

91174



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Level 2 Accounting 2021

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

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.

Do not write in any cross-hatched area (✂). This area may be cut off when the booklet is marked.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

All questions in this examination relate to *Puzzling*, a sole proprietor business owned by Andy. *Puzzling* is a manufacturer and supplier of New Zealand-themed puzzles for retail stores.

QUESTION ONE

Puzzling Trial Balance (extract) as at 31 March 2021

Inventory	40 000	Accounts payable	20 000
Cost of goods sold	203 000	Sales	487 000

Additional information

A number of puzzles, included in inventory, have been damaged. These puzzles have a cost of \$8 000 and a net realisable value of \$3 000 and are to be written down.

- (a) Explain why inventory will be reported as a **current asset** in *Puzzling's* Statement of Financial Position as at 31 March 2021.

The NZ Framework includes the following information regarding an expense:

- expenses are decreases in assets that result in decreases in equity, other than drawings
- the historical cost of an asset is updated over time to reflect the effect of events that cause part of the historical cost to be no longer recoverable.

- (b) With reference to the definition and recognition criteria above, justify why:
- the write down of inventory to its net realisable value will be recognised as an expense in *Puzzling's* Income Statement for the year ended 31 March 2021
 - the inventory asset will be reported in the Statement of Financial Position at \$35 000.

QUESTION TWO

During the year, *Puzzling* purchased new machinery to make its puzzles. The machinery, purchased from Australia, cost \$23 000 Australian dollars. *Puzzling's* accountant converted this to \$25 000 New Zealand dollars to report the machinery in the property, plant, and equipment note to the Statement of Financial Position as at 31 March 2021.

- (a) Use the monetary concept to explain why *Puzzling's* accountant reported the new machinery in New Zealand dollars when it was purchased from Australia.

- (b) Justify why the new machinery is an asset that:

- is controlled by *Puzzling*
- has potential to produce economic benefits
- meets the recognition criterion of faithful representation.

QUESTION THREE

Puzzles became so popular during the various levels of COVID-19 lockdown that customers were willing to pay in advance for the puzzles they particularly liked, to be delivered as soon as they became available.

Puzzling's half-yearly Statement of Financial Position prepared on 30 September 2020 included the following:

***Puzzling* Statement of Financial Position
(extract) as at 30 September 2020**

Current liabilities	
Income in advance	6 000

- (a) Use the accrual basis to explain why this \$6 000 is not reported in *Puzzling's* half-year Income Statement for the six months ended 30 September 2020.

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

QUESTION
NUMBER

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