

91174



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Level 2 Accounting 2020

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

2.00 p.m. Thursday 19 November 2020
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 2–8 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

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All questions in this booklet relate to *Unisportz*, which is owned by Ben.

Unisportz sells sports uniforms. The business mostly sells online, through its website, to sports teams throughout New Zealand. Uniform inventory is held in a warehouse. *Unisportz* also offers a printing service to add team logos and names to sports uniforms.

Source (image): <https://sportsqvest.com/products/customise-polo-geometric-cricket-jersey-ct1003>

QUESTION ONE

The following information relates to *Unisportz* as at 31 March 2020.

Unisportz Trial Balance (extract) as at 31 March 2020

Interest on loan	3 600	Loan (due 2026)	45 000
Printing expenses	27 900		

Additional information

- Printing expenses include insurance and maintenance of the printing equipment.
- Printing expenses have been paid in advance, \$4 200 excluding GST.

Unisportz's Income Statement expense classifications include *Distribution and printing costs* and *Finance costs*.

- (a) Justify the different expense classifications for printing expenses and interest on loan in the Income Statement.

In your answer, explain:

- *Distribution and printing costs*, with reference to printing expenses
- *Finance costs*, with reference to interest on loan
- how classification of expenses contributes to understandability of the Income Statement.

(b) Justify the classification of prepayments as a current asset in the Statement of Financial Position.

In your answer, refer to the accrual basis and explain:

- prepayments, with reference to the \$4 200 printing expenses paid in advance
- why prepayments are a current asset.

QUESTION TWO

The following information relates to *Unisportz* as at 31 March 2020.

***Unisportz* Trial Balance (extract) as at 31 March 2020**

Printing equipment	235 000	Accumulated depreciation – printing equipment	72 000
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Additional information

- Depreciation on printing equipment is 20% diminishing value.

- (a) (i) Explain the purpose of calculating depreciation.

- (ii) Explain why depreciation on printing equipment is an expense that is:
- reported in the Income Statement, reducing profit and therefore equity
 - a decrease in assets through an increase in accumulated depreciation.

In your answer, use relevant dollar figures, with reference to the depreciation on printing equipment adjustment for the year ended 31 March 2020.

Printing equipment is highly technical and when new is very efficient. As more and more uniforms are put through the printing equipment to have logos and names added, the equipment requires more maintenance to remain efficient. To keep up to date with the latest printing technology, *Unisportz* purchased an additional printing machine during the year.

(b) Justify the choice of diminishing value as the method of depreciation for *Unisportz's* highly technical printing equipment.

In your answer, explain:

- how diminishing value depreciation is calculated
- why diminishing value depreciation is appropriate for the printing equipment.



QUESTION THREEASSESSOR'S
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Ben is considering expanding *Unisportz* to include a range of casual outdoor wear. It would be sold both online, through an expanded website, and through partly redesigning his warehouse as a retail outlet.

This expansion would require the following additional finances:

- a \$25 000 additional contribution from Ben to *Unisportz*
- an addition of \$15 000 to *Unisportz*'s loan from the bank.

The income definition found in the 2018 NZ Framework includes the following:

Income is increases in assets that result in increases in equity other than contributions from the owner.

- (a) Explain why cash sales of casual outdoor wear totalling \$27 000 would be reported as income in terms of this definition.

The liability definition and recognition criteria found in the 2018 NZ Framework include:

- a liability is a present obligation
- a liability should be recognised if there is faithful representation (reliable measure).

(b) Justify the differing accounting treatment of the two sources of finance required to fund the expansion of *Unisportz*.

In your answer, use relevant figures to explain:

- why the contribution from Ben will increase equity
- why the additional loan finance will be reported as a liability, in terms of the liability definition and recognition criteria above.

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

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Lined area for writing answers.