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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.

Merit

TOTAL 16

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 is a capital expenditure as it is a one off payment that brings economic benefit for ~~a~~ more than this accounting period and therefore will be reported ~~as an~~ ~~in~~ the plant, property and equipment note as a non current asset. As it is purchased by GAG in the past and GAG has present control over the equipment, as only GAG can control who to use the equipment, and it will bring them future economic benefit as it can attract new customers. Due to historical cost concept, transactions are to be reported at the original purchase price, therefore should be reported at \$19000 as this is the amount that is required ~~to~~ for the equipment and to get it to the

Continue on Page 8

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.

Accounts payable is due to past transactions of credit when GAG is paying ~~by credit~~ ~~therefore on~~ GAG has current obligation to pay the \$920 off the 3 month servicing and maintenance of gym equipment on credit, they have the current obligation to pay this \$920 off and will cause them future economic sacrifice as the asset bank will be decreased.

Accounts Payable meets the recognition criteria of probable outflow of economic benefit as GAG will have to sacrifice the asset bank to pay this amount of, and this can be measured reliably as there will be an invoice of \$920 billed to GAG.

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.

An Item is material if misstating or omitting it will affect decision making, it can be in nature or in amount. Reporting all membership fees received as one total will negatively impact Georgie's decision-making as it's material in nature. To fully understand which way of paying is more popular in customers, reporting them separately allows for Georgie to compare and contrast these data which continue on Page 8

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.

Going concern concept ~~states~~ ~~that~~ is the ~~an~~ assumption that business will continue in the foreseeable future. As there are a payment for 24 months we can at least assume GAG will continue to operate in the next 24 months.

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 stated that the affair of the business is kept separate from the owners. ~~The ten backpack will~~ the characteristics of an expense ~~is~~ is that it will increase liability or decrease asset, it will decrease profit and so will decrease equity and is not a contribution from the owner. ~~Each~~ The ten backpacks will decrease the asset bank by \$500 and will decrease profit by \$500 and so decreases equity but they are a result of contributions from the owner, as the owner Georgie is the one who chose to donate them to the local fun run and the one who chose to keep the backpacks for her children and herself. Therefore this \$500 should not be recognised as an expense, it should be reported as a Drawing at \$500 in the statement of ~~the~~ financial position.

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.

The concept of reporting period states the life of the business is to be split into equal length for reporting purpose, therefore GAG should always prepare their financial statement as the year ending 31 March. Comparability means informations are arranged in a way that they can be compared and contrast to identify trend to make decisions. As information are gathered in a yearly basis, Georgie can compare the Revenue, total expense and profit from 2023 to 2024, for example she is seeing an increase in expense so she could think of ways to lower it. As she is seeing an increase in revenue, ~~she~~ meaning more customers has joined, she can keep her membership fees at the same price and still expect revenue ~~and~~ to increase in 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.

To ~~meet~~^{meet} the recognition criteria of faithful representation, they must have a reliable measure. In this case an invoice is handed to the members at the end of each month, and this confirms on the amount they are to pay, ~~and~~ ~~therefore~~ The \$4851 amount is more relevant than \$4900 as it is the predictive amount of income to be received after lessing the allowance for doubtful debts. It is important for decision making as \$4851 most accurately predicts the income that will be received. One limitation is that allowance for doubtful debts is an estimate based on past history transaction and may not accurately present the real value, ~~at~~ therefore if allowance for doubtful debts is higher than expected, the income received will be less than 4851 and could affect Georgie's decision making.

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

QUESTION
NUMBER

1a. gym to work therefore it is necessary to include the \$1000 of delivery and installation cost. Therefore the new bank equipment should be reported at \$19000 as a non current asset in the plant property and equipment note in the statement of financial position. Insurance is a revenue expenditure as it is a recurring payment and only benefit this accounting period and is reported as an expense in the income statement. It will decrease the asset bank and decrease profit therefore decrease equity and is not a contribution from the owner, therefore \$500 of insurance is to be reported as an expense in the income statement.

2a. will help his decision making.

91174

Subject: Accounting

Standard: 91174

Total score: 16

Q	Grade score	Marker commentary
One	M5	<p>The candidate provided clear context reference in two explanations of:</p> <ul style="list-style-type: none">• reporting the gym equipment in the statement of financial position• capital expenditure with a total figure of \$19 000. <p>The candidate provided some context explanations in the characteristics of a liability and the probable outflow of \$920.</p>
Two	M5	<p>The candidate provided clear context reference in two explanations of:</p> <ul style="list-style-type: none">• materiality linked to membership fees• going concern definition and application to the gym advertisement.
Three	M6	<p>The candidate provided clear context reference in four explanations of:</p> <ul style="list-style-type: none">• reporting period, including reference to the date of 31 March each year• comparability• faithful representation linked to invoices sent• limitation of the accounts receivable note.