NZQA

NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

Level 1 Accounting, 2009

90022 Demonstrate an understanding of the conceptual basis of accounting

Credits: Three
2.00 pm Thursday 19 November 2009

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

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.

For Assessor's use only	Achievement Criteria	
Achievement	**Achievement with Merit**	**Achievement with Excellence**
Describe accounting.	Describe accounting.	Fully describe accounting.
Recognise or define or apply financial elements.	Recognise and define or apply financial elements.	Recognise, define and apply financial elements.
Recognise or define or apply accounting concepts.	Recognise and define or apply accounting concepts.	Recognise, define and apply accounting concepts.
Overall Level of Performance (all criteria within a column are met)		

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

QUESTION ONE

Jack owns *Sweet Ride*, a business that specialises in selling new and nearly new cars. Every year, an accountant prepares the business's financial statements.

(a)   State ONE financial reason why Jack would read *Sweet Ride*'s **Balance Sheet**.

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(b)   (i)   Name ONE other **entity** that would be interested in the contents of *Sweet Ride*'s Balance Sheet.

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        (ii)   Explain ONE **financial reason** why.

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(c)   *Sweet Ride*'s accountant is a qualified **chartered accountant**. Describe ONE main role of a chartered accountant, other than preparing financial statements.

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(d) *Sweet Ride* has the following accounts included in its financial statements:
- accountancy fees
- accounts receivable
- bank overdraft
- building
- depreciation on building
- dividends received
- inventory
- mortgage
- prepayments
- rates.

Classify each of the accounts above under a heading in the table below.

Asset	Liability

Income	Expense

(e) *Sweet Ride*'s financial statements list **sales** as an **income**. Fully explain why.

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(f) (i) Jack gave a car from the car yard to his wife as a birthday present. Name the **accounting concept** involved in this action.

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(ii) Fully explain how this accounting concept should be applied, using the car as an example.

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QUESTION TWO

Jenny is a car mechanic who owns *Car Repairs*. Jenny also has an accountant prepare her business's annual financial statements.

(a) One financial statement is the **Cash Flow Statement**. Explain why Jenny would read this statement.

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(b) *Car Repairs* needs to purchase a new electric car lift. In the chart below, put a tick in the correct column to classify each transaction as one of the following:
- capital expenditure
- revenue expenditure.

Transaction	Capital expenditure	Revenue expenditure
Purchase of a new electric car lift		
Transport cost for purchase of the lift		
Installation cost for purchase of the lift		
Electricity cost to power the lift		
Annual insurance cost for the lift		

(c) Jenny's share in *Car Repairs* is called her equity. Define **equity**.

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(d) The Statement of Accounting Policies for *Car Repairs* was prepared for the period ending 31 March 2009. Name the **accounting concept** being applied.

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(e) According to the Statement of Accounting Policies, the **measurement base** for the business is **historical cost**. Fully explain the accounting concept of historical cost, using the new electric lift as an example.

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(f) The accountant referred to *Car Repairs* as a **going concern**. Define this accounting concept.

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(g) The Balance Sheet for *Car Repairs* lists the **mortgage** on the building as a **liability**. Complete boxes (i), (ii) and (iii) below to identify or fully explain each characteristic.

Characteristic of liability	Explanation
(i) _____ _____	*Car Repairs* took out a mortgage from the bank.
Present obligation	(ii) _____ _____ _____ _____
Future outflow of resources	(iii) _____ _____ _____ _____

(h) On balance sheet day, *Car Repairs* has $800 in wages still owing. Fully explain how these accrued wages are an example of the **accrual basis** of accounting.

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

Question number

90022