

90220



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

For Supervisor's use only

Level 2 Accounting, 2009

90220 Describe the conceptual basis of accounting for a sole proprietor

Credits: Three

2.00 pm Friday 20 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 2–7 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.

Matiu is the owner and operator of *Matiu's Music Store*, a store that sells music, eg CDs. At the end of each year, as part of the operations of the store, Matiu completes a full set of financial statements, including the Balance Sheet.

QUESTION ONE

- (a) State the **purpose** of the Balance Sheet.

- (b) State ONE **limitation** of the Balance Sheet.

- (c) Explain how the Balance Sheet of *Matiu's Music Store* illustrates **monetary measurement**.

- (d) Explain, in terms of the accrual basis of accounting, how **interest owing on mortgage** is shown in the Balance Sheet for *Matiu's Music Store*.

QUESTION TWO

The Balance Sheet for *Matiu's Music Store* includes fixtures and fittings (such as display shelves), which were purchased five years ago for \$50 000.

Assets are described as "resources controlled by the entity as a result of past events from which future economic benefits are expected to flow to the entity".

Source: New Zealand Framework

- (a) Describe how fixtures and fittings are **controlled** by *Matiu's Music Store*.

- (b) Describe how using fixtures and fittings can create a **future economic benefit** that will flow to *Matiu's Music Store*.

- (c) *Matiu* would like to decrease the value of the fixtures and fittings to the current market value of \$25 000, so that the figure in the Balance Sheet is more relevant.

Explain why changing the asset value would give a more **relevant** value for the fixtures and fittings.

QUESTION THREE

On balance sheet day, *Matiu's Music Store* has a number of expenses in the Trial Balance, including a telephone expense.

Expenses are described as "decreases in economic benefits in the form of decreases (depletion) in assets, that result in a decrease in equity, other than those relating to distributions to owners".

Source: New Zealand Framework

- (a) Describe how paying the telephone expense created a **decrease in economic benefits**.

- (b) Explain why the telephone expense is an example of **revenue expenditure**.

- (c) Last month, Matiu used a business cheque to pay a telephone expense for his personal telephone. Explain why this was reported as **drawings** in the financial statements for *Matiu's Music Store*.

QUESTION FOURAssessor's
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Matiu's Music Store has buildings in the Trial Balance recorded at historical cost.

- (a) Explain how *Matiu's Music Store* uses the measurement base of **historical cost** in recording their buildings.

- (b) *Matiu's Music Store* reports the buildings at their cost in the property, plant and equipment note to the Balance Sheet. Explain how this meets the qualitative characteristic of **reliability**.

- (c) Explain, in terms of **materiality**, why the Balance Sheet for *Matiu's Music Store* shows buildings separately from land in the property, plant and equipment note.

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