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91174



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Mana Tohu Mātauranga o Aotearoa
New Zealand Qualifications Authority

Level 2 Accounting 2024

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.

Achievement

TOTAL 10

Get Active Gym is owned by Georgie. It offers members the facilities for individual workouts and runs a variety of exercise classes. Members can pay extra for personal training services.

All questions in this paper relate to Get Active Gym, which you can refer to as GAG in your answers.

QUESTION ONE

In November 2023, Get Active Gym purchased new gym equipment costing \$18 000 excluding GST. The delivery and installation costs for the gym equipment totalled \$1 000 excluding GST. The insurance on the equipment is \$500 excluding GST per annum.

- (a) How will the new gym equipment be reported in the Statement of Financial Position for Get Active Gym as at 31 March 2024? Use the concept of capital expenditure to justify the classification and dollar amount used when reporting the new gym equipment.

The concept of capital expenditure states that ^{one-off} ~~when the~~ transaction will lead to an asset being created. This may also be the installation of an asset.

The new gym equipment was a one-off transaction which ^{led} ~~lead~~ to an asset being created therefore it will be reported as a current asset in the Statement of Financial Position for Get Active Gym ~~at~~ with a \$18 000 value. The delivery and installation cost will also be a one-off transaction therefore it will ^{be reported} ~~go under~~ as an asset with a value of \$1 000 in the Statement of Financial Position for Get Active Gym as at 31 March 2024. However, the insurance ^{will} ~~is~~ be a recurring expense therefore it will be reported under expenses in the Income Statement for Get Active Gym as at 31 March 2024 with a value of \$500.

Get Active Gym received the following invoice (Invoice 934) from Exercise Supplies Ltd.

Exercise Supplies Ltd			
Billed to: Get Active Gym		P.O Box Westview GST 01 234 567 89	Invoice number: 934 Date: 01/02/24
Quantity	Description	Unit price	Total
1	3 monthly servicing and maintenance of gym equipment	\$800.00	\$800.00
Sub total			\$800.00
GST			\$120.00
Total			\$920.00

- (b) Why does the reporting of Invoice 934 increase Get Active Gym's liabilities? Justify your answer by explaining how:

- accounts payable meets all the characteristics of a liability
- accounts payable meets the recognition criteria of probable outflow of economic benefits.

The invoice is ^{considered} accounts payable and will be classified as a liability. This is because ^{the owner of} Get Active Gym ^{Georgie,} is legally obliged to pay the \$800 due to the ^{source document of an} invoice, proving that this payment was due to a past transaction as well as proof of the amount which was paid.

It is highly probable that ~~the \$800~~ ~~the trans~~ this will result in an outflow of future economic benefits in the form of cash. ~~by dec~~ This is because once the accounts payable amount of \$800 is paid after maintenance and services of ~~gym~~ gym equipment a decrease in ~~the~~ the bank asset will occur in order to pay the amount payable. This will result in a decrease in equity for Get Active Gym.

QUESTION TWO

All dollar figures in Question Two are GST **exclusive**.

Get Active Gym has two membership fee payment options, as follows:

- join and commit to one year, paying one month in advance – \$70 each month
- pay \$756 up front for 12 months, taking advantage of a 10% discount.

Regardless of how members choose to join and pay their membership, Georgie's accountant reports all membership fees as one revenue in the Income Statement: membership fees received.

- (a) In accordance with materiality, justify whether or not the reporting of the membership fees received as one total in the Income Statement for Get Active Gym negatively impacts Georgie's decision-making.

Materiality in terms of size is being met ~~at~~ but not nature. Since the membership fee has a dollar value of either \$70 each month (\$840 per annum) or \$756 it shows materiality in size. Although, information specifying ^{which} ~~whether~~ ~~it is~~ payment option is occurring will not be available therefore it is not material in nature. Materiality is not fully being met as nature is compromised which affects the relevance of the financial information. By reporting membership fees as one revenue it may negatively effect Georgie's decision-making.

GET ACTIVE GYM MEMBERSHIP SPECIAL OFFER - AUGUST ONLY

12 months @ \$60 a month	18 months @ \$55 a month	24 months @ \$50 a month
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All memberships paid monthly, one month in advance. Prices exclude GST.

- (b) Explain how the advertisement above illustrates the concept of going concern for Get Active Gym.

The going concern concept states that financial statements are prepared on the assumption that a business will continue into the foreseeable future. Get Active Gym demonstrates this by continuing to advertise for membership fees which extend far beyond the current accounting period. By putting advertising up for payment plans beyond the current accounting period Get Active Gym illustrates the going concern concept so they are under the assumption that they will continue into the foreseeable future.

