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91174



## 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.

TOTAL 6

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#### **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	32000	41000	
Total expenses	12200	13300	15300	
Profit for the year	11 800	18700	25700	

- 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 neare income statement is to measure the profit/10ss for the period. It can be seen that the profit for Healthy Greens has increased from 2012 (\$11 800) to 2013 (\$18 100) and has increased again in 2014 to \$25 700 which has a positive effect on Healthy Greens. The reporting period states that the transactions or other events that have occured will be divided into nominated time periods. In Healthy Green's income statement the profit for the year is divided into the time periods for the periods ended March in the time periods for the periods ended March in the time periods for the periods ended March in the time periods for the periods ended March in the time periods for the periods ended March in the time periods for the periods ended March in the time periods for the periods ended March in the time periods for the periods ended March in the time periods for the periods ended March in the time periods for the periods ended March in the time periods for the periods ended March in the time periods for the periods ended March in the time periods for the periods ended March in the time periods for the periods ended March in the time periods for the periods ended March in the time period the time p

2012, 2013 and 2014. By using the reporting period concept this benefits Healthy Greens when using the qualentitative characteristic of comparability.

This is because information is more useful when it is compared to similar information of different

entities or compared to similar information of the same entity for a different reporting period or date.

In this case, the Bank manager can compare

Healthy Green's income statement, regarding the same information of the profit for each year. By

doing this the bank manager can recognise that

the profit has substancially increased from 2012-

2013-2014. This has a positive on Maia as

because her business's profit has increased this

will prosonally parake it more likely for the bank

manager to grant her a loan to finance

the purchase of a new delivery truck

The student has described comparabilition the context of the income statements for Healthy Greens, that is, the profit has indeased from 2012 - 2014.

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.

liability is the future outflow of resources embodying the economic benefit that an entity is presently oblided to make to other entities as a result of a past fransaction. Healthy Green's loan is a liability as is money that the business will pay back to the bank over time. The note stales that when paying the loan back Healthy Green's loan has an interest rate of/ a maturity date of 31 March meaning that the loan should be paid that date. The loan is considered non-current liability because it paid off in the long-term which embodyies Healthy Greens economic benefit as money coint as a profit for Healthy Greens will have to

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be used to pay off the \$20,000 loan. Faithful representation is met by reporting the loan as non-current as the qualitative characteristic means that information should be complete neutral and free from error. This is met as Healthy Green's har correctly classified the loon to be a nonCurrent liability meaning that there is no misunderstanding that the loan will be paid off in the long term. The student has given

the student has given a partial definition of binliability and a partial explanation of a nancurrent liability

N2

The student has identified the past and present parts of an asset

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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.

Assets are the future economic benefits that are presently controlled by the entity as a result of a past transaction. Accounts receivable is an asset because Healthy Green's receiving payments from customers for her products of salad greens and other vegetables, which increases the economic benefit of Healthy Greens as more money is coming into the Business's bank account Accounts receivable is also controlled by Healthy Greens as Maia can choose which customers she wants to supply. Accounts receivable is a result of a past transaction as there will have been a payment made to Healthy Greens in order for customers to receive their produce. The asset of accounts receivable can be measured with reliably by following the recognition criteria that it is probable that the item will provide a form of inflow (assets incomes) or outflow (habilities expenses). The item will also have to have a cost of value to be measured reliably. Il is seen that acrounts receivable is measured reliably as its a form of inflow as it is an asset and it also has a cost, with money coming into Healthy Green's accounting 91174, 2015

The student has given the dealease in equity

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.

Hn expense is a decrease in the economic benefit in the form of outflows which occur when assets decrease or liabilities increase which do relate to the owner and a decrease in equity. Doubtful debts are recorded in Healthy Green's income statement as an expense because there is the possibility that Healthy Green's will not receive all of the money from accounts receivable The qualifilative Characteristic of relevance suggests that makenomation is paone by providing relevant information to users this has the ability to influence their decision. In terms of accounts receivable this is seen as a predictive value which acknowledges information in the present and in the future. This allows Mara evaluate the fact that accounts receivable increasing therefore influencing her decision to adjust doubtful debts of 27 of accounts receivable the year ended 31 March 2015

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The student has described

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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.

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.

continued Lovenne l Conomic of as asset from lant dave a buch without a sustaned, long term basis within the next barriers year. preary Shut Inthe context On balance day, 31 March 2015, *Healthy Greens* GST payable was \$1000, and Maia had the following invoice for salad greens sales on hand.

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

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.

Accrual basis defines that they a fransaction's effects will be reported in the Americal period the transaction are there place in, wagudess of when the actual changing hands of many book place. In this way, although payments from I Brother flotel to Healthy Greens will take place on April 7, the the strategraphical variations reported period will be in Mach, when particular thanks reported and franchistic be recorded on from the strategraph and accorded to franchistic be recorded on from the strategraph and accorded to franchistic be recorded and franchistic be recorded in the Mach the mach payment, the mach more statement of statement of payment, the mach more statement of statement of franchistic be recorded as franchistic to franchistic the statement of statement of franchistic the statement of statement of statement of franchistic more statement of statement of statement of franchistic more statement of statement

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