

SUPERVISOR'S USE ONLY

91174



Level 2 Accounting, 2012

91174 Demonstrate understanding of accounting concepts for an entity that operates accounting subsystems

9.30 am Friday 30 November 2012 Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence		
Demonstrate understanding of accounting concepts for an entity that operates accounting subsystems.	Demonstrate in-depth understanding of accounting concepts for an entity that operates accounting subsystems.	Demonstrate comprehensive understanding of accounting concepts for an entity that operates accounting subsystems.		

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

You should attempt ALL the questions in this booklet.

If you need more room for any answer, use the extra space provided at the back of this booklet.

Check that this booklet has pages 2–11 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.

TOTAL

You are advised to spend 60 minutes answering the questions in this booklet.

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Garden Services is a business that recycles garden waste. The business supplies garden bags to customers for them to fill with their garden waste. *Garden Services* then empties the customers' garden bags on a regular basis. The business is currently owned by Sarah Tutaki.

QUESTION ONE

a) (i	(i)	Describe the accounting entity notion, and explain how <i>Garden Services</i> ' Income Statement would demonstrate this notion.				
(ii)	Explain why it is important, when Sarah is using <i>Garden Services</i> ' Income Statement to make decisions, that the accounting entity notion has been used in the preparation or				
		the Income Statement.				
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Garden Services Statement of Financial Position (extract) as at 31 March 2012

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	Current Liabilities \$NZ Loan (due to bank November 2012) 20 000						
(b)	Justify how <i>Garden Services</i> is correctly reporting the loan as a current liability as at 31 March 2012.						
	In your answer, you should include:						
	the definition of a liability to explain why the loan is a liability						
	 an explanation of a cost for the loan that can be measured with reliability 						
	 an explanation of the difference between a current and non-current liability, using the loan as the example. 						

QUESTION TWO

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The main source of income for *Garden Services* is **collection fees**.

(a)	(i)	Explain, using the definition of income, why collection fees are income for <i>Garden Services</i> .				
		mber of businesses use Garden Services for garden waste collection, and they are				
	char	ged for the collection at the end of each month.				
	(ii)	Use the recognition criterion below to justify why the amount charged to businesses for garden waste collection is included in collection fees income.				
	(ii)					
	(ii)	for garden waste collection is included in collection fees income. It is probable that any future economic benefit associated with the item will flow to				
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Garden Services uses the units of use method based on kilometres (km) travelled to depreciate trucks and the straight-line method to depreciate office equipment.

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(b) Justify why **different** methods of depreciation are used to depreciate *Garden Services*' trucks and office equipment.

In your answer, you should include:

- a description of what it means to depreciate an asset
- an explanation of what it means to depreciate trucks by the **units of use** method and the office equipment by the **straight-line** method.

•	an explanation of why the units of use method is appropriate for the depreciation of the trucks and the straight-line method is appropriate for the depreciation of the office equipment.						

QUESTION THREE

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Part A

At the end of the financial year (31 March 2012), there is an invoice on hand for repairs to trucks (\$800 excluding GST). The **accrual basis** requires this invoice to be reported.

(a)	Justify how the accrual basis is used in the reporting of the invoice on hand in <i>Garden Services'</i> Income Statement for the financial year ended 31 March 2012.					

Part B

Sarah would like to sell Garden Services, and Tala Lam has expressed an interest in buying it.

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A limitation of *Garden Services*' Statement of Financial Position is that it includes only information that has a **monetary** measurement.

(b)	(i)	Describe a piece of information important to Tala's decision to buy the business that would not be included in the assets of <i>Garden Services</i> ' Statement of Financial Position, because it does not have a monetary measurement.					
	(ii)	Explain why the piece of information you described in (i) is important to Tala's decision					
	, ,	about whether to purchase the business.					

QUESTION FOUR

(a)

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Sarah has provided Tala with *Garden Services*' Income Statements for the past three years. Tala will use the Income Statements to help make his decision about whether to buy the business.

Information has the qualitative characteristic of faithful representation when it is complete,

Explain how <i>Garden Services</i> ' Income Statements are likely to meet the neutral requirement of the qualitative characteristic of faithful representation .
Explain why it is important to Tala's decision about whether to buy the business that
the Income Statements have the qualitative characteristic of faithful representation

(b)	Justify how information contained in the last three years of Income Statements would support a decision for Tala to purchase <i>Garden Services</i> .	ASSESSOR'S USE ONLY
	 In your answer, you should include: the purpose of an income statement the qualitative characteristic of comparability how the purpose and comparability would support a decision to purchase Garden Services. 	

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