## Assessment Schedule – 2022

## Accounting: Demonstrate understanding of accounting concepts for an entity that operates accounting subsystems (91174)

### Evidence

| Question ONE | Sample Evidence |
|---|---|
| (a) | The Income Statement for *Fries With That* will include their income and expenses and determine their profit or loss for the period.<br>Comparability means presenting information in such a way that similarities and differences over time can be interpreted. By including two consecutive years' figures (2021 and 2022) Frankie can identify changes or similarities and identify trends. This is helpful to compare the impact of different decisions on *Fries With That.* For example, Frankie can see that profit has risen from \$16 700 to \$18 200 between 2021 and 2022.<br>Understandability means that information is presented in such a way that any user with reasonable financial knowledge should be able to interpret it. The format of the income statement is standard – income, expenses, profit. This gives Frankie easily interpreted information, which aids understanding.<br>Having information that is comparable and understandable assists Frankie to make informed decisions. For example (but not limited to), seeing that profit increased only \$1 500 when sales increased by \$9 700, Frankie might decide to cut back on some expenses, or try to further increase his sales in 2023. |
| (b) | In total the food truck cost \$75 000 and the ongoing costs of running it are \$700 per month.<br>Capital expenditure is spending that creates or extends the life of an asset that will benefit beyond the current accounting period. Capital expenditure does not impact on profit. The purchase of the truck (\$60 000) and the equipment installation (\$15 000) is capital expenditure as *Fries With That* will be expecting to keep the food truck for more than one year and the equipment increases the usefulness of the food truck for preparing food. Therefore, the food truck is reported as an asset in the Statement of Financial Position at \$75 000.<br>The maintenance, petrol, and insurance of \$700 per month are revenue expenditure as they are an expense that benefits only the current accounting period, requiring regular or ongoing payments. Revenue expenditure will decrease profit, and *Fries With That* will need to pay \$700 every month to keep running the food truck. Therefore, it is reported as an expense in the income statement each year.<br>The recognition criteria of faithful representation means the asset must have a reliable measure. In this case this would be the receipt (or invoice) received by *Fries With That* when they purchased the food truck and installed the equipment. This provides evidence of the \$75 000 paid to purchase the food truck and get it ready for use. |

| N1 | N2 | A3 | A4 | M5 | M6 | E7 | E8 |
|---|---|---|---|---|---|---|---|
| With **no** context reference | | With **some** context reference | | With **clear** context reference | | **Integrates** context in explanations | |
| ONE description. | TWO descriptions. | THREE out of six described:<br>• comparability<br>• understand-ability<br>• asset recognition criteria.<br>• revenue expenditure<br>• capital expenditure<br>• a relevant decision. | FOUR out of six described:<br>• comparability<br>• understand-ability<br>• asset recognition criteria revenue expenditure<br>• capital expenditure<br>• a relevant decision. | THREE out of five explained:<br>• comparability<br>• understand-ability<br>• asset recognition criteria<br>• revenue expenditure<br>• capital expenditure. | FOUR out of five explained:<br>• comparability<br>• understand-ability<br>• asset recognition criteria<br>• revenue expenditure<br>• capital expenditure.<br>Includes example of 2023 decision. | Justifies the reporting of the food truck and related expenses in the financial statements.<br>TWO of three:<br>• asset recognition criteria.<br>• revenue expenditure<br>• capital expenditure.<br>One part may be weaker. | Justifies the reporting of the food truck and related expenses in the financial statements.<br>ALL of:<br>• asset recognition criteria<br>• revenue expenditure<br>• capital expenditure. |

**N0** = No response; no relevant evidence.

| Question TWO | Sample Evidence |
|---|---|
| (a) | The payment of $1 030 for the graduation food is a personal expense for Frankie because the event was for family and he did not charge for it. Therefore it will be reported as drawings in the Statement of Financial Position for *Fries With That* at $1 030.<br>To be a business expense for *Fries With That* the payments must meet three characteristics. Expenses can either decrease assets or increase liabilities, decrease profit and therefore decrease equity, and are not drawings by the owner. The $1 030 graduation party costs will decrease *Fries With That*'s bank when they are paid for. The party costs decrease equity but not through decreasing profit. This is because they are a distribution to the owner as the food and expenses are for a personal party and not a paying customer. Therefore, there is no impact on the Income Statement.<br>The entity concept states that the personal financial affairs of the owner must be kept separate from the financial affairs of the business. The $1 030 party food and wages is not an expense of *Fries With That* but a personal expense of Frankie's and therefore will be drawings. Therefore the $1 030 must be reported as drawings in the Statement of Financial Position and not a business expense in the Income Statement. |
| (b) | Accounts receivable is an asset for *Fries With That* because Frankie decides who was allowed to purchase on credit and therefore have exclusive rights to the money received when the debtors pay their accounts. Therefore, there is control over accounts receivable. *Fries With That* will receive payment from credit customers in the future, which will increase the asset of bank. *Fries With That* sold to credit customers in the past totaling $5 650, therefore the accounts receivable meets the characteristics of an asset.<br>Relevance is where information either predicts or confirms events and is necessary for decision making. The $5 650 is relevant as it confirms the amount account receivable owe. However, the figure of $5 480 is relevant as it is a prediction of the likely future economic benefit *Fries With That* will receive from credit customers. This makes this figure more useful for decision making in respect to how much money is expected to be received.<br>The accounts receivable will be reported at $5 480 as a current asset in the Statement of Financial Position as this reflects likely future benefit from accounts receivable allowing for an estimate of credit customers who will not pay their accounts.<br>One limitation to this reporting is the $170 allowance for doubtful debts is an estimate and (example, others accepted) may not exactly reflect the amount that won't be received from credit customers. If the doubtful debts is incorrect it will also limit the accuracy of the profit. If *Fries With That* underestimate the allowance for doubtful debts, they will expect more money than they receive and therefore might not be able to pay their debts. |

