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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.

Achievement

TOTAL

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QUESTION ONE

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Wiremu owns *Beachsplash*, a kayak hire shop at Whatuwhiwi 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*.

Beachsplash		
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.

The purpose of the cash flow for Beachsplash is to show the cash receipts and ~~pay~~ cash payments Beachsplash for a period of time. It also shows how Beachsplash bank balance occurred. The cash flow statement summary for beachsplash illustrates the monetary measurement concept as the total receipts and total payments are all recorded in NZD which ~~is~~ is what the monetary measurement concept requires Beachsplash or/and other business's to do.

The qualitative characteristic of comparability would support Torpedo7 in ~~the~~ making a decision to ~~improve~~ approve Beachsplash purchase of the paddle boards on credit. The 2015 and 2014 cash flow summary for Beachsplash has been given to Torpedo7 which helps them compare and contrast and identify trends which will ~~the~~ help them make the decision whether to allow Beachsplash buy paddle ~~board~~ boards on credit. One trend ~~they can~~ Torpedo7 can identify is that the increase in total receipts from 2014 to 2015. This would mean that the total receipts of Beachsplash will most likely to increase in 2016 as well. Which will able Beach ~~splash~~ to pay back their Accounts Payable - Torpedo7. By comparing Torpedo is able to see whether Beachsplash will be back to pay for the paddle boards they purchased 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**.

Paddle boards are reported as an asset in the Statement of Financial Position for Beachsplash because Beachsplash have purchased the paddle boards on credit in the past from Torpedo7. They have current control over the paddle boards as they have the right to decide when, who and where it can be used. In the future when people/customers ~~use~~^{hire} paddle boards from Beachsplash it will increase their income and increase their asset - bank and generate future economic benefits into Beachsplash. The purchase of the paddle board can be reliably measured as they should be receipts held by Torpedo7 and Beachsplash proving that Beachsplash purchased paddle boards on credit at the cost//

of \$15 500. The recognition criteria of an asset has been met as ~~the paddle boards purchased~~ past, present and future economic benefit //

Paddle boards are reported as a non-current asset because it will benefit Beachsplash for more than period. It shows that the paddle boards will be used by customers of Beachsplash in not only this period/year but also in the future years as it is a non-perishable item and won't go out of date //

QUESTION TWO



In order to let the Whatuwhiwhi 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.

The straight-line depreciation method is where the billboard Wiremu put up will depreciate at the same rate every year.

The units of use depreciation method is where the the paddle boards will depreciate depending on how much it is used.

The units of use depreciation is appropriate for the paddle boards as they will be depreciated depending how often they are used by the customer. This is good so Beachsplash is not over/depreciating under.

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

the paddle boards. The paddle board will lose its quality ~~more~~ if it is being used more often which means it will depreciated by a larger amount as its being used more often. //

The straight line ~~appx~~ depreciation is appropriate for the billboards as it will just stay on Beachsplash roof. The units of use method wont be good for the paddle boards as they are not being used by customers on a daily basis. The diminishing value method wont be good for the paddle boards as the paddle boards style wont go out of fashion and be replaced by newer types of ~~flor~~ billboards //

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.

The historical cost concept will be applied when reporting the footpath sign that Wiremu purchased for \$250. The historical cost concept requires all purchases/ transactions to be recorded at the purchase price not what its value is now. This means that Wiremu will record the footpath sign as a non-current asset for \$250 as it is the purchase price not what its current value is. Materiality - misstatement or omission depending on the size of Beachsplash and the way it operates. //

QUESTION THREE

Beachsplash also provides paddle board lessons. The lessons and associated hire of paddle boards are reported as Paddle Board Hire and Lesson income. In the last week of March 2016, *Beachsplash* invoiced a school \$500 for paddle board hire and lessons for that week.

- (a) Justify why *Beachsplash* will report the \$500 for paddle board hire and lessons as income in the Income Statement for the year ended 31 March 2016. In your answer, explain:
- using the **definition of income**, why the \$500 for paddle board hire and lessons is income
 - how the qualitative characteristic of **faithful representation** is being met by reporting the \$500 paddle board hire and lessons as income.

Paddle board hire and lesson is an income to Beachsplash because when customers hire paddle boards and take lessons it increase the ~~in sales~~ sales ~~bank asset~~ of Beachsplash. This increases the profit of the year along with the equity for Beachsplash. Paddle board hire and lesson is paid by the customers therefore it is not a contribution-capital by the owner Wiremu of Beachsplash. The qualitative characteristic of faithful representation is being met by reporting the \$500 paddle board hire and lessons as income as it shows Wiremu that ~~it~~ for Beachsplash it is going to be another source of income. It is free from error nor manipulated the invoice in a manner that will make it look bias. ||

Beachsplash's Cash Flow Statement for the year ended 31 March 2016 reports paddle board hire and lesson income as \$28 000. This includes a deposit of \$1 000 from the local school holiday programme to secure paddle board hire and lessons for the April 2016 school holidays.

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- (b) Using the **accrual basis**, explain **how** and **why** the deposit of \$1 000 from the local school holiday programme was reported in both the **Income Statement** and the **Statement of Financial Position** for *Beachsplash* for the financial year ended 31 March 2016.

According to the Accrual basis concept all transactions must be recognised when they occur regardless to when the money is paid or received. It should be reported in the financial statement which it relates to. The deposit of \$1000 from the local school holiday programme to secure paddle board hire and lessons for April ~~that~~ this will be reported as Income in advance under the title current liability as Beachsplash have been paid but they have not provided their services as of yet. In The Income Statement of Beachsplash it will decrease the income - paddle board hire and lesson by \$1000. This is so it is distinguishable that ~~the~~ deposit of \$1000 ~~belongs to~~ is paid in advance and belong to the next financial statement //

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

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QUESTION
NUMBER

Achievement exemplar for Accounting 91174 2016			Total score	11
Q	Grade score	Annotation		
1	A4	<p>1 (a) The candidate has identified a purpose of the cash flow statement, explained how the monetary measurement has been illustrated in the cash flow statement, and described comparability with an attempt to link to the context of <i>Beachsplash's</i> cash flow statement.</p> <p>1 (b) The candidate has correctly described why the paddle boards are an asset, using the characteristics of past transaction and future economic benefit. The candidate has provided a partial explanation of one part of the recognition criteria and has provided a partial explanation of a non-current asset.</p>		
2	A3	<p>2 (a) The candidate has described the straight-line depreciation method and the units-of-use depreciation method, but has not explained why each of these methods is appropriate in relation to the billboard and the paddle boards.</p> <p>2 (b) The candidate has described the historical cost in the context of the footpath sign.</p>		
3	A4	<p>3 (a) The candidate has attempted to use the definition of income to describe why the \$500 paddle board hire and lessons is income by correctly linking the hire and lesson income to net profit increasing equity, and not a contribution by Wiremu.</p> <p>The candidate has described faithful representation by making reference to a source document and terminology, but has not explained how the \$500 figure is faithfully represented.</p> <p>3 (b) The candidate has described the accrual basis concept in the context of the Statement of Financial Position by describing how the current liability income received in advance will increase, but has not explained why. They have explained how and why the paddle board hire income will decrease by \$1 000, the reason being that it belongs to the next accounting period.</p>		