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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.**

**Excellence**

**TOTAL 22**



*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 new gym equipment costing \$18000 is a capital expenditure for Georgie and *Get Active Gym*. This is because it is a one off purchase that will benefit *Get Active Gym* for more than one financial period. However the new gym equipment will be reported at \$19000 in *Get Active Gym's* Statement of Financial position and not \$18000 due to the \$1000 for delivery and installation being a capital expenditure as it is a one off expense that will benefit for more than one financial period. So it is included in the total figure that is reported in *Get Active Gym's* Statement of financial position.



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

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

Accounts payable of \$920 is a current liability of Get Active Gym as they now have a present obligation to repay Exercise Supplies Ltd the full \$920 due to a agreement between Get Active Gym and Exercise supplies Ltd when the service was purchased on credit. In the future Get Active Gym will give up some economic resources most likely cash to repay Exercise Supplies Ltd. Accounts payable meets the recognition criteria of probable outflow of economic benefits as it is more than likely that Get Active Gym will repay the accounts payable to maintain a good relationship with their suppliers to be able to continue to purchase goods and services on credit.



## 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.

According to Materiality the size or nature can affect financial decision making. In this case reporting all membership fees as one total doesn't negatively affect *Georgie's* decision making as all the membership fees together have the size to affect *Georgie's* financial decision-making however if separate would be too small in size to have an effect.

### 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 a business will continue to operate into the foreseeable future. In this case we can expect *Get Active Gym* to continue to operate as they expect to be able to continue to provide a gym service for at least the next 24 months as they will have a present obligation to any customer that purchases that membership offer.



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 Get Active Gym should be kept separate and distinct from the financial affairs of the owner, Georgie. This means that the 4 backpacks that she kept for personal use will be reported as drawings in the Statement of Financial Position of Get Active Gym and not an expense as they do not relate to the financial affairs of Get Active Gym.

The other 6 backpacks donated to the local fun run is an expense for Get Active Gym as it decreases assets (Inventory) which decreases Equity and is not a result of drawings by the owner, Georgie. These 6 backpacks will be reported in the income statement of Get Active Gym under administrative expense as it relates to the financial affairs of Get Active Gym.



## QUESTION THREE

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

	2023 \$	2024 \$
Revenue	360 000	380 000
Total expenses	(295 000)	(302 000)
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.

According to the period reporting concept the life of a business is to be split up into equal periods of time usually one year to allow for timely and relevant information. Get Active Gym's Income Statement follows this concept by splitting its business life into periods of one year (1 April - 31 March). This allows for the owner Georgie to compare and contrast financial periods in a timely manner in order to influence her decision making. For example Georgie can see that her revenue has increased by \$20000 from 2023 to 2024 whereas Get Active Gym's expense only rose by \$7000 giving Georgie a net profit increase of \$13000. This could influence Georgie's decision-making by allowing her to keep membership fees at current prices as she is making enough to cover her expenses plus a sizeable net profit while still maintaining her current customer base who might leave if membership fees were raised.



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	4 900	
Less: Allowance for doubtful debts	(49)	4 851

(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 accounts receivable figure of \$4900 for *Get Active Gym* has faithful representation due to their being source documents such as invoices sent that are confirmed by an independent and neutral party of the local sports club that provide evidence that the \$4900 is the true figure. The predictive value of \$49 for allowance for doubtful debts has relevance to *Get Active Gym* as its nature has the ability to influence the decision-making of Georgie and *Get Active Gym* as they can expect to not receive that income and make decision accordingly. However there is one limitation to this information, which is the fact that allowance for doubtful debts is based on an estimate meaning that the net assets of *Get Active Gym* may be inaccurate.



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

QUESTION  
NUMBER

91174



**Subject:** Accounting

**Standard:** 91174

**Total score:** 22

Q	Grade score	Marker commentary
One	E8	<p>The candidate successfully integrated context to justify all three explanations of:</p> <ul style="list-style-type: none"><li>• capital expenditure</li><li>• characteristics of a liability</li><li>• recognition criteria of probable outflow of economic benefit.</li></ul>
Two	E7	<p>The candidate successfully integrated context to justify both explanations of:</p> <ul style="list-style-type: none"><li>• materiality linked to not negatively influencing decisions</li><li>• entity concept with drawings compared to donations expense for the backpacks in the relevant financial statements. The omission of relevant dollar amounts prevented E8 being awarded.</li></ul>
Three	E7	<p>The candidate has successfully integrated context to justify both explanations of:</p> <ul style="list-style-type: none"><li>• faithful representation linked to invoices sent</li><li>• limitation of the accounts receivable note.</li></ul> <p>The candidate did not integrate context by linking the accounts receivable note to decision-making, as the predictive value of \$4 851 – the likely amount of cash to be received from credit customers when settling their accounts – has not been discussed.</p>