

90220



NEW ZEALAND QUALIFICATIONS AUTHORITY
 MANA TOHU MĀTAURANGA O AOTEAROA

For Supervisor's use only

Level 2 Accounting, 2008

90220 Describe the conceptual basis of accounting for a sole proprietor

Credits: Three

9.30 am 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 2–6 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 30 minutes answering the questions in this booklet.

Stick Sports, owned by Lucy, is a shop specialising in selling cricket, softball and hockey gear. *Stick Sports* is registered for GST on the invoice basis and uses a perpetual inventory system to manage inventory.

Lucy has just received her financial statements for the year ended 31 March 2008 from her accountant, Kahu.

The following questions all relate to *Stick Sports*' financial statements for the year ended 31 March 2008.

1. State the measurement base identified in the following accounting policy statement included in *Stick Sports*' Statement of Accounting Policies.

Property, plant and equipment

Property, plant and equipment are stated at cost, and except for land, depreciated.

2. Explain, in terms of the notion of **accounting entity**, why the Income Statement is prepared for *Stick Sports* and not Lucy.

3. Explain, in terms of the **reporting period**, why the Income Statement is prepared "for the year ended 31 March 2008".

4. Explain, in terms of **comparability**, why *Stick Sports*' Income Statement includes comparative figures for income and expenses.

5. (a) Explain, in terms of the **accrual basis**, why the amount owing for sales wages on balance sheet date is added to the sales wages expense in the Income Statement.

(b) Explain why the amount owing for sales wages on balance sheet date is reported in the balance sheet as a **current liability**.
(You are NOT required to explain a liability in your answer.)

6. Explain, in terms of the following, why the sale of hockey sticks on credit is reported as an **income**.

(a) *“Income is increases in economic benefits during the accounting period in the form of inflows of assets that result in increases in equity, other than those relating to contributions from the owner”*

Adapted from the **income definition** in the New Zealand Framework

Explain, in terms of the following, why the sale of hockey sticks on credit is reported as an **income**.

(b) *“it is probable the future economic benefit will flow to the entity”*

Adapted from the **recognition criterion** in the New Zealand Framework

7. Explain, in terms of **materiality**, why the many different items of sports gear sold by *Stick Sports* are NOT reported separately in the balance sheet, but rather included in the current asset inventory.

8. Some softball bats that are out of season on 31 March 2008 are included in the inventory asset at their net realisable value of \$2 000, rather than their cost of \$5 000.

- (a) Explain the conflict between **historical cost** and **relevance** in relation to the reporting of these softball bats at \$2 000.

- (b) Explain how the \$2 000 net realisable value can be considered to be a **reliable measure** for these softball bats.

9. (a) State ONE **decision** Lucy could make about *Stick Sports* using the information in *Stick Sports' Balance Sheet*.

- (b) Explain how Lucy will use the information in *Stick Sports' Balance Sheet* to make this decision.
