

# Student Name\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Class \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**ACCOUNTING**

**ACHIEVEMENT STANDARD 90022**

**Demonstrate an understanding of the conceptual basis of accounting**

## Level 1 External Assessment Credits: 3

**Estimated time: 40 minutes**

**Instructions:**

· You should answer ALL the questions in this booklet.

· Additional space is provided at the end of the booklet should it be required.

· Write in black or blue pen only.

· Do not use twink or correcting fluid.

**Achievement Criteria**

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#### Final Grade: \_\_\_\_\_\_\_\_\_\_\_\_\_

**Question One**

Harry Hapuka owns a bait and tackle shop called *Hook, Line & Sinker*. It is a retail shop that sells bait and fishing gear such as rods and reels. *Hook, Line & Sinker* is registered for GST on the payments basis.

Harry collected all his accounting information for the year to give to his accountant so that she could prepare his financial statements. He is pleased to receive his financial statements, but unsure what each of the statements means and how he should use the information.

1. Describe the **purpose** of an **Income Statement** to Harry.

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1. The Inland Revenue Department would be interested in the contents of *Hook, Line & Sinker’s* Statement of Financial Position. Explain ONE financial reason why.

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1. *Hook, Line & Sinker* is about to purchase a new bait freezer to store the bait in.

You are required to **classify** the following transactions relating to the purchase of the freezer as either capital or revenue expenditure. Place a tick √ in the correct column.

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| **Transaction** | **Capital expenditure** | **Revenue expenditure** |
| Cost of installing the new bait freezer at *Hook, Line & Sinker.* |  |  |
| Payment of annual insurance of the new bait freezer. |  |  |
| Purchase of bait to put in the new bait freezer. |  |  |
| Purchase of the new bait freezer. |  |  |
| Payment of the electricity bill to run the new bait freezer. |  |  |

1. Harry Hapuka’s investment in *Hook, Line & Sinker* is referred to as his Equity. Define **Equity**.

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1. Harry’s accountant told Harry that she assumed *Hook, Line & Sinker* would continue to operate as a fishing gear shop for the foreseeable future. Name the **accounting concept** Harry’s accountant is referring to.

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1. The accountant tells Harry she uses the **reporting period** concept when preparing the financial statements for *Hook, Line & Sinker*. Define this accounting concept.

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1. Harry has taken a new fishing rod home to give to his son for his birthday. Fully explain how the **accounting entity** concept is applied when Harry records this transaction in the accounting records of *Hook, Line & Sinker*.

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1. On balance day, *Hook, Line & Sinker* has prepaid Insurance of $300. Fully explain how prepaid insurance is an example of the **accrual basis** of accounting.

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**Question Two**

Harry Hapuka is a member of the *Kanakana Boat Club*, an incorporated community organisation.

1. Harry is thinking of putting his name forward to be the Treasurer of the *Kanakana Boat Club*. Describe ONE role that Harry would carry out as **Treasurer**.

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1. Describe ONE **source of finance** for the *Kanakana Boat Club*.

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1. Explain to Harry ONE advantage of the *Kanakana Boat Club* being **incorporated**.

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1. The *Kanakana Boat Club* has recently purchased a new tractor to assist club members when they launch their boats. Name the **accounting concept** that requires the tractor to be recorded at its original purchase cost in the accounting records of the *Kanakana Boat Club*.

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1. The recently purchased tractor was imported from Australia. Explain how the **Monetary Concept** is applied in recording the tractor in the accounting records of the *Kanakana Boat Club.*

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1. The table below contains a selection of accounts from the Chart of Accounts of the *Kanakana Boat Club.*

**Complete the table** by classifying each account as an Expense, Income, Asset, or Liability. The clubrooms have been classiﬁed for you as an example.

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| **Account** | **Type of Account. Choose from:**  **Expense, Income, Asset, Liability.** | |
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| Clubrooms | Asset |  |
| Subscriptions received in advance |  |  |
| Bank |  |  |
| Tractor |  |  |
| Insurance |  |  |
| Interest on loan |  |  |
| Term Loan (ANZ due 1 May 2020) |  |  |
| Depreciation – Fishing Equipment |  |  |
| Raffle Ticket Sales |  |  |

1. Explain why the **Repairs to Clubrooms** are an **expense** for *Kanakana Boat Club* by completing the boxes (i) and (ii) below.



1. The balance sheet for *Kanakana Boat Club* lists the **clubrooms** as an **asset**.

Complete boxes (i), (ii) and (iii) below to identify or fully explain each characteristic.

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| **Characteristic of an Asset** | **Explanation** |
| Inflow of Future Economic Benefit | (i)  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| Present Control | (ii)  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| (iii)  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | The Clubrooms were purchased by *Kanakana Boat Club* in the past. |

