

# Achievement Standard 90976

## *Demonstrate understanding of accounting concepts for small entities*

ACCOUNTING

1.1

Externally assessed 3 credits

Accounting 90976 (Accounting 1.1) involves the recognition, definition and application of the conceptual basis of accounting, applied to community organisations and sole proprietors.

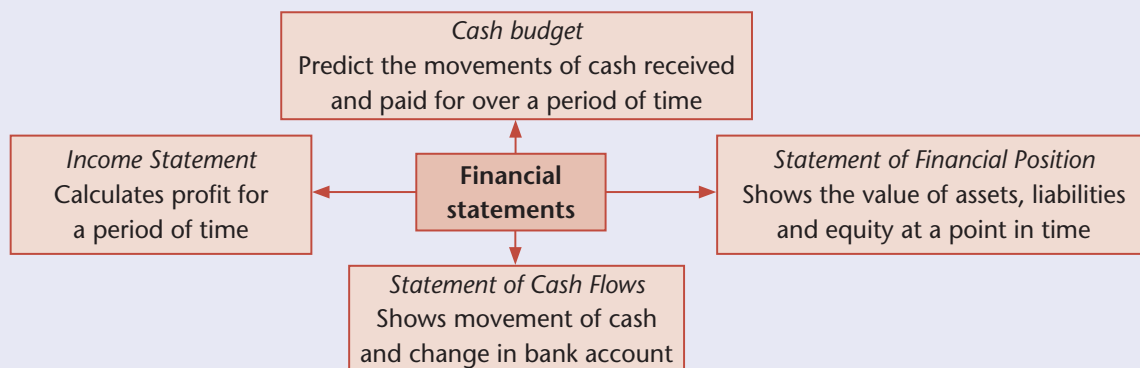
There is one criterion in Achievement Standard 90976 (Accounting 1.1), which is divided into the following five main topics.

- Nature of accounting – users and uses of financial information, features of entities, specialised areas of accounting.
- The purpose of financial statements.
- The financial elements – assets, liabilities, equity, income, expenses. Depreciation and capital or revenue expenditure are included here.
- The accounting concepts – accounting entity, monetary measurement, going concern, period reporting, accrual basis and historical cost.
- The accounting equation.

In this chapter, each section has questions from previous examination papers to give you a good idea of the questions you might be asked. At the end of the chapter, two exam papers are included in their entirety.

### ***Nature of accounting***

Accounting is a way of communicating financial information so that interested parties can make informed decisions. Financial information is used by internal and external users. A number of people are interested in various uses of accounting information and financial statements.



**Balance Sheet** is an alternative name for *Statement of Financial Position*.

Accounting assists the decision makers in a business.

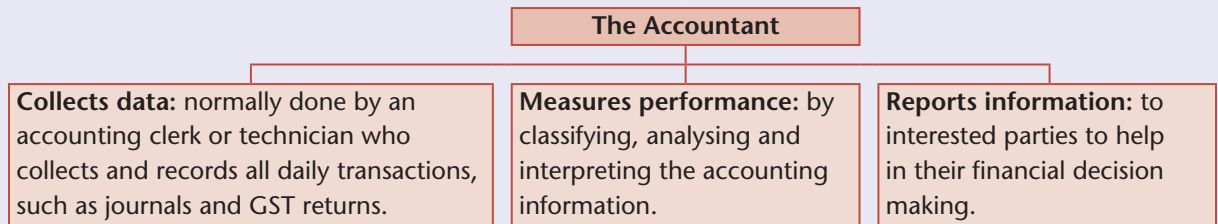
**Internal users** (Management Accounting)

- Managers/Supervisors – cost centres, cost of goods sold, profitability, budgets vs actual results.
- Employees – job security, ability to pay wages.
- Members of a club or society – to see how their subscriptions are being spent.

