

No part of the candidate evidence in this exemplar material may be presented in an external assessment for the purpose of gaining credits towards an NCEA qualification.

2

91174



NEW ZEALAND QUALIFICATIONS AUTHORITY  
MANA TOHU MĀTAURANGA O AOTEAROA

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

SUPERVISOR'S USE ONLY

## 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.**

Low Merit

TOTAL

14

ASSESSOR'S USE ONLY

## 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.

Healthy Greens Income Statement (summary) for the periods ended March			
	2012	2013	2014
	\$	\$	\$
Sales	24 000	32 000	41 000
Total expenses	12 200	13 300	15 300
Profit for the year	11 800	18 700	25 700

- (a) 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.

The purpose of an income statement is to show all the businesses income and expenses for the financial period, therefore showing the overall profit for the year as well. Healthy Greens income statements contents were important to Maia's bank manager as they showed him Healthy Greens income, expenses and total profit. By providing the income statements for 2012-2014 Maia enabled the bank manager to compare the statements, therefore allowing him to see any trends in the businesses income, expenses and profit over the three years.

All of the income statements follow the given to the manager follow the reporting period concept. This being: All transactions made are

received as being a part of 1 year (1 reporting period), in this case ending in March. Beginning in March and ending in March the following year. Because each of the income statements follow this concept they can be compared in order to spot trends. When the bank manager reviewed Healthy Greens' income statements, in October 2014 he would have seen there was a steady increase in profit for the year over time. By looking at the provided income statement he also would have seen that the increase in profit was due to an increase in sales from \$24,000 to \$41,000 between 2012 and 2014. He would be interested in this increase in profit from 11,800 (2012) to 25,700 (2014) as this would give him relevant information on whether Healthy Greens would be able to repay the bank loan. In the time that agreed upon. Because the profit amount is rather sales are increasing at a faster rate than the expenses the bank manager can assume the regular payments will be made even with the additional expenses. The business may incur due to the purchase of the new truck. This is most likely what caused him to allow the loan.

The student has explained how the qualitative characteristic of comparability has been applied to Healthy Greens using dollar figures from the income statement summary and how the bank manager can use this information

and



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

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

- (b) Justify why *Healthy Greens* has reported the loan in the Statement of Financial Position (extract) as a \$20 000 **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.

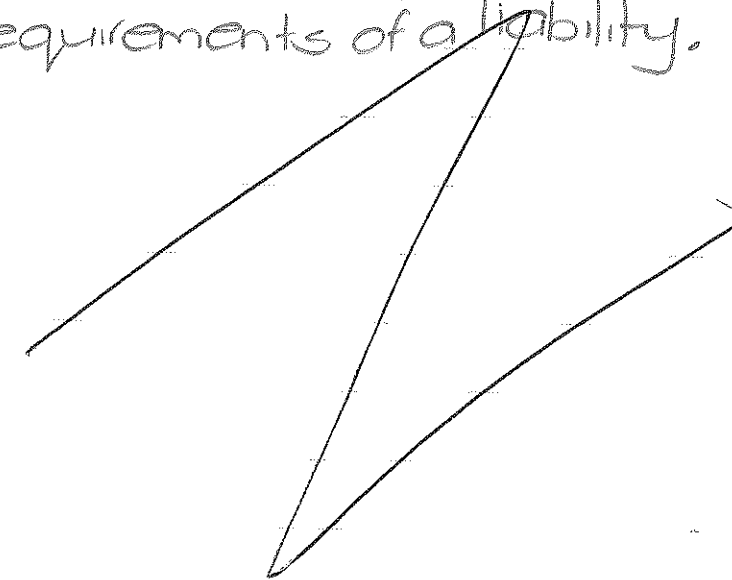
A liability is something that arises as a result of an action made in the past that in the future will result in an outflow of assets. Therefore decreasing assets, and resulting in an outflow of economic benefit. The loan that was approved for *Healthy Greens* fits this definition as it was taken out in the past, will result in a decrease in asset bank in the future when the regular payments are made, therefore will result in a decrease in economic benefit. *Healthy Greens* is also currently obligated to repay the loan as agreed with the bank manager.

