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NEW ZEALAND QUALIFICATIONS AUTHORITY
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Level 1 Accounting, 2016

90976 Demonstrate understanding of accounting concepts for small entities

9.30 a.m. Tuesday 22 November 2016
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 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.

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

TOTAL

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QUESTION ONE

Raj Khan, a fully qualified dentist, owns *North Dental*, a dental surgery on the North Shore in Auckland.

Raj's wife, Maria, records all of the transactions for the business using an accounting software package. This information is sent to their chartered accountant at the end of each financial year in order for the financial statements to be prepared.

Each year, *North Dental's* chartered accountant prepares an Income Statement, Statement of Financial Position, and Statement of Accounting Policies.

(a) Describe the purpose of the Statement of Accounting Policies for *North Dental*.

North Dental has the following accounts included in their financial statements:

- | | | |
|--------------------|----------------------------|------------------------------------|
| • accountancy fees | • commission received | • dividends |
| • bank | • dental assistant's wages | • interest on term deposit |
| • building | • dental fees received | • Internet expenses |
| • capital | • dental supplies on hand | • shares in <i>Dental Care Ltd</i> |

(b) Identify THREE incomes from the list above.

(1) _____

(2) _____

(3) _____

Last year, *North Dental* purchased their building.

(c) Fully explain how the building from which *North Dental* operates meets the characteristics of an asset.

(d) Fully explain, using the going concern concept, how and why the building will be reported in the financial statements of *North Dental*.

(e) Fully explain why the purchase of the building is capital expenditure.

QUESTION TWO

- (a) Describe ONE main role of a chartered accountant, other than preparing the financial statements.

- (b) Describe the purpose of the Income Statement for *North Dental*.

- (c) Fully explain, using the definition of an expense, why accountancy fees are an expense for *North Dental*.

QUESTION THREE

At the end of the financial year, *North Dental's* Statement of Financial Position was showing the following:

- Bank overdraft \$1 200
- Dental supplies on hand \$3 100
- Equity \$148 000
- Goodwill \$30 000
- GST payable \$2 400
- Property, plant and equipment \$135 000

- (a) Using the accounting equation, calculate the loan that *North Dental* currently has. Show your working.

Working

Loan \$ _____

North Dental has just imported a new X-ray machine from Australia for Raj to use with his clients. The X-ray machine cost NZ\$4 000 and is the latest technology.

- (b) Fully explain, using the monetary measurement concept, how and why the purchase of the X-ray machine at NZ\$4 000 is reported.

The X-ray machine should last for five years. It will be depreciated annually by NZ\$800.

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(c) Fully explain, using the definition of depreciation, why the X-ray machine is depreciated every year.

(d) Fully explain, using the historical cost concept, how and why the X-ray machine is reported.