**External users (Financial Accounting)**

- Owners of a business – to assess past performance of the business and to plan for the future.
- Creditors – cash position of business (i.e. can they repay debt?).
- Inland Revenue Department (IRD) – for payment of taxes, including GST.
- Bank Managers – for assessing the risk of making loans or bank overdrafts, and assessing security for loans.
- Other users – e.g. Statistics New Zealand.

Accounting is used to measure the profit of a business (an entity) through the Income Statement, and to show what the business controls (assets) and is obliged to repay (liabilities) through the Statement of Financial Position.



Accountants normally specialise in the following:

- Financial Accounting (or Chartered Accounting) – analysing and interpreting the financial information to assist in financial decision making.
- Management Accounting – co-ordinating the flow of financial information from the business's operation, i.e. preparing internal reports and measuring performance, e.g. budget preparation.
- Cost Accounting – controlling costs of producing the goods or services a business sells.
- Taxation Accounting – the calculation and payment of tax, and advice on tax issues.
- Auditing – independent check on business's financial records to ensure accuracy and reliability, i.e. 'a true and fair view'.

**Different entities**

Accounting is used by individuals, households, community organisations, sole proprietors, partnerships, and companies. Each of these groups has different features or characteristics and thus has different needs for accounting services.

Features	Individual or household	Unincorporated society	Incorporated society	Sole proprietor
1. <b>Ownership</b>	Individual, or by household consensus	Two or more members	Club members: 15 or more members	One person: proprietor
2. <b>Management</b>	Individual, or by household consensus	Elected Board Committee	Elected board of members	The owner is usually the manager
3. <b>Advantages of this form of ownership</b>	Complete ownership and control. Very informal and flexible	No audit fees or set-up costs	Limited liability. Can receive funds from Lottery Board, etc.	Easy to set up, complete ownership, runs the business – complete control
4. <b>Disadvantages of this form of ownership</b>	Unlimited liability. Conflicts between flatmates or within families are possible	Unlimited liability	Set-up and audit costs	Unlimited liability, tied to business (holidays difficult), management is difficult for one person, restricted ability to expand

Expenses	
<b>Distribution costs</b>	Costs incurred in transferring ownership of finished goods to the consumer. These expenses are those incurred through the promotion, storage, selling and delivery of the inventory for sale. Examples – advertising, sales salaries/wages, vehicle expenses, shop electricity, shop rent, delivery expenses, depreciation on shop fittings/vehicles.
<b>Administrative expenses</b>	Costs associated with the administration of the entity as a whole. Examples – office salaries/wages, rent, insurance, telephone, accountancy fees, depreciation on office equipment/buildings.
<b>Finance costs</b>	Costs that arise from an entity financing its operations from external sources – i.e. interest costs. Examples – interest on overdraft, interest on loan, interest on mortgage.

### Question: Income Statement – retail entity

Kerryn Ridley owns *Blenheim Building Supplies*, a shop in Blenheim selling tools and equipment for builders and carpenters. The business is registered for GST on the payments basis. The following trial balance was prepared for *Blenheim Building Supplies* at the end of the financial year.

**Note:** *Blenheim Building Supplies* rents out part of its building to an accounting firm.

#### *Blenheim Building Supplies* Trial balance as at 31 March 2015

	Dr		Cr
Advertising	2 000	Capital	68 300
Bank	3 200	GST payable	3 200
Building (cost)	100 000	Rent received	6 500
Drawings	30 300	Sales	320 000
Freight inwards	8 000	Mortgage (10% due 2020)	50 000
General expenses	30 900	Accumulated depreciation	
Goodwill	9 000	– Building	2 000
Insurance	600		
Interest on mortgage	5 000		
Inventory 1/4/14	23 000		
Land (cost)	20 000		
Office wages	36 000		
Purchases	120 000		
Sales salaries	<u>62 000</u>		
	<u>450 000</u>		<u>450 000</u>

#### Additional information

- Inventory on hand 31/3/15 \$25 000
- Rent received in advance \$500
- Depreciation on building is \$1 000 per year
- Invoices on hand for purchases \$11 040 including GST
- Invoices on hand for sales \$11 960 including GST
- Split Insurance 60% Distribution, 40% Office