By reporting the loan as a non-current liability the qualitative characteristic of faithful representation is being met. This is because non-current liabilities must be repaid over more than one financial period. This is true for the loan as its maturity date (date of final payment) is in 2020.

ASSESSOR'S  
USE ONLY

which is five reporting periods away, this period of time can be justified/faithfully represented with the physical/digital documents Maria received from the Bank manager i.e. copy of the loan agreement.

The student has explained why the loan meets the past, present, and future definition requirements of a liability.



ASSESSOR'S  
USE ONLY

M5

## QUESTION TWO

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.

An asset is something that occurred in the past that is currently in control of the business and will, in the future, provide the business with an inflow of cash. Therefore, increasing economic benefit. Accounts Receivable fits this definition as, when *Healthy Greens* customers purchase on credit, accounts receivable increases. The time period in which the customer must pay is under the full control of *Healthy Greens* and, in the future, when the accounts are paid, there will be an inflow of cash into the asset bank, therefore an increase in economic benefit and an increase in profit. //

The accounts receivable gathered through *Healthy Greens* invoices and new customers after the business expansion can be reliably measured via the source document from the time of purchase. These being things like invoices will show the exact amount owed, the date the transaction occurred and when it must be paid by. These documents are true and unbiased. //

The student has explained that the invoice is the reliable measure for accounts receivable.

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.

An expense is something that results in an outflow of assets, a decrease in profit, economic benefit and equity. It is also not a drawing by the owner. The doubtful debts is an expense as they relate to when accounts receivable is left unpaid by the customer. This is an expense because, when the account is unpaid, there will be a decrease in assets, (accounts receivable), therefore resulting in a decrease in profit, equity and economic benefit of the accounts receivable. It is because this is an expense that it is recorded in the income statement. Accounts Receivable has been reported in the Statement of Financial Position as it is an asset and has not yet provided the business with economic benefit. This being the cash to be received. Therefore, cannot be recorded as sales in the income statement. This is relevant. The reporting of the accounts receivable is relevant as it stands as an asset until payment has been received from the credit customers. Therefore, must remain in the Statement of Financial Position. The reporting of allowance for doubtful debts however is important as it represents the expected doubtful debts (bad debts) of the business. It must be reported alongside doubtful debts in order for the Statement of Financial Position to balance. //

The student has described two parts of the expense definition in the context of doubtful debts, accounts receivable decreasing, decrease in equity, decrease profit.

### 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.

Revenue expenditure is related to a recurring expense that requires multiple payments that will ~~be~~ occur in the foreseeable future. This form of expenditure will also lose its economic benefit within one reporting period. The purchase of diesel fits this definition as it is likely to occur in the foreseeable future when the delivery truck needs more fuel. Its economic benefit is also likely to be used up within one reporting period as, the van can only generate economic benefit when it has fuel. Therefore, the benefit will run out when the fuel runs out. As the *Healthy Greens* business follows the entity concept, the \$200 ~~with~~ spent on diesel must be recorded differently from the other \$50. This is because the concept states that only transactions directly related to the business can be recorded in the financial statements. Any other information must be kept separate. Therefore, \$200 of the \$250 spent on fuel will be recorded as a distribution expense on the income statement as it was actually used for deliveries whereas the remaining \$50 was used by Maia for personal reasons. Therefore, it will be recorded as drawings, as it must be kept separate from the business *Healthy Greens* transactions / financial information.

The student has described the entity concept in the context of diesel fuel.

On balance day, 31 March 2015, *Healthy Greens* GST payable was \$1 000, and Maia had the following invoice for salad greens sales on hand.

