

91174



NEW ZEALAND QUALIFICATIONS AUTHORITY  
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## Level 2 Accounting, 2017

### 91174 Demonstrate understanding of accounting concepts for an entity that operates accounting subsystems

9.30 a.m. Thursday 23 November 2017  
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 2–15 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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On 1 April 2016 Holly expanded the business by offering quad bike tours through parts of her property. To finance the purchase of the quad bikes, *Native Taupo* took out a five-year business loan.



(b) Justify why *Native Taupo* reports the loan as a non-current liability in the Statement of Financial Position. In your answer, explain:

- using the **definition** of a **liability**, why the loan is reported as a liability
- why the loan is reported as **non-current**
- how reporting the loan as a non-current liability demonstrates the **going concern** concept.

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## QUESTION TWO

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| <i>Native Taupo</i><br>Trial Balance (extract) as at 31 March 2017 |       |  |    |
|--|-------|--|----|
|  | \$    |  | \$ |
| Advertising  | 2 900 |  |    |

Additional information:

- \$600 of advertising, excluding GST, has been paid in advance by *Native Taupo*.

Use the trial balance extract and additional information above to answer (a).

- (a) Using the **accrual basis**, justify **how** and **why** the \$600 of advertising, excluding GST, paid in advance, was reported in both the Income Statement and Statement of Financial Position for *Native Taupo* for the year ended 31 March 2017.

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Holly depreciates the quad bikes using the units-of-use depreciation method.

| <b><i>Native Taupo</i></b>   |                          |
|--|--------------------------|
| <b>Note: Property, plant and equipment (extract) as at 31 March 2017</b> |                          |
|  | <b>Quad bikes<br/>\$</b> |
| Cost   | 35 000                   |
| Less: accumulated depreciation   | 7 200                    |
| Carrying amount  | 27 800                   |

- (b) Justify the reporting of the quad bikes **and** their depreciation in the financial statements of *Native Taupo*. In your answer:
- describe the units-of-use method of depreciation
  - explain why this method of depreciation is being used for the quad bikes
  - explain how the qualitative characteristic of relevance is applied to the reporting of the quad bikes at **carrying amount** in *Native Taupo*'s Property, Plant and Equipment Note above.

**THERE IS MORE SPACE FOR YOUR ANSWER ON PAGE 8 >>**





**QUESTION THREE**

The main source of income for *Native Taupo* prior to 1 April 2016 was selling wild herbs to local restaurants in Taupo.



| <b>Native Taupo</b>  |             |             |
|--|-------------|-------------|
| <b>Income Statement (extract) for the periods ended 31 March</b> |             |             |
|  | <b>2016</b> | <b>2017</b> |
|  | \$          | \$          |
| <b>Revenue</b>   |             |             |
| Wild herb sales  | 60 000      | 70 000      |
| <b>Other income</b>  |             |             |
| Quad bike tour fees  | 0           | 12 500      |
| <b>Total income</b>  |             |             |

All wild herb sales for *Native Taupo* were on credit.

(a) Justify why *Native Taupo* will report the wild herb sales on credit of \$70 000 for the year ended 31 March 2017 as **income**. In your answer, explain:

- using the **definition** of **income**, why the wild herb sales on credit are income
- the **probable** aspect of the **recognition** criteria of income as it relates to wild herb sales on **credit**.

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**THERE IS MORE SPACE FOR YOUR ANSWER ON PAGE 10 >>**



(b) Justify, using the concept of **materiality**, why Holly reports **Wild herb sales** and **Quad bike tour fees separately** in the Income Statement extract on page 9. In your answer:

- describe the qualitative characteristic of **materiality**
- explain, using materiality, why Holly reported the income from quad bike tours separately from the main income, wild herb sales
- explain how this will assist Holly in future **decision-making**.

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## Acknowledgements

Images from the following sources have been used in this examination.

| Page | Source  |
|------|---|
| 2    | <a href="http://www.mnn.com/lifestyle/responsible-living/stories/4-training-courses-for-young-farmers">http://www.mnn.com/lifestyle/responsible-living/stories/4-training-courses-for-young-farmers</a>                 |
| 4    | <a href="http://pertiwiadventure.com/gallery.html">http://pertiwiadventure.com/gallery.html</a>   |
| 9    | <a href="http://www.lefigaro.fr/jardin/fiche-plante/2015/05/11/30011-20150511FICFIG00138-tetragone-cornue.php">http://www.lefigaro.fr/jardin/fiche-plante/2015/05/11/30011-20150511FICFIG00138-tetragone-cornue.php</a> |

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