

90220



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

For Supervisor's use only

Level 2 Accounting, 2007

90220 Describe the conceptual basis of accounting for a sole proprietor

Credits: Three
9.30 am Tuesday 27 November 2007

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 answer ALL the questions in this booklet.

If you need more space for any answer, use the page(s) provided at the back of this booklet and clearly number the question.

Check that this booklet has pages 2–6 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.

<i>For Assessor's use only</i>	Achievement Criteria		
Achievement	Achievement with Merit	Achievement with Excellence	
Describe the conceptual basis of accounting. <input type="checkbox"/>	Describe and explain the conceptual basis of accounting. <input type="checkbox"/>	Comprehensively describe and explain the conceptual basis of accounting. <input type="checkbox"/>	
Overall Level of Performance			<input type="checkbox"/>

You are advised to spend 35 minutes answering the questions in this booklet.

QUESTION ONE

Paul owns *Ultimate Games*, a store that sells a wide selection of video games.

- (a) On balance day Paul has an invoice on hand for electricity expenses.

Expenses are described as “decreases in economic benefits in the form of incurrences (increases) of liabilities that result in decreases in equity, other than those relating to distributions to owners”.

- (i) **Describe how** this **invoice** for electricity expenses will result in an **increase in liabilities** in the Balance Sheet. (You are **NOT** required to define or explain liabilities.)

- (ii) **Describe how** this invoice for electricity expenses will result in a **decrease in equity**.

- (iii) **Explain why** the electricity expense is an example of **revenue** expenditure.

- (b) Last month Paul took home a football video game as a gift for his son. **Explain** why this is recorded as **drawings** in the financial statements of *Ultimate Games*.

Paul purchased advertising space on one of the billboards at the neighbouring shopping mall. This cost \$50 000 for five years, and is recorded as an **asset** in the Balance Sheet because *Ultimate Games* has the **exclusive right** to use the billboard to advertise.

(c) **State the characteristic** of an asset that has been applied.

(d) Paul also has a **footpath sign** that he places outside his shop each day. This sign cost \$700, and Paul's accountant **has not** added this \$700 to the \$50 000 advertising space asset.

(i) **State** the accounting concept being applied **by not including** the footpath sign as part of the asset.

(ii) **Explain how** the accounting concept you identified in question (d)(i) above has been applied to the footpath sign.

(e) Paul employed his cousin Luke as one of four sales assistants who work at *Ultimate Games*. Paul estimates that Luke contributes to over 60% of video games sold by the business.

Explain why Paul, when valuing Luke's percentage of sales, may **not** be **neutral** in terms of the qualitative characteristic of **reliability**.

QUESTION TWO

Paul wants to set up an internet café at the rear of his premises. To do this he needs to borrow \$40 000 from the bank. As part of his loan application Paul included last month's **Cash Flow Statement** of *Ultimate Games*.

- (a) **Describe** the purpose of the Cash Flow Statement.

- (b) **Describe** ONE **limitation** of the Cash Flow Statement.

- (c) (i) **Describe** ONE item of **non-financial** information that the bank lending manager would have to consider **before** giving approval for the loan application.

- (ii) **Explain** why this information is important to the decision of the bank lending manager.

- (d) **Explain** how the loan repayments would be a **sacrifice of future economic benefit** for *Ultimate Games*, if the loan is approved.

QUESTION THREE

Ultimate Games owns \$20 000 of shares in *EB Games Ltd*, from which dividends are owing on balance day.

- (a) **Explain how** the reporting of the *EB Games Ltd* shares at their **cost** in the Balance Sheet of *Ultimate Games* is **reliable**.

- (b) A note to the Balance Sheet shows that the *EB Games Ltd* shares have a **market value** of \$22 500. **Explain** why this information is **relevant**.

- (c) **Explain how** the **accrual basis** would be applied to the **reporting** of dividends owing on balance day in the **Balance Sheet** of *Ultimate Games*.

**Extra paper for continuation of answers if required.
Clearly number the question.**

Assessor's
use only

Question
number