**Example 3: Statement of Financial Position**

(Business Name)			
Statement of Financial Position as at 31 March 2015			
<b>Current assets</b>			
(List)		XX	
		<u>XX</u>	XXX
<b>Non-current assets</b>			
<b>Investment assets</b>			
(List)	<u>XX</u>		
		XX	
<b>Intangible assets</b>			
(List)	<u>XX</u>	XX	
<b>Property, plant and equipment</b>			
(Note 1)			
Total carrying amount		<u>111 200</u>	<u>XXX</u>
<b>Total assets</b>			XXX
<b>Less Liabilities</b>			
<b>Current liabilities</b>			
(List)	XX		
	<u>XX</u>	XX	
<b>Non-current liabilities</b>			
(List)	XX		
	<u>XX</u>	<u>XX</u>	
<b>Total liabilities</b>			<u>(XXX)</u>
<b>Net assets</b>			\$XXX
<b>Equity</b>			
Opening capital			XX
Plus profit (Less loss) for year		XX	
Less Drawings		<u>(XX)</u>	<u>XX</u>
<b>Closing capital</b>			\$ XXX)

**Note to the Statement of Financial Position****1. Property, plant and equipment**

	Land (\$)	Equipment (\$)	Vehicles (\$)	Total (\$)
Cost	80 000	24 000	16 000	120 000
Accumulated depreciation	0	7 200	1 600	8 800
Carrying amount	80 000	16 800	14 400	111 200

Depreciation is calculated on a straight-line basis at the following rates:

- Equipment 10% p.a.
- Vehicles 20% p.a.

## Question: Statement of Financial Position

Briony Bloom owns *Blooming Nice Flowers*, a small flower shop she rents in a city mall. There is a small office attached to the shop where Briony is able to take phone calls and keep her financial records up to date.

The trial balance and additional information relate to *Blooming Nice Flowers* for the year ended 31 March 2015.

<b><i>Blooming Nice Flowers</i></b>			
<b>Trial balance as at 31 March 2015</b>			
Accountancy fees	3 700	Capital	89 000
Advertising	2 800	GST payable	1 800
Bank	2 650	Interest received	450
Delivery van (cost)	35 000	Sales	140 000
Delivery van expenses	14 800	Accumulated depreciation – delivery van	7 000
Drawings	35 000	Accumulated depreciation – office equipment	6 000
Goodwill	25 000		
Insurance on delivery van	2 300		
Insurance on office equipment	300		
Inventory 1/04/14	3 400		
Office telephone expenses	1 900		
Office equipment (cost)	20 000		
Petty cash	100		
Purchases	43 000		
Shop assistant wages	23 000		
Shop expenses	21 300		
Term investment (matures 2019)	10 000		
	<u>\$244 250</u>		<u>\$244 250</u>

### Additional Information:

- Inventory on hand 31 March 2015, \$4 200
- Shop assistant wages owing \$400
- Interest received on the term investment is owing \$150
- Invoice on hand for office equipment \$920 including GST
- Invoices on hand for sales \$1 840, including GST
- Depreciation on delivery van is 10% per annum on cost
- Depreciation on office equipment is \$2 000 per annum.

## Note to Statement of Financial Position – property, plant and equipment

			Total \$
Cost			
Accumulated depreciation			
Carrying amount			

Depreciation is:

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## Cash Budget

The purpose of the Cash Budget is twofold.

- It predicts the cash balance at the end of a period so that finance can be arranged / payments can be reduced / money can be invested.
- It shows the estimated sources of cash and estimated uses of cash for an accounting period, so decision makers can calculate the estimated cash surplus or deficit for the period.

*Credit transactions are not included, only cash.*

Estimated cash receipts and estimated cash payments are listed, and the net difference added to the opening bank balance to give the estimated closing bank balance.

The budget can be prepared from a summary list of transactions or summary information.

