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NZQA

Mana Tohu Mātauranga o Aotearoa
New Zealand Qualifications Authority

Level 2 Accounting 2025

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

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.

Do not write in the margins (||||||). This area will be cut off when the booklet is marked.

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

Kool Kicks is owned by Carl. It is a retail store that specialises in sports shoes. When customers visit the store, they can walk and run on a treadmill to help them get the right shoe fit.

All dollar figures are GST exclusive. You can ignore GST in this paper.

Include dollar figures and specific examples from the resource information in your answers.

All questions in this paper relate to *Kool Kicks*.

QUESTION ONE

Every year, each of *Kool Kicks*' employees are given two pairs of shoes to wear at work. This has a total cost of \$2 000. The shoes are classified as staff expenses.

(a) Justify why the shoes given to employees are reported as an expense in the Income Statement for *Kool Kicks*. In your answer, explain:

- the three characteristics of the expense definition
- the recognition criteria of faithful representation for an expense.

Statement of Accounting Policies (extract)

Inventory is reported at the lower of cost or net realisable value.

A burst water pipe in the storeroom damaged some sports shoes. In accordance with the above policy, some sports shoes need to be revalued from \$20 000 to \$6 000. The total historical cost of the inventory is \$54 000.

(b) Justify how *Kool Kicks* should report its inventory in the Statement of Financial Position so it meets the policy above. In your answer, explain:

- the qualitative characteristic of relevance
- one limitation of the inventory revaluation.

QUESTION TWO

In January, *Kool Kicks* updated its treadmills, and Carl signed a new 10-year lease on the shop. The new treadmills were purchased for \$11 000 cash.

(a) Explain how the updated treadmills and new lease illustrate the concept of going concern for *Kool Kicks*.

(b) Justify, using the characteristics/definition of an asset, how the treadmills will be reported in the Statement of Financial Position for *Kool Kicks*.

The treadmills are depreciated based on units of use, applying a rate of depreciation of \$12 per hour. *Kool Kicks* depreciates its shop fittings at 8% p.a. straight line.

(c) Justify how *Kool Kicks* depreciates its assets. In your answer, explain:

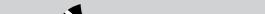
- the definition of depreciation
- why the units of use method is the most appropriate method for the treadmills rather than the straight line method, which is used for the shop fittings.

QUESTION THREE

Kool Kicks

LIMITED EDITION SPORTS SHOES

Taking pre-orders now: 20% deposit



By 31 March 2025 *Kool Kicks* had received deposits totalling \$2400 for pre-ordered limited edition shoes. These shoes will be delivered and the balance paid in May 2025.

(a) In accordance with the accrual basis concept, justify the treatment and reporting of the deposits received for shoes that will be delivered in May 2025. In your answer, explain the:

- impact on the reporting of sales revenue in the Income Statement for the year ended 31 March 2025
- treatment and classification of the deposits received for the limited edition shoes in the Statement of Financial Position as at 31 March 2025.

Carl has received a monthly revenue summary for the quarter ended 31 August 2025.

Kool Kicks: Monthly Revenue Summary

	June	July	August
Revenue	\$	\$	\$
General sales	60 000	62 000	68 000
Limited edition sales	13 500	10 000	7 000
Total shoe sales	73 500	72 000	75 000

(b) Discuss how reporting *Kool Kicks*' shoe sales revenue as general sales and limited edition sales in the monthly summary above helps Carl's decision making. In your answer, explain:

- the qualitative characteristics of materiality
- how separating the two types of sales revenue helps Carl's understanding and decision making about selling limited edition shoes.

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

QUESTION
NUMBER

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