

90976



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

QUALIFY FOR THE FUTURE WORLD
KIA NOHO TAKATŪ KI TŌ ĀMUA AO!

1

SUPERVISOR'S USE ONLY

Level 1 Accounting, 2018

90976 Demonstrate understanding of accounting concepts for small entities

9.30 a.m. Thursday 29 November 2018
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

ASSESSOR'S USE ONLY

QUESTION ONE

Charlie Sugar, an experienced cake decorator, owns *Cakes & Cookies*.

Cakes & Cookies bakes and decorates cakes and cookies for special occasions such as birthdays and weddings.

Cakes & Cookies has the following accounts in its financial statements:

- Accounts payable
- Accounts receivable
- Accrued expenses
- Advertising
- Cake sales
- Capital
- GST payable
- Ingredients on hand
- Insurance
- Interest on loan
- Kitchen equipment
- Loan

(a) Identify THREE liabilities from the list above:

(1) _____ (2) _____

(3) _____

Cakes & Cookies pays \$500 off its loan and \$260 interest on the loan each month.

(b) Describe the impact the above transaction will have on the assets, expenses and liabilities of *Cakes & Cookies* each month.

In your answer, include:

- any specific assets, expenses and liabilities that will increase or decrease
- dollar amounts.

Assets: _____

Expenses: _____

Liabilities: _____

Cakes & Cookies recently purchased new decorating tools online costing \$6 000.

(c) Fully explain, using the historical cost concept, how and why the new decorating tools will be reported in the financial statements for *Cakes & Cookies*. Ignore GST.

- (d) Fully explain how the new decorating tools meet the characteristics of an asset for *Cakes & Cookies*.

The new decorating tools are expected to last four years. They will be depreciated by \$1 500 each year.

- (e) Fully explain, using the definition of depreciation, how and why the new decorating tools will be depreciated every year.

QUESTION TWO

Cakes & Cookies has the following financial elements as at 31 March 2018:

Accounts payable	\$980	GST payable	\$670
Accounts receivable	\$1 350	Ingredients on hand	\$860
Bank	\$500	Kitchen equipment	\$34 000
Decorating tools	\$7 200	Loan	\$15 000

- (a) (i) Calculate Charlie's equity. Show your working.

Working	
	Equity \$ _____

- (ii) Explain to Charlie what his equity represents for *Cakes & Cookies*.

Cakes & Cookies employs two staff to decorate its cakes.

- (b) Fully explain how cake decorators' wages meet the characteristics of an expense for *Cakes & Cookies*.

Cakes & Cookies recently purchased \$400 of ingredients. This included \$70 for ingredients which Charlie took home to use to bake and decorate a cake for his friend's birthday.

- (c) Fully explain, using the accounting entity concept, how and why the purchase of these ingredients would have been reported in both the Income Statement and the Statement of Financial Position for *Cakes & Cookies*. You must include dollar amounts in your answer.



QUESTION THREE

At the end of each financial year, 31 March, *Cakes & Cookies* prepares an Income Statement.

- (a) Describe the purpose of the Income Statement for *Cakes & Cookies*.

- (b) Describe the role of an auditor for *Cakes & Cookies*.

- (c) Fully explain how and why *Cakes & Cookies* is following the period reporting concept when preparing its Income Statement. Include how this is useful for Charlie.

- (d) Fully explain how cake sales meet the characteristics of income for *Cakes & Cookies*.

Cakes & Cookies takes a deposit from customers to confirm cake orders. On balance day, 31 March 2018, *Cakes & Cookies* has received \$2 700 in deposits for cakes it will bake in the following year.

- (e) Fully explain, using the accrual basis concept, how and why the \$2 700 in deposits will be reported in the **Statement of Financial Position** for *Cakes & Cookies* as at 31 March 2018.