Following is a summary list of the transactions of *Soul Vent Traders* for the month of August 2015.

Owner intends to invest cash \$500; expects to receive account for electricity \$260, to receive \$300 from customers paying accounts, to make cash sales \$2 560, to purchase van for cash \$2 800, to pay wages \$600, to send accounts to customers \$400, to sell old computer for \$500 cash, to pay general expenses of \$250, to purchase stock for cash \$900. The opening bank balance is \$2 420.

<i>Soul Vent Traders</i>		
Cash Budget for month ending 31 August 2015		
<b>Estimated cash receipts</b>	\$	\$
Capital		500
Cash from accounts receivable		300
Cash sales		2 560
Sale of old computer		500
Total estimated cash received		<u>3 860</u>
<b>Estimated cash payments</b>		
Van	2 800	
Wages	600	
General expenses	250	
Purchases of stock	<u>900</u>	
<b>Total estimated cash payments</b>		<u>4 550</u>
<b>Cash deficit*</b>		<u>- 690</u>
Opening bank balance		<u>2 420</u>
Closing bank balance		<u>\$1 730</u>

**Note:** Ignore all credit transactions (e.g. sent accounts to customers \$400), but record amounts paid to accounts payable and amounts received from accounts receivable, which are expected to occur.

When preparing the budget, group similar items together. Do not list individual cash sales separately, but summarise them and list only the total figure.

\* 'Deficit' would be 'surplus' if a positive number.

# Achievement Standard 90980

## Interpret accounting information for sole proprietors

ACCOUNTING

1.5

Externally assessed 4 credits

Achievement Standard 90980 (Accounting 1.5) involves interpreting information for a sole proprietor or sole proprietors. These are limited to service businesses and/or trading businesses that use a periodic inventory system and that are registered for GST on the payments basis.

A calculator is required, as you will be required to calculate the analysis measures.

Ratio and percentage formulae will be provided. Round calculations to either 1 or 2 decimal places as instructed.

### Ratios and percentages

Once the financial statements have been prepared, it is important to analyse them to allow sound decisions to be made for the future.

**Analysing** information involves calculating analysis measures – formulae will be provided.

**Interpreting** information involves:

- explaining analysis measures
- recognising satisfactory/unsatisfactory ratios, percentages or trends
- explaining reasons for trends
- making, justifying and stating the consequences of recommendations
- explaining relationships between analysis measures.

**Analysis measures** are used to measure:

- profitability – mark-up %, gross profit %, expenses %, profit %, percentage changes, comparisons of dollar amounts
- liquidity – current ratio, liquid ratio
- financial stability – equity ratio.

### Income Statement

The following examples are for *Skateboys Rollerblade Club*, whose information is shown in the table alongside.

**Note:** Net sales is calculated by Sales – Sales returns

<i>Skateboys Rollerblade Club</i>	
Income Statement	
for year ended 31 March 2011	
<b>Net sales</b>	132 000
<i>Less</i> Cost of goods sold	<u>108 000</u>
<b>Gross profit</b>	24 000
<b>Less Expenses</b>	
Distribution costs	3 300
Administrative expenses	2 640
Finance costs	<u>1 320</u>
<b>Profit for the year</b>	<u>\$16 740</u>

### Mark-up percentage

Mark-up is the extra added on to the cost of goods sold to obtain the selling price. Mark-up percentage measures the percentage of cost price of the inventory which is added on to the inventory cost price to calculate the selling price.

Selling price = Cost price + Mark-up, e.g. cost price is \$10.00, add mark-up \$5.00, selling price is \$15.00.

$$\text{Mark-up percentage} = \frac{\text{Gross profit}}{\text{Cost of goods sold}} \times \frac{100}{1} \quad \text{Example: } \frac{24\,000}{108\,000} \times \frac{100}{1} = 22.2\%$$

Mark-up percentage may be higher or lower than desired, due to the wrong mark-up being placed on purchases, or incorrect stock take.

