

90022



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 NEW ZEALAND QUALIFICATIONS AUTHORITY
 MANA TOHU MĀTAURANGA O AOTEAROA

For Supervisor's use only

Level 1 Accounting, 2010

90022 Demonstrate an understanding of the conceptual basis of accounting

Credits: Three

2.00 pm Tuesday 16 November 2010

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.

<i>For Assessor's use only</i>	Achievement Criteria		
Achievement	Achievement with Merit	Achievement with Excellence	
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"/>	
Overall Level of Performance (all criteria within a column are met)			<input type="checkbox"/>

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

QUESTION ONE

Sarah is the chef and owner of *Hot Potato Café* in a busy street in Hamilton. The accountancy firm that Sarah uses provides her with financial statements every month.

- (a) Give ONE financial reason why Sarah would want to see her **Income Statement** every month.

- (b) The accountancy firm that Sarah uses employs different types of accountants. In the chart below, enter the appropriate letter to match each statement with the specialist accountant who would provide that service. An example has been done for you.

- A** Management Accountant
- B** Accounting Technician
- C** Cost Accountant
- D** Chartered Accountant
- E** Taxation Accountant

Service	Specialist Accountant
Prepares tax returns	E
Prepares accounts and financial statements	
Calculates the costs of producing goods and services	
Prepares budgets	
Provides financial advice	

- (c) *Hot Potato Café* wants to purchase new furniture. Name TWO ways that the café could raise the finance needed to purchase the new furniture.

(1) _____

(2) _____

(d) *Hot Potato Café* has the following assets and expenses:

- bank
- term deposit
- cleaning
- café tables
- café workers' wages
- petty cash
- insurance
- interest on loan
- prepayments.

Classify each of the assets/expenses listed above by writing them under the appropriate heading in the table below.

Assets	Expenses

(e) When Sarah's family comes to the *Hot Potato Café* for lunch, she does not allow them to pay for their meal.

(i) In order to follow the **accounting entity** concept, how should Sarah record the cost of these meals?

(ii) Explain how recording them as your answer to (i) above, is following the **accounting entity** concept.

(f) Sarah imports some food products for the café from Italy. She records these products in New Zealand dollars.

What **accounting concept** is being applied?

- (g) The Statement of Financial Position (Balance Sheet) for *Hot Potato Cafe* lists the **oven** as an **asset**.

Complete boxes (i) and (ii) below to identify or fully explain TWO of the characteristics of an asset.

Characteristic of an asset	Explanation
(i)	<i>Hot Potato Café</i> has the exclusive rights to use the oven; it is stored in their kitchen, which is locked when not in use.
Future inflow of resources	(ii)

- (h) On balance sheet day, *Hot Potato Café* has prepaid advertising of \$200. Fully explain how prepaid advertising is an example of the **accrual basis** of accounting.

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QUESTION TWO

Sarah is a member of her local rowing club, *Rapid Rowers Inc.*

- (a) State the purpose of the **Cash Flow Statement** for *Rapid Rowers Inc.*

- (b) The Cash Flow Statement is prepared every 12 months for *Rapid Rowers Inc.*
What **accounting concept** is being applied?

- (c) *Rapid Rowers Inc* is an incorporated society. As a result, their annual financial statements must be audited.

Describe the main role of an **auditor**.

- (d) The members of *Rapid Rowers Inc* have limited liability.
Explain what **limited liability** means for the members of *Rapid Rowers Inc*.

- (e) The repairs to the boats for *Rapid Rowers Inc* are reported as an expense in the Income Statement.

Fully explain why the **repairs to the boats** are an **expense** for *Rapid Rowers Inc*.

(f) The following is a list of items from the Trial Balance of *Rapid Rowers Inc*:

- accumulated depreciation – boats
- subscriptions in advance
- subscriptions
- interest received
- loan
- rent received
- accounts payable.

Identify TWO **liabilities** from the item list above.

(1) _____

(2) _____

(g) In the Statement of Financial Position (Balance Sheet) the members' equity in *Rapid Rowers Inc* is shown as Accumulated Funds.

Explain what **Accumulated Funds** means.

(h) (i) *Rapid Rowers Inc* reports their equipment shed in the Statement of Financial Position (Balance Sheet) at the price they bought it for (\$20 000), despite the equipment shed being more than 10 years old.
Identify the **accounting concept** being applied.

(ii) Fully explain how this **accounting concept** is being applied in the reporting of the equipment shed.