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

The accrual basis states that all transactions/events must be recorded in the financial period they relate to. Because initially when the lettuce was sold they were sold on credit and the customer received an invoice. Because the accrual is on the 28 March 2015, the sales must be recorded as an ~~income~~ <sup>Accounts receivable of \$34.50</sup> in the financial period end 31 March 2015 as this is the period the sale was made in. However, it will also be recorded as an income (sales) in the next period when the customer pays for the lettuce. At that point in time, Due 7 April 2015, the cash will ~~can~~ go into Asset bank, therefore generating sales. When this happens the accounts receivable from the previous period will become sales of \$34.50.

The student has applied accrual basis to accounts receivable increasing as the sale has been made.



91174



NEW ZEALAND QUALIFICATIONS AUTHORITY  
MANA TOHU MĀTAURANGA O AOTEAROA

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

2

SUPERVISOR'S USE ONLY

## 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.**

High Merit

TOTAL

18

ASSESSOR'S USE ONLY

## 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.

Healthy Greens Income Statement (summary) for the periods ended March			
	2012	2013	2014
	\$	\$	\$
Sales	24 000	32 000	41 000
Total expenses	12 200	13 300	15 300
Profit for the year	11 800	18 700	25 700

- (a) 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.

The student has described the purpose of the income statement in context. The purpose of the income statement is to clearly show the bank manager Healthy Greens income, the business expenses, and whether they are making a profit or loss for the year. Thus by looking at the income statement, the bank manager can easily see whether the business is profitable, and if he should lend them money for investment. <sup>and if they can, Maia will be able to repay the loan</sup> The period reporting concept states that the financial year is divided into equal time periods, in this case we see Maia income statements are for a yearly basis. By following the qualitative characteristic of comparability, which is that the financial statements

in this case the income statement should be able to be compared to previous accounting periods, to measure the business performance, make trend analysis and see similarities and differences between previous years of the business performance and also between other similar business in the industry. The bank manager can see that the sales of Healthy Greens in 2012 was \$24 000 and in 2014 is \$41 000, this shows that the sales have increased, so the business must be getting customers in order for the product such as salads and vegetables to sell. The bank manager can also see that the total expenses have also increased from \$12 200 in 2012 to \$15 300 in 2014, which is only expected as due to the increasing sales, the business might have needed to hire more staff to make sure all customers were being served appropriately. However the bank manager can see that even though the expenses have increased, she is still making a profit as the profit increased from \$11 800 in 2012 to \$18 700 in 2013 to \$25 700 in 2014. This shows the bank manager that the sales outweigh the expenses, and this trend is likely to continue in the future, so Maia is financially stable and lending her a loan, is secure for him as Healthy Greens has been doing financially well and is likely to carry on doing well.

The student has described comparability in context of the income statement for Healthy Greens.

The student has explained how the reporting period concept has been applied to Healthy Greens.

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

Healthy Greens 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

- (b) Justify why *Healthy Greens* has reported the loan in the Statement of Financial Position (extract) as a \$20 000 **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.

The loan is a liability because it was purchased by Maia in the past. Presently only Maia is legally obliged to repay the loan. In the future when the loan is repaid, as per the loan agreement, this will decrease the asset bank Maia is owing to repay. The loan is the future, because she would like to keep a good credit rating with the bank so if need be in the future she can take out another loan. There is a reliable measure and faithful representation is being met by reporting the loan as non-current liability because, the loan is a big amount at \$20 000 that is due in 2020, because it is due ~~not~~ then after more than one accounting period, it is non-current. Hence reporting the loan as non-current liability is faithfully representing the

ASSESSOR'S  
USE ONLY

ASSESSOR'S  
USE ONLY

transaction. There would also be a source document such as a loan agreement outlining the amount Maia needs to repay - \$20 000, and when she needs to pay it by. This would be proof of the transaction made, and is neutral, complete and free from bias as two independent people are reaching a consensus that the information on the loan agreement is accurate and hence this also reports the transaction faithfully.

(Faithful representation means that the information is neutral, complete and free from error). The student explains faithful representation in the context of the loan agreement.

The student has correctly described the present obligation and future cash payment in the context of the loan for the liability definition.



## QUESTION TWO

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.

