful debts is reported in the Income Statement
  - how the qualitative characteristic of **relevance** has been applied in the reporting of accounts receivable in the Statement of Financial Position.



# **QUESTION THREE**

The total amount spent on diesel for the *Healthy Greens* delivery truck during the month of March 2015 was \$250. Maia estimates that she used \$50 of this amount for a personal trip to Greymouth.

(a) Justify how Maia will report the \$250 spent on diesel in the **financial statements** of *Healthy Greens*.

In your answer, explain:

- using the definition of **revenue expenditure**, how the \$200 spent on diesel will be reported
- using the **entity concept**, how the \$50 spent on diesel will be reported.

On balance day, 31 March 2015, *Healthy Greens* GST payable was \$1000, and Maia had the following invoice for salad greens sales on hand.

<i>Healthy Greens</i> 800 Karamea Highway, Little Whanganui						
Invoice No: Customer: Customer ID: Address: Phone:	13368 Three Brothers Hotel 364 46 Main Road, Karamea 03 573 6829	Delivery date: Payment due:	28 March 2015 7 April 2015			
Quantity	Description	Unit price	Line total			
10	Red oak leaf lettuce	1.50	15.00			
10	Buttercrunch lettuce	1.50	15.00			
	·	Subtotal	30.00			
Thank y	ou for your business!	GST	4.50			
		Total	\$34.50			

(b) Using the **accrual basis**, justify **how** and **why** the invoice for salad greens sales was reported in both the Income Statement and Statement of Financial Position for *Healthy Greens*.

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