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Level 1 Accounting 2020

90976 Demonstrate understanding of accounting concepts for small entities

9.30 a.m. Tuesday 1 December 2020
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

Farmhouse Fruit & Vege (FFV) is owned by sole proprietor Frankie Smith and sells a range of organic fruit, vegetables, jams, and preserves. You can refer to *Farmhouse Fruit & Vege* as FFV in your answers.

QUESTION ONE

Ignore GST in this question.

Farmhouse Fruit & Vege had the following accounts in its financial statements:

• Accounts payable	• Drawings	• Inventory
• Accounts receivable	• Equipment	• Loan
• Bank overdraft	• GST payable	• Prepayments
• Building	• Insurance	• Shop fittings
• Capital	• Interest on loan	• Wages

(a) Identify three liabilities from the list above.

(1) _____

(2) _____

(3) _____

(b) (i) Describe the purpose of the Income Statement for *Farmhouse Fruit & Vege*.

(ii) Explain how Frankie, the owner, could use *Farmhouse Fruit & Vege*'s Income Statement to make an informed decision.

QUESTION TWO

Ignore GST in this question.

- (a) Describe the purpose of an auditor for *Farmhouse Fruit & Vege*.

- (b) In the table below, show the effect of the transactions on the relevant accounts. You should indicate the dollar amount and whether the account is increasing (+) or decreasing (–).

An example has been completed for you.

Transaction	Bank	Property, plant & equipment	Expenses	Loan	Equity	Income
<i>Example: Bought equipment for cash \$500</i>	– 500	+ 500				
(1) Paid wages \$450						
(2) Cash sales \$1000						
(3) Paid \$680 off loan and \$120 interest						

Farmhouse Fruit & Vege wants to pay off the loan as fast as possible, before 2024.

- (c) Fully explain why the loan is a liability for *Farmhouse Fruit & Vege*.

Frankie has decided to give some jam products totalling \$75 to her friends and family as gifts for Christmas.

(d) Fully explain, using the accounting entity concept, how and why the jams taken for gifts would be reported in the financial statements for *Farmhouse Fruit & Vege*.

In order to promote the jam products, *Farmhouse Fruit & Vege* has increased its spending on advertising.

(e) Fully explain why advertising is an expense for *Farmhouse Fruit & Vege*.



QUESTION THREE

Ignore GST in this question.

- (a) Use the accounting equation to calculate the equity for *Farmhouse Fruit & Vege* as at 31 March 2020.

Accounts payable	\$1 950	GST payable	\$2 760
Bank overdraft	\$2 400	Inventory	\$4 700
Building	\$84 000	Loan	\$40 000
Equipment	\$16 000	Shop fittings	\$7 000

Show working

Equity \$ _____

- (b) Frankie understands that, as a sole proprietor, she has unlimited liability. Explain what this means for Frankie in relation to *Farmhouse Fruit & Vege*.

During the year, *Farmhouse Fruit & Vege* bought new equipment from Italy to make jam, costing €5 000 (euros). This exchanges to NZ\$8 400 excluding GST.

- (c) Fully explain, using the monetary measurement concept, how and why the new jam-making equipment would be reported in the financial statements for *Farmhouse Fruit & Vege*.

- (d) Fully explain why the new jam-making equipment will be capital expenditure for *Farmhouse Fruit & Vege*.

The jam-making equipment will be depreciated by \$1 200 per year.

- (e) Fully explain, using the definition of depreciation, how and why the jam-making equipment will be depreciated each year.