Mark-up percentage may be lower due to goods being stolen.

### Gross profit percentage

$$\text{Gross profit percentage} = \frac{\text{Gross profit}}{\text{Net sales}} \times \frac{100}{1} \quad \text{Example: } \frac{24\,000}{132\,000} \times \frac{100}{1} = 18.2\%$$

The gross profit percentage measures the percentage of sales left as gross profit, after accounting for cost of goods sold. This is used to cover operating expenses and make a profit.

The higher the mark-up, the higher the gross profit. Gross profit needs to be sufficient to cover operating expenses and drawings.

Gross profit variances can be caused by theft of stock, incorrect stock takes, or by a deliberate reduction in price to increase sales volume.

### Expenses percentages

Different categories of expenses can be compared with net sales to determine how different parts of a business are performing; e.g., if selling expenses were increasing, the business would hope sales were increasing similarly. Or if administration expenses percentage is decreasing, it could mean the administration of the business is becoming more efficient.

$$\text{Distribution cost percentage} = \frac{\text{Distribution costs}}{\text{Net sales}} \times \frac{100}{1} \quad \text{Example: } \frac{3\,000}{132\,000} \times \frac{100}{1} = 2.5\%$$

$$\text{Administrative expenses percentage} = \frac{\text{Administrative expenses}}{\text{Net sales}} \times \frac{100}{1} \quad \text{Example: } \frac{2\,640}{132\,000} \times \frac{100}{1} = 2\%$$

$$\text{Finance costs percentage} = \frac{\text{Finance costs}}{\text{Net sales}} \times \frac{100}{1} \quad \text{Example: } \frac{1\,320}{132\,000} \times \frac{100}{1} = 1\%$$

An expense percentage measures the percentage of sales used to pay for / incurred by that particular expense or group of expenses.

### Profit percentage

$$\text{Profit percentage} = \frac{\text{Profit for the year}}{\text{Net sales}} \times \frac{100}{1} \quad \text{Example: } \frac{16\,740}{132\,000} \times \frac{100}{1} = 12.7\%$$

Profit percentage shows how much of each dollar of sales is profit; in the example, for every \$1.00 of sales, 12.7 cents is profit retained in the business after all expenses have been accounted for.

A higher net profit percentage is not necessarily all good – a corner dairy has a high net profit percentage compared with the net profit percentage of supermarkets, which have low net profit percentages in order to generate more turnover and thus more dollar profits.



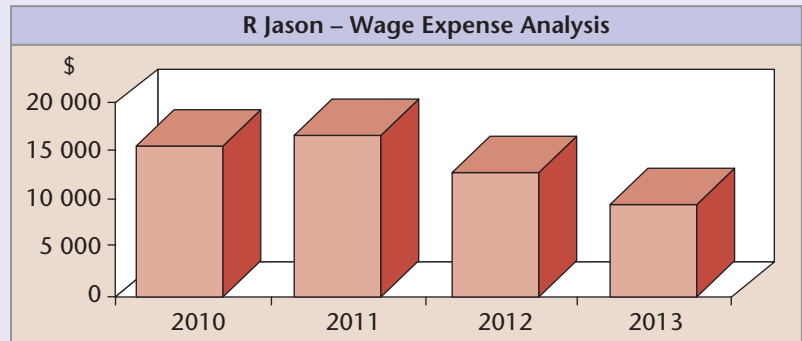
## Interpreting financial information presented in graphs

Pie charts, bar graphs, pictograms, pictures, and other graphics can all be used in financial reports in an endeavour to make the report more easily understood or to emphasise key features. The analysis is identical, but pictures are often easier to understand than numbers.

Look at a graph closely and read the axes carefully. Try to identify trends, because many graphs show information over time.

In the graph alongside:

- Trend – wage expense is decreasing.
- Wage expenses \$10 000 in 2013.

