

90500



NEW ZEALAND QUALIFICATIONS AUTHORITY  
MANA TOHU MĀTAURANGA O AOTEAROA

*For Supervisor's use only*

## Level 3 Accounting, 2010

### 90500 Describe and apply the conceptual basis of accounting in context

Credits: Four

9.30 am Thursday 25 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>		<b>Achievement Criteria</b>	
<b>Achievement</b>	<input type="checkbox"/>	<b>Achievement with Merit</b>	<input type="checkbox"/>
		<b>Achievement with Excellence</b>	<input type="checkbox"/>
Demonstrate an understanding of the conceptual basis of accounting in context.	<input type="checkbox"/>	Demonstrate a sound understanding of the conceptual basis of accounting in context.	<input type="checkbox"/>
		Demonstrate a comprehensive understanding of the conceptual basis of accounting in context.	<input type="checkbox"/>
<b>Overall Level of Performance</b>		<input type="checkbox"/>	

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

**Note:** In this assessment, the New Zealand Equivalent to the IASB Framework for the Preparation and Presentation of Financial Statements is referred to as the NZ Framework (NZF).

John and Levi specialise in the selling of computing and electronic gaming equipment. On 1 April 2009, John and Levi changed the ownership structure of their business from a partnership to a company to take advantage of limited liability. They called their company *Techxperts Ltd*. John and Levi are the only shareholders and directors.

### QUESTION ONE

- (a) (i) When operating as a partnership, John and Levi used a Partnership Agreement. State ONE reason why.

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- (ii) Explain why, as partners, John and Levi paid tax personally on their share of the profit, whereas in *Techxperts Ltd*, the company (not shareholders) will pay tax on the profit.

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- (b) To fund the new company, John and Levi contributed an extra \$20 000 each to purchase more shares. Explain why this additional investment is **not income** for *Techxperts Ltd*.

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- (c) *Techxperts Ltd's* first annual report contained a **Statement of Changes in Equity** that had not been included in the partnership reports. Explain the **purpose** of this statement.

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On Balance Sheet day, 31 March 2010, *Techxperts Ltd* paid an invoice for advertising of \$30 000 for an advertising campaign that started during March and will finish in April. The company's accountant determined that \$20 000 of this invoice for advertising related to March and was to be reported as an expense for this period and \$10 000 was to be reported as a prepayment as this related to April.

- (d) (i) Explain why the **\$20 000** of the invoice reported as **advertising** in the Income Statement for the year ended 31 March 2010 meets this definition of an expense:

“Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants”.

Source: NZF paragraph 70 (b).

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- (ii) Explain in terms of the **accrual basis** of accounting **how** the **\$10 000** of the invoice for advertising that the company's accountant determined as a **prepayment** will be reported in *Techxperts Ltd's* Income Statement and Balance Sheet for the year ended 31 March 2010.

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**QUESTION TWO**

The Balance Sheet for *Techxperts Ltd* shows that accounts receivable are reported as historical cost less allowance for doubtful debts.

- (a) (i) Identify the **measurement base** that has been applied to the reporting of accounts receivable.

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- (ii) Explain **how** reporting accounts receivable at **historical cost less allowance for doubtful debts** meets the following recognition criteria:

“... the item has a cost or value that can be measured with reliability”.

Source: NZF paragraph 83 (b).

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- (b) Explain why accounts receivable are classified in *Techxperts Ltd's* Balance Sheet as a **current** asset. You are **not** required to explain assets in your answer.

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- (c) Explain how the **settlement** of a **loan** reported in *Techxperts Ltd's* Balance Sheet as a liability will result in the company having an **outflow of resources embodying economic benefits**.

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- (d) Explain why an **amount owing** for **interest on loan** meets the following recognition criteria:

“It is probable that any future economic benefit associated with the item will flow to or from the entity”.

Source: NZF paragraph 83 (a).

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