| N1 | N2 | A3 | A4 | M5 | M6 | E7 | E8 |
|---|---|---|---|---|---|---|---|
| With **no** context reference | | With **some** context reference | | With **clear** context reference | | **Integrates** context in explanations | |
| ONE description. | TWO descriptions. | TWO out of five described:<br>• expense (2 / 3 criteria)<br>• entity concept<br>• asset (2 / 3 criteria)<br>• relevance<br>• limitation. | THREE out of five described:<br>• expense (2 / 3 criteria)<br>• entity concept<br>• asset (2 / 3 criteria)<br>• relevance<br>• limitation. | THREE out of five explained:<br>• expense<br>• entity concept<br>• asset<br>• relevance<br>• limitation. | FOUR out of five explained:<br>• expense<br>• entity concept<br>• asset<br>• relevance<br>• limitation. | Justifies the reporting of the accounts receivable and details how the information is limited for decision making.<br>TWO of three:<br>• asset<br>• relevance<br>• limitation.<br>One may be weaker. | Justifies the reporting of the accounts receivable and details how the information is limited for decision making.<br>ALL of:<br>• asset<br>• relevance<br>• limitation. |

**N0** = No response; no relevant evidence.

| Question THREE | Evidence |
|---|---|
| (a) | The loan will be reported as a non-current liability in the Statement of Financial Position for *Fries With That* as at 31 March 2022. This is because it is an obligation for *Fries With That* as they entered into a contract agreeing to repay the $40 000, *Fries With That* will need to sacrifice cash in the future to make the loan repayments, decreasing its asset bank, and *Fries With That* took out the loan in the past to buy the food truck.<br>The going concern concept is the assumption that the business will continue to operate into the foreseeable future. Given that the loan is not due until September 2028 (6 ½ years away) we assume that *Fries With That* will still be operating in 6 ½ years' time in order to repay the loan. As the loan will not be repaid in the current accounting period it is classified as a non-current liability, in accordance with the going concern concept. |
| (b) | The period reporting concept requires the life of the business to be split into equal lengths of time for reporting. For example, *Fries With That* will always prepare their income statement for the year ended 31 March in order to calculate the annual profit. The accrual basis concept requires *Fries With That* to recognise transactions when they occur, and report them in the period to which they relate. As a result of the period reporting concept and the accrual basis concept, there are balance day adjustments to ensure financial information is reported in the correct accounting period.<br>The interest on loan due of $200 will be reported in the income statement and the statement of financial position. $200 will be added / debited to the $3 000 interest on loan expense, and reported in the Income Statement for the year ended 31 March 2022 as a finance cost Interest on loan $3 200. This is because the $200 belongs / was incurred in the current period, and even though it hasn't yet been paid, it decreases this year's profit so must be reported in the income statements for the year ended 31 March 2022.<br>An accrued expense will be created / added / credited and reported as a current liability in the Statement of Financial Position for *Fries With That* as at 31 March 2022 as Accrued Expenses $200. It is a current liability as the $200 owed is an obligation for *Fries With That* to pay the interest in the next accounting period, and hence reported in the Statement of Financial Position. |

| N1 | N2 | A3 | A4 | M5 | M6 | E7 | E8 |
|---|---|---|---|---|---|---|---|
| With **no** context reference | | With **some** context reference | | With **clear** context reference | | **Integrates** context in explanations | |
| ONE description. | TWO descriptions. | THREE out of six described:<br>• obligation of loan<br>• future outflow<br>• past transaction<br>• going concern<br>• period reporting<br>• accrual basis. | FOUR out of six described:<br>• obligation of loan<br>• future outflow<br>• past transaction<br>• going concern<br>• period reporting<br>• accrual basis. | THREE out of five explained:<br>• loan (2 / 3 criteria)<br>• going concern<br>• period reporting<br>• accrual basis<br>• transaction reported. | FOUR out of five explained:<br>• loan (3 / 3 criteria)<br>• going concern<br>• period reporting<br>• accrual basis<br>• transaction reported. | Justifies the reporting of the interest on loan owed $200 in both financial statements.<br>For BOTH:<br>• period reporting<br>• accrual basis with account classification.<br>One part may be weaker. | Justifies the reporting of the interest on loan owed $200 in both financial statements.<br>For BOTH:<br>• period reporting<br>• accrual basis with account classification. |

**N0** = No response; no relevant evidence.

## Cut Scores

| Not Achieved | Achievement | Achievement with Merit | Achievement with Excellence |
|---|---|---|---|
| 0 – 7 | 8 – 13 | 14 – 18 | 19 – 24 |