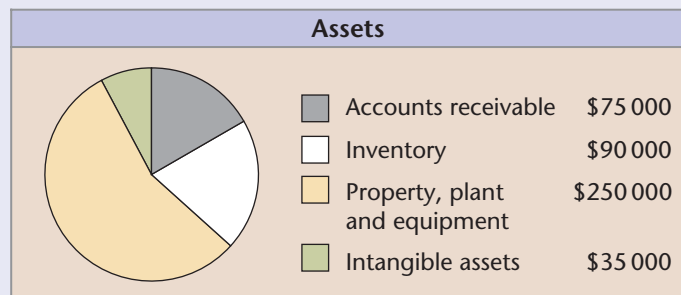
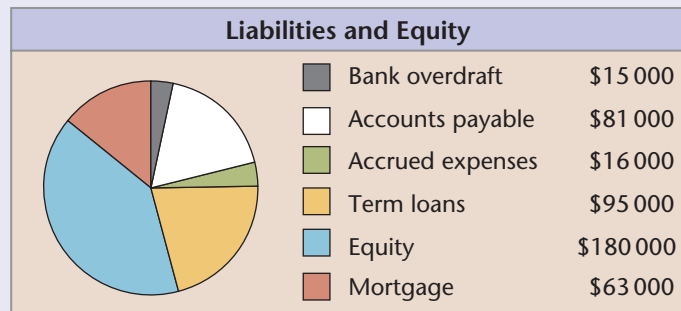


## Statement of Financial Position – Graphical summary

Pie graphs show shares of a total. Calculate the total.

In the graphs alongside:

- Total liabilities = \$270 000,  
plus equity = \$180 000.
- Total assets = \$450 000.



## Industry averages

Sometimes you are provided with industry averages and expected to use them when commenting on trends or recommendations. You do not need to worry about this – they are there to help you answer the question. Think about whether the business result is better or worse than the industry average and what that might mean.

### Example:

	Your business	Industry average
Distribution costs %	12%	16%
Profit for year percentage	20%	22%

One possible reason for your business having a lower profit for the year than the industry average is that it did not spend enough on advertising, compared with its competitors, to encourage more customers and more sales, which decreased the business profit and profit percentage.

# Answers and explanations

The 'Achieved' A, 'Merit' M, and 'Excellence' E, ratings given with the answers to NCEA questions for the externally assessed Achievement Standards chapters are based upon the professional judgements of the author.

A The answer is required to be correct and complete to gain 'Achieved' for that part of the overall question.

A ( $\frac{5}{7}$ ) To gain 'Achieved', the candidate must score 5 correct responses out of the total of 7 for the question. Responses could be explanations, entries, balances, calculations, etc., or any combination of responses.

M The answer required is to be correct and complete to gain 'Merit'. Candidate gains 'Merit' or nothing.

M ( $\frac{6}{7}$ ) To gain 'Merit', the candidate must score 6 correct responses out of 7 for the question.

M/E Answer is E level, but M standard of answer possible – A possible if explanation not fully applied to the examples.

E ( $\frac{7}{7}$ ) To gain 'Excellence' the candidate must score 7 correct responses out of 7 for the question.

## Achievement Standard 90976 (Accounting 1.1): Demonstrate understanding of accounting concepts for small entities

### 1.1 Nature of accounting

p. 5

#### Question One

- To calculate the profit for the period for *Yours to View*. / To calculate the income and expenses for *Yours to View* for the period and to compare these results with those of previous years. (A)
  - Brian gets to make all the decisions. / Brian gets to keep all the profits of *Yours to View*. (A)
  - This means that if *Yours to View* (i.e. the business) gets into financial difficulty and cannot meet its debts, Brian (i.e. the owner) can be forced to sell personal assets to repay the business's debts. (M/E)
  - (1) Getting a bank loan.  
(2) Brian (i.e. the owner) could invest more money in the business. (A)
- e. ii. E    iii. A    iv. B    v. F    vi. C (A)

### 1.1 Financial elements and depreciation

p. 8

Many questions in this section can be graded as either 'Merit' or 'Excellence'. Students will achieve a 'Merit' grade if their answer defines concepts, but there is insufficient linkage of the concept with the context of the question. An 'Excellence'-level answer is one that fully integrates examples that are relevant to the context of the question into the definition, and so clearly answers what has been asked.

