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Level 1 Accounting, 2016

90978 Prepare financial statements for sole proprietors

9.30 a.m. Tuesday 22 November 2016
Credits: Five

Achievement	Achievement with Merit	Achievement with Excellence
Prepare financial statements for sole proprietors.	Prepare in-depth financial statements for sole proprietors.	Prepare comprehensive financial statements for sole proprietors.

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

Pull out Resource Booklet 90978R from the centre of this booklet.

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.

Merit

TOTAL

18

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QUESTION ONE: INCOME STATEMENT

Refer to **Resource Booklet 90978R** to answer this question.

On the opposite page, prepare a fully classified Income Statement for *Otago Outdoors* for the year ended 31 March 2016.

Use the following expense headings:

- Distribution costs
- Administrative expenses
- Finance costs.

Note: Do NOT use abbreviations.

Otago Outdoors Income Statement for the year ended 31 March 2016

	\$	\$	\$
Revenue			
Sales			173 500
Less sales returns			(2 100)
Net sales			171 400
Less cost of goods sold.			
Opening Inventory		- 23 000	
Purchases	40 260		
Less purchase returns	(2 700)	37 560	
Plus customs duty		600	
Cost of goods sold		61 160	
Less Closing Inventory		(24 500)	
Goods available for sale		36 660	
Gross Profit			134 740
Add other income			
Interest received		480	
Rent received		(28) 000	28 480
			163 220
Less Expenses			
Distribution costs			
Advertising	800		
Salespeople's wages	41 600		
Depreciation on shop fittings	900		
Telephone and internet - shop	1 050	44 350	
Administrative costs			
Accountancy fees	1 800		
General Expenses	1 180		
Insurance	3 400		
Office wages	2 700		
Shop cleaning	2 520		
Telephone and internet - office	450		
Depreciation on office equipment	1 700	13 750	
Finance costs			
Interest on loan		1 300	
Total Expenses			59 400
Profit for the year			103 820

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QUESTION TWO: STATEMENT OF FINANCIAL POSITION

Refer to Resource Booklet 90978R to answer this question.

Prepare a fully classified Statement of Financial Position with accompanying note for Otago Outdoors as at 31 March 2016.

Note: Do NOT use abbreviations.

Otago Outdoors
Statement of Financial Position as at 31 March 2016

	\$	\$	\$
Current Assets.			
Bank	1 250		
Accrued Income	10 00		
Prepayment	80		
Debtors Cash	50	2 380	
Non-current assets.			
Investments.			
Term deposit.		12 000	
Intangible Assets			
Goodwill		31 000	
Property, plant and equipment (Net)			
Carrying Amount		231 780	
Total Assets.			277 160
Less Liabilities			
Current Liabilities			
GST	2 000		
Accrued expense	200		
Accounts payable	18 40	4 240	
Non-current liabilities			
Loan (due 2030)		30 000	
Total Liabilities			34 240
Net Assets.			242 920
Equity			
Opening capital			183 400
Plus profit for the year			10 3820
Less drawings			(19 800)
Closing Capital			267 420

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	\$	\$	\$

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Note to the Statement of Financial Position

1. Property, plant and equipment

	Land and Buildings	Office Equipment	Shop fittings	Total
	\$	\$	\$	\$
Cost	220 000	9 000	13 380	242 380
Accumulated depreciation	0	3 700	6 900	10 600
Carrying amount	220 000	5 300	6 480	231 780

Depreciation is calculated on a straight-line basis at the following rates:

- ° shop fittings is depreciated \$900 each year.
- ° office equipment has a depreciation of \$1700 based on a useful lifespan of 5 years.

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QUESTION THREE: CASH BUDGET

From the information provided below, prepare the cash budget for *Otago Outdoors* for the month ended 31 August 2016.

Circle the word **surplus** or **deficit** on the table to match the result.

Note: Assume that four weeks equals one month.

Estimated information for August 2016:

- ~~Electronic transfer~~ for accountancy fees to be made, \$1050
- ✓ GST payment to be made, \$2100 *\$2100 P.*
- ✓ Cash sales on average are \$2800 per week *\$11200 R.*
- ✓ Sienna's cash drawings per week, \$400 *\$1600 P.*
- ✓ ~~Invoice to be received~~ for purchases, \$1300 *P \$1300*
- Sienna will invest \$4000 cash, and an office desk that cost \$150 *\$4000 R.*
- ✓ Telephone and Internet, \$150 to be paid by automatic payment *\$150 P.*
- ✓ New shop counter to be purchased costing \$2000, 20% deposit to be paid and the rest on credit *\$400 P.*
- ~~Depreciation on shop fittings is \$950 per year~~
- ✓ Salespeople's wages are to be paid by automatic payment, \$800 per week *\$3200 P.*
- ~~Sienna will take home a new outdoor umbrella to use at home, cost \$500~~
- ✓ Old shop counter to be sold for \$200 cash *R \$200*
- ~~Invoices to be sent to clients for sales, \$2300~~
- ✓ Rent received is \$1000 per fortnight *R \$2000*
- ✓ Purchases to be paid by direct debit, \$3800 *P \$3800*
- ✓ Bank balance at 1 August 2016, \$980.

Otago Outdoors Cash Budget for the month ended 31 August 2016

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	\$	\$
Estimated cash receipts		
Equipment shop counter sales	200	
rent received	11 200	
investment	2000	
	4000	
Total estimated cash receipts		17 400
Estimated cash payments		
Salespeople's wages	3 200	
Equipment	400	
Telephone and Internet	150	
Drawings	1600	
GST	2100	
Purchases	3800 (200)	(1 250)
AP		
Total estimated cash payments		11 250
Surplus/deficit of cash		6 150
Opening bank balance		980
Closing bank balance		7130

Merit exemplar 2016

Subject:	Accounting	Standard:	90978	Total score:	18
Q	Grade score	Annotation			
1	M6	This candidate has met the standard for Merit by preparing a fully classified Income Statement for a retail (trading) entity with a small number of errors. In this case, one classifying error and two of the adjusted number were incorrect (purchases and rent received). In addition to this, the candidate mixed up <i>Cost of Goods Sold</i> with <i>Goods Available for Sale</i> . The candidate has clearly indicated that the entity made a Profit for this year (as opposed to a loss or undecided). As the shop cleaning was incorrectly classified, the correct number does not count towards the tally, preventing this question being an E7.			
2	M6	This candidate has met the standard for High Merit in the Statement of Financial Position by preparing a fully classified statement, including Equity, Non Current Assets, and the three sub-headings under this. The Property plant and equipment heading makes reference to Note 1 and total carrying amount (of which one is required). Several adjustment calculations were incorrect; therefore, the response was unable to attain Excellence, but sufficient accuracy for Merit.			
3	M6	This candidate has prepared the Cash Budget with appropriate account names as stems. Investment on its own is insufficient for an account name stem, and accountancy fees was omitted from payments. No foreign items ensured a High Merit grade.			