Accounts receivable is an asset because it was purchased / received in the past. Presently or Maia has exclusive right to use the money received from accounts receivable. In the future it is likely to continue receive money from accounts receivable, hence will generate income for Healthy Greens and increase the asset base. It is more likely than not that Maia will continue to supply to more restaurants and hotels so future economic benefit is likely to flow into the business and generate more income for Healthy Greens. There is a reliable measure for the asset - accounts receivable because there would be a source document such as an invoice or proof of the amount to be received by Healthy Greens. This source document - invoice, is original, verifiable and represents the transaction faithfully, as the information is correct, not made up and two independent people have reached a consensus that the information is accurate, and is verifiable.

The student has explained how the invoice provides a reliable measure.

ASSESSOR'S  
USE ONLY

The student has explained all parts of doubtful debts expense correctly.

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.

ASSESSOR'S  
USE ONLY

(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.

Doubtful debt is an administrative expense <sup>hence</sup> ~~that~~ is reported on Healthy Greens income statement. The doubtful debts decreases the asset accounts receivable, it decreases the profit for the year for Healthy Greens and hence decreases the equity of Healthy Greens. The doubtful debts are not drawing from the owner - Maia. It is more likely than not <sup>that</sup> the doubtful debts will not be repaid, hence will result in a future economic loss for Healthy Greens. By reporting accounts receivable in the statement of financial position, the qualitative characteristic of relevance is applied because, accounts receivable is material and significant, and if this information is not accounted for it will majordy impact the business decisions that Maia has to make. By reporting it in the statement of financial position, Maia can see whether the accounts receivable asset is improving or not, hence can help to make decisions, such as whether she should tighten the accounts receivable policy, or whether the business is still profitable, if she has enough money for other investments etc, hence by being able to make informed decisions it will result in a better performance of her overall business - Healthy Greens. The student has explained the relevance of accounts receivable to Maia's decision making.

### 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.

The \$200 diesel is revenue expenditure for the business because, because it will be a recurring expenditure that occurs frequently. The \$200 will be recorded as distribution cost on the income statement and will decrease the profit for the year for *Healthy Greens*. The diesel will only affect *Healthy Greens* for the current accounting period as it is an revenue expenditure. The accounting entity concept states that the financial affairs of the business are kept separate and distinct to the financial affairs of the owner - Maia. Because \$50 of the diesel was for personal purposes of Maia, it cannot be recorded as part of the business distribution cost on the income statement, it must be reported as drawings on the statement of financial position of \$50. By doing this Maia is following the accounting entity concept and can see only the business income and expenses that do not include her personal expenses, therefore Maia in this way can see that if improvements need to be made in the business, she can see what business expenses need to be cut down, to help improve the profit for the year.

ASSESSOR'S  
USE ONLY

the \$50 diesel fuel is reported as drawings in the Balance Sheet.

9

On balance day, 31 March 2015, *Healthy Greens* GST payable was \$1 000, and Maia had the following invoice for salad greens sales on hand.

<b>Healthy Greens</b> 800 Karamea Highway, Little Whanganui			
Invoice No:	13368	Delivery date:	28 March 2015
Customer:	Three Brothers Hotel	Payment due:	7 April 2015
Customer ID:	364		
Address:	46 Main Road, Karamea		
Phone:	03 573 6829		
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 you 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*.

The accrual basis concept states that all transactions must be recorded when they occur and in the financial reports to which they belong. Because Maia received an invoice this accounting period that is <sup>not</sup> to be paid ~~the~~ following accounting period, hence technically it is being paid late as its not being paid in the accounting period it was received in, therefore it is recorded as an accrued expense <sup>of \$34.50</sup> ~~current liability~~ in this accounting period. Statement of financial position and ~~will increase~~ ~~the~~ will increase the accounts payable to \$1034.50 on this accounting period. Statement of financial position, hence the current liability will increase. And the expense on the income statement will also increase by \$34.50, hence will increase expenses on the income statement and will decrease profit for the year.

ASSESSOR'S  
USE ONLY

E7 ✓