

91174



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SUPERVISOR'S USE ONLY

Level 2 Accounting, 2016

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

2.00 p.m. Tuesday 22 November 2016
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 2–14 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

ASSESSOR'S USE ONLY

QUESTION ONE

Wiremu owns *Beachsplash*, a kayak hire shop at Whatuwahi Beach, Northland. Wiremu has noticed the rise in popularity of paddle boarding and wishes to add paddle board hire to his kayak hire business.

On 1 April 2015, Wiremu provided *Torpedo7* (a supplier of paddle boards) with a summary of *Beachsplash's* Cash Flow Statements for the previous two years. *Torpedo7* will use this information to decide whether to approve the purchase of paddle boards on credit by *Beachsplash*.

<i>Beachsplash</i>		
Cash Flow Statement (summary) for the years ended 31 March		
	2014	2015
	\$	\$
Total receipts	145 000	170 000
Total payments	137 000	145 000
Net increase (decrease) in cash	8 000	25 000

- (a) Justify how the information contained in the Cash Flow Statement (summary) above would support a decision by *Torpedo7* to approve *Beachsplash's* purchase of the paddle boards on credit. In your answer explain:
- the **purpose** of a Cash Flow Statement
 - how the Cash Flow Statement summary for *Beachsplash* illustrates **monetary measurement**
 - how the qualitative characteristic of **comparability** would support *Torpedo7* in making a decision to approve *Beachsplash's* purchase of the paddle boards on credit.



In April 2015, *Beachsplash* purchased the paddle boards **on credit** from *Torpedo7* for a total cost of \$15 500. The paddle boards are to be reported as a non-current asset.

- (b) Justify why *Beachsplash* will report the paddle boards as a non-current asset. In your answer, explain:
- using the **definition** of an **asset**, why the paddle boards are reported as an asset
 - the **recognition** criteria of an asset, as it relates to the paddle boards
 - why the paddle boards are reported as **non-current**.

QUESTION TWO



In order to let the Whatuwhiwi Beach community and visitors know that *Beachsplash* now hires out paddle boards as well as kayaks, Wiremu contracted a builder to install a permanent billboard on *Beachsplash's* roof. The billboard was installed in April 2015 at a cost of \$8 000 and will be reported as a non-current asset.

Wiremu will use different depreciation methods for the billboard and paddle boards. He will depreciate the billboard using the straight-line depreciation method, and the paddle boards using the units-of-use depreciation method.

(a) Justify the depreciation methods chosen by Wiremu for the billboard and the paddle boards. In your answer:

- describe the **straight-line** depreciation method
- describe the **units-of-use** depreciation method
- explain why straight-line depreciation is appropriate for the billboard
- explain why units-of-use depreciation is appropriate for the paddle boards.

Source (adapted): http://www.bayislandsup.com.au/wp-content/uploads/2015/05/Bay-Island-Paddleboards_SUP-Shop-Brisbane-940x270.jpg

In addition to the billboard (which cost \$8 000), Wiremu also spent \$250 purchasing a footpath sign that is placed outside *Beachsplash's* premises each day. The billboard and footpath sign by definition are both **assets**, but in the Financial Statements Wiremu intends to report the billboard as a **non-current asset** and the footpath sign as an **advertising expense**.



- (b) Justify Wiremu's intention to report the footpath sign as an advertising expense in *Beachsplash's* Financial Statements. In your answer:
- explain how **historical cost** will be applied to the reporting of the footpath sign
 - describe the qualitative characteristic of **materiality**
 - explain why **materiality** will enable Wiremu to report the **footpath sign** as an advertising expense.

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