**AS 90022: ASSESSMENT SCHEDULE**

**Question One**

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| 1 | To measure the profit / loss (for the period)  OR  To compare income / expenses / profit **with another period**. | | **S** |
| 2 | To see what amount of GST is owing/ to see if Hook, Line & Sinker can pay its GST. | | **S** |
| 3 | |  |  |  | | --- | --- | --- | | **Transaction** | **Capital expenditure** | **Revenue expenditure** | | Cost of installing the new bait freezer at Hook, Line & Sinker. | √ |  | | Payment of annual insurance of the new bait freezer. |  | √ | | Purchase of bait to put in the new bait freezer. |  | √ | | Purchase of the new bait freezer. | √ |  | | Payment of the electricity bill to run the new bait freezer. |  | √ | | | **3=R**  **4=RR** |
| 4 | | Equity is the residual interest in the assets of the entity after deducting all its liabilities /  OR  Assets minus liabilities.  NOT Net Assets | **D** |
| 5 | | The Going Concern Concept | **Rc** |
| 6 | | The life of a business (or *Hook, Line & Sinker*) / economic / financial activity is divided into (nominated) time periods. | **Dc** |
| 7 | | The **financial** affairs of the business are kept separate from the **financial** affairs of the  owner.  OR  Only the expenses and assets of the business will be reported in the financial  statements of *Hook, Line & Sinker*; no personal assets/expenses will be included.  OR  Harry / *Hook, Line & Sinker* records the fishing rod / gift as drawings.  **OR**  Harry / *Hook, Line & Sinker* will record the **fishing rod / birthday gift** as **drawings** to keep the business expenses / transactions separate from his personal expenses / transactions  OR because by definition the fishing rod is a distribution to Harry/the owner so can’t be a business expense.  *Must have fishing rod / gift AND drawings for* ***Ac*** *AND complete the definition.* | Dc  or  Ac |
| 8 | | The transactions are **reported** in the (financial statements of the) periods to which they  relate / in the current period.  **OR**  For Apply, candidates must refer to a **decrease in the expense/not included in the expense** “insurance” in the current  period  Eg, the prepaid insurance **decreases/is not included in** the (insurance) **expense reported** for the **current period**  (in the Income Statement).  **AND/OR** reporting this as an **asset** in the period.  Eg, the amount of **prepaid insurance** is **reported** as a (current) **asset** in the Statement of Financial Position at the **end of the period**. | Dc  or  Ac |
|  | | Question Two |  |
| 1 | | * looks after the finances of the Kanakana Boat Club * receives and banks money received by the Kanakana Boat Club * makes payments on behalf of the Kanakana Boat Club * prepares accurate financial records for the Kanakana Boat Club | **S** |
| 2 | | * subscriptions * issue debentures | **S** |
| 3 | | * Able to issue debentures to raise money for the Kanakana Boat Club * Limited liability for the members of the Kanakana Boat Club * Able to own assets like the clubhouse and the tractor (which benefit members) | **S** |

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| 4 | Historical Cost Concept | **Rc** |
| 5 | Defines the monetary notion without reference to the tractor. eg:  Transactions are recorded / reported / measured as a common monetary / currency unit  *OR*  The transaction is recorded in New Zealand currency in the accounting records of the *Kanakana Boat Club*.  Explains the monetary notion with specific reference to the tractor AND $NZ currency,  eg:  The tractor is recorded / reported / measured in New Zealand currency in the  (accounting records of the *Kanakana Boat Club).*  **Note**: $NZ OK | **Dc**  **or**  **Ac** |
| 6 | |  |  |  | | --- | --- | --- | | **Account** | **Type of Account. Choose from:**  **Expense, Income, Asset, Liability.** | | |  | | Clubrooms | Asset |  | | Subscriptions Received in advance |  | Liability | | Bank |  | Asset | | Tractor |  | Asset | | Insurance |  | Expense | | Interest on loan |  | Expense | | Term Loan (ANZ due 1 May 2020) |  | Liability | | Depreciation – Fishing Equipment |  | Expense | | Raffle Ticket Sales |  | Income | | **4=R**  **6=RR** |
| 7 | |  |  | | --- | --- | | **Characteristic of an expense** | **Explanation** | | Decrease in asset | (i) A decrease in the **bank** asset (when the repairs to the clubrooms are paid). | | Decrease in equity | (ii) Decreases (net) **profit/surplus** (which decreases accumulated funds) |   Both points needed to achieve A | D  or  A |
| 8 | |  |  | | --- | --- | | **Characteristic of an asset** | **Explanation** | | Inflow of Future economic benefit | (i) The **Clubrooms** will be **used by the club members** in exchange for **cash** from subscriptions **income** (in the future).  OR The clubrooms encourage new/more people to join the club so the club receives cash from subscriptions in the future. | | Present Control | (ii) Only members of the Kanakana Boat Club can use the Clubrooms. | | (iii) Past transaction | The Clubrooms were purchased by *Kanakana Boat Club* in the past. |   Must be in context ie Clubrooms/members/Kanakana Boat club used to achieve **A.** | D  or  A  D  or  A  R |

**Judgement Statement**

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| **Achievement** | **Achievement with Merit** | **Achievement with Excellence** |
| 6 grades including  **Criterion One**  2 **S**  **Criterion Two**  Any 2 grades from elements **R** / **D** / **A** | 10 grades including  **Criterion One**  2 **S**  **Criterion Two**  1 **R**  2 **D** / **A** from elements | 12 grades including  **Criterion One**  4 **S**  **Criterion Two**  1 **R**  2 **A** from elements |
| **Criterion Three**  Any 2 grades from concepts **Rc** / **Dc** / **Ac** | **Criterion Three**  1 **Rc**  2 **Dc** / **Ac** from concepts  PLUS Another  2 **D** / **Dc** / **A** / **Ac**  for a total of 6 **Define** and **Apply** across Criteria Two and Criterion Three | **Criterion Three**  1 **Rc**  2 **Ac** from concepts  PLUS Another  2 **D** / **Dc** / **A** / **Ac**  for a total of 6 **Define** and **Apply** across Criteria Two and Criterion Three |

The following Accounting-specific marking codes may have been used when marking this paper:

**S** Describe accounting

**R** Recognise elements

**R** Recognise concepts

**D** Define elements

**Dc** Define concepts

**A** Apply elements

**Ac** Apply concepts