#### Question One

##### Part A

- Expenses: Advertising; Interest on loan; Telephone; Wages (A = any 3; no abbreviations used)
  - Sources of income: Dividends; Interest received; DVD rentals; Sales (A = any 3; no abbreviations used)

- Video game rental is an income for *Yours to View* because there will be an increase in the asset 'Bank' when the customers pay to hire the video games. Video game rental increases the profit, which increases the equity, and the rentals are not a contribution by the owner / by Brian. (M, E)
- Yours to View* paid for the wide-screen television in the past. The TV is a resource (currently) *controlled* by the entity as they have it locked in their shop and only they decide what is shown on the TV.  
The wide-screen television will provide future economic benefit for *Yours to View* because the customers will see the DVDs playing and this will encourage them to hire more DVDs, and thus increase the DVD rental income, and the Bank account when paid for. (A/M/E)
- Yours to View* depreciates the wide-screen television each year to systematically allocate the loss in future economic benefit this year / to systematically allocate the cost of the television over its useful life. (NOT loss in value.) (M/E)
- Wages paid to staff is a decrease in assets as the asset 'Bank' will decrease as the money is paid to *Yours to View* employees for the work done.  
The wages decreases equity because paying wages causes a decrease in profit for *Yours to View* which in turn decreases the equity and the wages are not a distribution to Brian the owner. (M/E)

##### Part B

- Capital expenditure.
  - Capital expenditure.
  - Revenue expenditure.
  - Revenue expenditure. (A – 3)
- Aronui Marae* received the money in the form of a loan (from a bank) at some time in the past.  
*Aronui Marae* is presently obliged to (they know now that they have to) repay the money to the bank / they have a contract that states how much they currently have to repay and there will be a future sacrifice of assets when *Aronui Marae* repays the loan which decreases their asset 'Bank'. (A/M/E)

## 1.1 The accounting equation

## Question One

a.

Ashleigh's Performance Studio accounting equation								
	Bank	Accounts receivable	Musical equipment	Expenses	Accounts payable	Loan	Equity	Income
A	+10 000					+10 000		
i.	+1 500							+1 500
ii.		+2 000						+2 000
iii.	+200						+200	
iv.	-550			+50		-500		
v.	-80				-90			+10

- b. i. Paid studio electricity \$200; paid for musical supplies \$200 (NOT bill / account); (paid any relevant expenses for a performance studio). ✓ (A)
- ii. Ashleigh took \$300 cash for personal use (or Cash drawings \$300 or Owner paid personal expenses with business money \$300) ✓ (A)
- iii. Purchased new stereo (or other musical equipment) costing \$900. Paid \$100 deposit and put the rest on credit. ✓ (M)
- iv. The business received \$70 in full settlement of \$80 account (giving a \$10 discount). ✓ (M)
- v. Sold musical equipment (e.g. old stereo) which had originally cost \$250, for \$300 on credit (making a gain of \$50 on the sale). ✓ (M)

currency in New Zealand. This means that *Fun Games* must convert the board games / inventory from US\$1 500 to report them at NZ\$2 200 in the statement of financial position of *Fun Games*.

(A = definition of monetary measurement (first sentence), M = reporting the board games as NZ\$2 200 in the *Fun Games* financial statements, E = explains converting the board games from US\$1 500 to NZ\$2 200 to be reported in *Fun Games* statement of financial position because NZ\$ is the common currency)

- e. The accounting entity concept states that the personal transactions / financial affairs of Alex (owner) must be kept separate and distinct from the transactions / financial affairs of his business *Fun Games*. This means that the \$230 paid for telephone and internet must be split. Alex must report the \$150 for *Fun Games* in the income statement of *Fun Games* as Telephone & Internet under administration expenses because this is a business expense. The \$80 spent on Alex's home telephone must be reported in the statement of financial position as Drawings as this is a personal expense for Alex, not for *Fun Games*. This ensures that the personal and business finances are kept separate.