To promote the business, Georgie arranged for ten backpacks to be made with the gym's logo and contact details printed on them. Each backpack cost \$50. In December, Georgie donated six of the backpacks to the local fun run for prizes, gave three to her children for Christmas, and kept one for herself.

- (c) Discuss how gifting these backpacks will be reported in the Income Statement and Statement of Financial Position for Get Active Gym for the year ended 31 March 2024.

In your answer explain:

- the accounting entity concept
- the characteristics of an expense.

- The accounting entity concept states that the financial affairs of a business should be separate and distinct to the financial affairs of the owner or other businesses.
- An expense is a cause of a past transaction which results in either a decrease in an asset or increase in liability.

The purchase of the backpacks will be an expense of \$500 under the Income Statement as the transaction would have to be made in the past with a source document, most likely a receipt, proving the amount paid. The purchase of backpacks has resulted in a decrease in the asset bank when Georgie had to pay the amount payable. This means an outflow of future economic benefits for Get Active Gym in the form of cash occurred.

The then donated backpacks will be reported under drawings in the Statement of Financial Position for the year ended 31 March 2024. To keep the financial affairs of the ^{business} ~~owner~~ and the owner separate the backpacks cannot be reported as income ~~for~~ ^{from} sales on the Income Statement for Get Active Gym for the year ended ³¹ ~~20~~ March 2024. It will be reported in the equity section of Get Active Gym's Statement of Financial Position as it is not a contribution to Get Active Gym.

QUESTION THREE

Get Active Gym
Income Statement (extract) for the years ending 31 March

	2023 \$	2024 \$
Revenue	<u>360 000</u>	<u>380 000</u>
Total expenses	<u>(295 000)</u>	<u>(302 000)</u>
Profit for the year	65 000	78 000

- (a) Discuss the usefulness of the information reported in the Income Statement extract above for decision-making by Georgie.

In your answer include:

- the concept of reporting period
- the qualitative characteristic of comparability
- how this information could influence the decision to increase membership fees in 2025 or to keep them at current prices.

The period reporting concept states that the life of the business, Get Active Gym, should be split into equal periods. The period reporting concept enhances the comparability characteristic as by splitting the life of the business into equal lengths (a year) it accurately measures the performance / position of the business each year making easy to look back at previous years to compare. As it is easy to compare the revenue of the 2024 Income Statement to the 2023 one it makes Georgie see that ~~the~~ ^{from \$360 000 to \$380 000} an increase in revenue ~~is~~ occurred. Though due to the increase in total expenses (2.3% increase in total expenses while a 5.5% increase in revenue occurred) Georgie may be interested in increasing membership fees although by looking at the increased \$ profit (20% increase) Georgie could be influence to keep the membership prices the same ~~as~~ for 2025.

Members from a local sports club come into Get Active Gym once a week for strength training. They are invoiced at the end of each month according to the number of sessions. An allowance for doubtful debts is provided at 1% of accounts receivable.

Notes to the Financial Statements (extract)

Note 1. Accounts receivable

Accounts receivable	4900	
Less: Allowance for doubtful debts	(49)	4851

(b) Justify how Note 1 above aids Georgie in decision-making for Get Active Gym. In your answer explain:

- the qualitative characteristic of faithful representation
- the predictive value criteria of the qualitative characteristic of relevance
- one limitation of this information.

The qualitative characteristic of faithful representation requires financial information to be free from error, complete and neutral. As a source document is provided (invoice) it is able to be faithfully represented since a consensus of two parties deciding the amount must be reached for an invoice which also makes it neutral. Faithful representation makes financial information trusted and reliable. Predictive value allows for financial statements to be relevant and useful within the future. By allocating a percentage^(1%) of what amount of accounts receivable may not be paid (doubtful debt) it allows for ~~Get~~ Georgie to estimate what amount will not be received after receiving the service. Although predictive value is an estimation in order for the financial information to be relevant therefore it is unknown if truly 1% of accounts receivable will not pay the required fee. This limits faithful representation because financial information is not complete.

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

QUESTION
NUMBER

91174

Subject: Accounting

Standard: 91174

Total score: 10

Q	Grade score	Marker commentary
One	A3	The candidate provided some contextual reference in three descriptions of: <ul style="list-style-type: none">• capital expenditure• two out of three liability characteristics• probable outflow of money.
Two	A3	The candidate provided some contextual reference in two descriptions of: <ul style="list-style-type: none">• materiality definition• going concern definition.
Three	A4	The candidate provided some contextual reference in four descriptions of: <ul style="list-style-type: none">• reporting period• predictive value• faithful representation• a limitation of the accounts receivable note.