

91174



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SUPERVISOR'S USE ONLY

Level 2 Accounting, 2019

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

2.00 p.m. Thursday 21 November 2019
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 2–8 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

Note: All questions in this booklet relate to *Okupu Photography*, a sole proprietor business owned by Emma. *Okupu Photography* offers both wedding and family photography services.

QUESTION ONE

Emma particularly enjoys photographing weddings and plans to continue operating the business in the same way over the next few years. Some clients have booked *Okupu Photography* for weddings that will take place during the next wedding season, starting in October 2019. Clients are required to pay a deposit in advance to secure Emma's photography services at their wedding.

<i>Okupu Photography</i>			
Trial Balance (extract) as at 31 March 2019			
	\$		\$
		Wedding photo income	77 400

Additional information:

- Wedding photo income received in advance: \$9 000, excluding GST.

- (a) Explain how the going concern concept is applied to *Okupu Photography* as at 31 March 2019. In your answer, refer to Emma's plans and explain why wedding clients will be prepared to pay a deposit six or more months in advance of their wedding.

QUESTION TWO

Emma uses a number of software applications to edit her photographs. The following information relates to the software licence fees paid for these applications.

<i>Okupu Photography</i>	
Income Statement (extract) for the year ended 31 March 2019	
	NZD
Photography expenses:	
Software licence fees	2 100

Additional information:

- All licence fees for software such as Adobe Photoshop are paid monthly to overseas-based companies.
- Each monthly software licence fee alone is relatively small.
- Invoices received from the overseas companies are in the foreign currency, converted to New Zealand dollars (NZD) for payment by online banking. For example, the following is an extract from the Adobe Photoshop invoice from Australia (currency AUD):

Adobe Systems Software	
Invoice number	8469
Invoice date	01/11/2018
Net amount paid	\$11.99
Currency	AUD
Net in NZD	\$13.43

Justify how *Okupu Photography* records and reports the software licence fees.

In your answer, explain:

- why the software licence fees will be reported in New Zealand dollars (NZD)
- how materiality is applied in reporting the software licence fees in the Income Statement as one total of \$2 100
- why the software licence fees will be reported as revenue expenditure rather than capital expenditure.

QUESTION THREE

- On 31 March 2019:
- *Okupu Photography* had photography equipment with a total cost of \$30 000, excluding GST.
 - Emma purchased a new camera lens to use when photographing outdoor weddings.

The following is an extract from the invoice *Okupu Photography* received for the new camera lens:

PhotoPro	
Invoice number	6723
Invoice date	31/03/2019
Invoice to: <i>Okupu Photography</i>	
Description	Amount \$
Camera lens	3 000
Subtotal	3 000
GST	450
Total now due	3 450

Justify the reporting of the new camera lens.

In your answer, refer to relevant dollar figures and explain:

- how historical cost will be applied to the reporting of the new camera lens, including reference to faithful representation
- why the new camera lens is reported as an asset, including reference to the definition and recognition criteria of an asset.

**Extra space if required.
Write the question number(s) if applicable.**

**QUESTION
NUMBER**

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Lined area for student response with a vertical line for question numbers.