(A = definition of accounting entity (first sentence), M = report the \$80 as drawings because it's a personal expense, E = explains, using the definition, the reporting of the \$150 business expenses in the income statement and the \$80 drawings in the statement of financial position)

## Question Two

- a. Assets will increase as van will increase in *Merv's Movers'* accounts by \$15 000. (A) Liabilities will increase as *Merv's Movers* purchased the van on credit, so accounts payable increases by \$15 000. (A)
- b. Assets will decrease by \$360 as the asset 'Bank' will decrease when *Merv's Movers* pays its workers. (A) Expenses will increase by \$360 as Wages increase. (A)
- c. Asset 'Bank' will increase by \$3 200. (A) Income will increase by \$3 200 as Fees received will increase. (A)
- d. Assets will decrease as Bank will decrease by \$2 300. (A) Equity will decrease as Drawings will increase by \$2 300. (A)  
(A = element increasing or decreasing, M = A plus correct amount and account)

## Part B

- a. The purpose of the statement of financial position is to report the assets, liabilities and equity of *Fun Games* at a point in time on balance day 31 March 2017. (A)
- b. Assets – Equity = Liabilities  
 $3\ 500 + 100\ 000 + 14\ 400 + 9\ 400 + 28\ 400 + 8\ 000 - 120\ 670 = \$43\ 030$  Liabilities (A)
- c. The loan is a liability for *Fun Games* because *Fun Games* received the loan in the past / 2–3 years ago. *Fun Games* has a present obligation to repay the \$28 500 loan by 2020 / over the next 3–4 years. The loan will require a future sacrifice of the assets when *Fun Games* must repay the loan back to the Bank by 2020 which decreases *Fun Games'* bank by \$28 500.

(A = definition, M = definition and two parts of italics, E = all)

- d. i. Going concern means that *Fun Games* will continue to operate into the foreseeable future. This is why the 6-year loan is classified as a non-current liability in the Statement of Financial Position, as the business will keep paying off the loan beyond the next accounting period / will have the loan over the next 3–4 years / intends to continue to operate until at least 2020.
- (A = definition of going concern, M = Achieved plus reference to beyond current year/dates, E = Merit plus reference to non-current liability in the Statement of Financial Position)
- ii. The interest on the loan is revenue expenditure for *Fun Games* because it will have to pay the 6.5%/ \$1 852.50 interest regularly every year until fully paid in 2020. The interest on the loan is an expense that decreases profit in the Income Statement of this current year, and not a one-off type payment, therefore it is revenue expenditure.

(A = regular payment / an expense decreasing profit, M = both Achieved points linked to *Fun Games*, E = Merit with more depth and details of 'why')

## 1.1 Accounting concepts

p. 15

Many questions in this section can be graded as either 'Merit' or 'Excellence'. Students will achieve a 'Merit' grade if their answer defines concepts, but there is insufficient linkage of the concept with the context of the question. An 'Excellence'-level answer is one that fully integrates examples that are relevant to the context of the question into the definition, and so clearly answers what has been asked.

## Question One

## Part A

- a. The main role of an accounting technician is to prepare the journals and ledgers for *Fun Games* / Prepare the financial statements for *Fun Games* / Process transactions for *Fun Games*. (A)
- b. Assets: Increase Computer / Office Equipment \$3 000  
 Liabilities: Increase accounts payable \$3 000 (A)
- c. Unlimited liability means that if *Fun Games* gets into financial difficulty and cannot repay its debts, the personal assets of Alex can be forced to be sold to repay those debts.  
 (A = idea that financial assets are not protected, M = Alex's assets being used to repay *Fun Games'* debts)
- d. Monetary measurement requires all financial elements to be reported in New Zealand dollars as this is the common