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90976



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NEW ZEALAND QUALIFICATIONS AUTHORITY  
MANA TOHU MĀTAURANGA O AOTEAROA

SUPERVISOR'S USE ONLY

## Level 1 Accounting, 2014

### 90976 Demonstrate understanding of accounting concepts for small entities

2.00 pm Thursday 13 November 2014

Credits: Three

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of accounting concepts for small entities.	Demonstrate in-depth understanding of accounting concepts for small entities.	Demonstrate comprehensive understanding of accounting concepts for small entities.

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 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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**QUESTION ONE**

**Note:** Ignore GST in this question.

*Smartway* is a shop owned by Amanda that sells smart phones, tablets, and accessories. The shop is located in Auckland and also sells online.

(a) State the definition of equity.

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(b) At the end of the financial year, *Smartway's* Statement of Financial Position was showing:

- accounts payable: \$12 000
- bank: \$6 000
- bank loan: \$20 000
- inventory: \$40 000
- office equipment: \$10 000
- shares in *Pear Ltd*: \$5 000
- shelving: \$15 000

Using the accounting equation, calculate the amount of equity Amanda has in *Smartway*. Show your working.

**Working**

Equity \$ \_\_\_\_\_

The bank loan is to be fully repaid in 10 years' time.

(c) Fully explain how the bank loan for *Smartway* meets the characteristics of a liability.

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(d) Fully explain how the bank loan, which is due in 10 years, will be reported in the financial statements of *Smartway* following the going concern concept.

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**QUESTION TWO**

*Smartway* employs a financial accountant, who has this year decided to prepare a Statement of Accounting Policies. The following is an extract from the Statement of Accounting Policies that *Smartway's* financial accountant has prepared.

*Smartway*

**Statement of Accounting Policies (extract) for the year ended 31 March 2014**

**Property, plant and equipment**

Property, plant and equipment are stated at their original purchase price, and, except for land, are depreciated.

- (a) Describe the role of a financial accountant.

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- (b) "Property, plant and equipment are stated at their original purchase price" is following which accounting concept?

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*Smartway* imported a large amount of shelving from the USA to store their products. This shelving is reported as property, plant and equipment at its cost of NZ\$15 000.

- (c) Fully explain how reporting the shelving at its cost of NZ\$15 000 meets the monetary measurement concept.

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(d) Fully explain how the shelving for *Smartway* meets the characteristics of an asset.

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(e) The shelving, which is expected to last 15 years, is depreciated annually by \$1 000. Fully explain, using the definition of depreciation, why the shelving is depreciated every year.

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**QUESTION THREE**

*Smartway* has the following accounts included in their financial statements:

- |                      |                     |                |
|----------------------|---------------------|----------------|
| • accounts payable   | • electricity       | • online sales |
| • advertising        | • interest received | • purchases    |
| • bank               | • internet expenses | • shop sales   |
| • bank loan          | • inventory         | • office wages |
| • dividends received |                     |                |

(a) Identify THREE incomes from the list above.

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(b) Describe the purpose of the Income Statement for *Smartway*.

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(c) Fully explain, using the definition of an expense, why office wages are an expense for *Smartway*.

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At the end of the financial year, *Smartway* had prepaid their monthly internet expenses by \$100.

"Accrual basis: the effects of transactions are recognised when they occur and are reported in the financial statements of the periods to which they relate."

Source (adapted): NZ Framework.

- (d) Fully explain how the prepaid internet expenses will be reported in the financial statements of *Smartway*, using the above definition.

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