

90022



NEW ZEALAND QUALIFICATIONS AUTHORITY  
MANA TOHU MĀTAURANGA O AOTEAROA

*For Supervisor's use only*

## Level 1 Accounting, 2008

### 90022 Demonstrate an understanding of the conceptual basis of accounting

Credits: Three

2.00 pm Thursday 27 November 2008

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 2–8 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>	<b>Achievement Criteria</b>		
<b>Achievement</b>	<b>Achievement with Merit</b>	<b>Achievement with Excellence</b>	
Describe accounting. <input type="checkbox"/>	Describe accounting. <input type="checkbox"/>	Fully describe accounting. <input type="checkbox"/>	
Recognise or define or apply financial elements. <input type="checkbox"/>	Recognise and define or apply financial elements. <input type="checkbox"/>	Recognise, define and apply financial elements. <input type="checkbox"/>	
Recognise or define or apply accounting concepts. <input type="checkbox"/>	Recognise and define or apply accounting concepts. <input type="checkbox"/>	Recognise, define and apply accounting concepts. <input type="checkbox"/>	
<b>Overall Level of Performance (all criteria within a column are met)</b>			<input type="checkbox"/>

You are advised to spend 40 minutes answering the questions in this booklet.

*Yours to View* is a video and DVD rental shop, owned by Brian.

### QUESTION ONE: DESCRIBE ACCOUNTING

- (a) Brian has recently received an Income Statement of *Yours to View* from his accountant. What is the **purpose** of an Income Statement?

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- (b) In reading the Statement of Accounting Policies for his business, Brian notes that *Yours to View* has been described as a sole proprietor business. State ONE **advantage** of being a sole proprietor.

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- (c) Brian knows that a sole proprietor has unlimited liability. Describe what is meant by the term **unlimited liability**.

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- (d) Brian is considering expanding *Yours to View*. Name TWO sources of finance that *Yours to View* could access in order to carry out the expansion plans.

(1) \_\_\_\_\_

(2) \_\_\_\_\_

## QUESTION TWO: FINANCIAL ELEMENTS

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- (a) Brian was reading over the Trial Balance also sent to him by his accountant. Identify **THREE expenses** and **THREE sources of income** from the following Trial Balance extract of *Yours to View* using the spaces provided below.

<i>Yours to View</i>			
Trial Balance (extract) as at 31 March 2008			
	\$		\$
Advertising	12 000	Accumulated depreciation	
Computer system (cost)	30 000	– Computer system	4 500
Drawings	9 750	Capital	90 000
Interest on loan	4 250	Dividends	1 800
Shares in Telco	30 000	Interest received	1 400
Telephone	1 400	Loan (8.5%, due 2012)	50 000
Term deposit	20 000	DVD rentals	83 000
Wages	55 000	Sales	7 000

- (i) Identify **THREE expenses** from the Trial Balance:

- (1) \_\_\_\_\_
- (2) \_\_\_\_\_
- (3) \_\_\_\_\_

- (ii) Identify **THREE sources of income** from the Trial Balance:

- (1) \_\_\_\_\_
- (2) \_\_\_\_\_
- (3) \_\_\_\_\_

- (b) Another source of income for *Yours to View* is video game rental. Describe why video game rental is an **income** of *Yours to View*.

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\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

- (c) *Yours to View* installed a wide-screen television to promote DVDs to its customers. **Explain** why the wide-screen television is an asset of *Yours to View* by completing the boxes (i), (ii) and (iii) below.

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Characteristic of an asset	Explanation
Past transaction	(i) _____ _____ _____ _____
(ii) _____ _____	Only <i>Yours to View</i> can use the wide-screen television.
Future economic benefit	(iii) _____ _____ _____ _____ _____ _____ _____

- (d) The annual **depreciation** of the wide-screen television has been listed as an **expense** in the full Trial Balance.

Explain why *Yours to View* **depreciates** the wide-screen television each year.

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- (e) Explain why the wages paid to staff is an **expense** of *Yours to View* by completing the boxes (i) and (ii) below.

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Characteristic of an Expense	Explanation
Decrease in asset	(i) _____ _____ _____ _____
Decrease in equity	(ii) _____ _____ _____ _____

**QUESTION THREE: ACCOUNTING CONCEPTS**Assessor's  
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- (a) When preparing the financial statements, Brian's accountant has assumed that *Yours to View* will continue to operate into the foreseeable future. What **accounting concept** is being applied here?

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- (b) *Yours to View* has just imported a popcorn machine from an American manufacturer. Explain how the notion of **monetary measurement** is applied in recording the popcorn machine in the accounting records of *Yours to View*.

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- (c) \$500 worth of advertising has been paid in advance. Explain how this **prepayment** of advertising is an example of the **accrual basis** of accounting.

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- (d) The Balance Sheet shows that Brian's accountant has recorded their DVDs at the **price at which they were acquired**. What **accounting concept** is being applied here?

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- (e) Explain how the **period reporting** concept applies to *Yours to View*.

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- (f) Brian paid his personal telephone bill using a business cheque from *Yours to View*. Explain how the notion of **accounting entity** is applied when Brian records the cheque in the accounting records of *Yours to View*.

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