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93203Q



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

QUALIFY FOR THE FUTURE WORLD
KIA NOHO TAKATŪ KI TŌ ĀMUA AO!

Scholarship 2021 Accounting

Time allowed: Three hours
Total score: 32

QUESTION BOOKLET

There are FOUR questions in this booklet. Answer ALL questions.

Write your answers in Answer Booklet 93203A.

Pull out Resource Booklet 93203R from the centre of this booklet.

Check that this booklet has pages 2–7 in the correct order and that none of these pages is blank.

YOU MAY KEEP THIS BOOKLET AT THE END OF THE EXAMINATION.

QUESTION ONE

The following information has been extracted from the financial records of *Spellcast Limited* at 31 July 2021.

	NZ\$
Accounts payable	279 600
Accounts receivable	516 000
Allowance for doubtful debts	16 000
Buildings	5 310 000
Accumulated depreciation – Buildings 1 August 2020	965 400
Cash (Dr)	711 700
Contributed equity	6 204 500
Dividends paid	110 500
Inventory	1 177 950
Land	9 172 400
Revaluation surplus – land	3 312 000
Long-term loan payable	4 226 900
Plant and equipment	3 152 000
Accumulated depreciation – plant and equipment 1 August 2020	1 624 850
Retained earnings	2 216 700
Unadjusted profit before income tax	1 304 600

Additional information

- (1) *Spellcast Limited* initially records all items of property, plant, and equipment at cost. Depreciation is calculated on the straight-line basis at the following rates:
- Buildings 2 per cent per annum
 - Plant and equipment 15 per cent per annum
- (2) An item of plant and equipment that originally cost \$350 000 on 1 June 2019 was sold on 1 February 2021. The only entry made to record the sale was:

Dr	Cash	223 750	
	Cr Sales		223 750

Recognising proceeds on sale of item of plant and equipment

- (3) On 1 May 2021, the land and buildings were revalued by Dee Noise, an independent valuer. The revaluation to \$8 226 000 for the land, and to \$5 480 000 for the buildings, was based on the market value of the surrounding properties.

- (4) On 31 July 2021, *Spellcast Limited* issued an additional 140 000 ordinary shares at \$1.90 each. Prospectus and legal fees associated with the share issue were paid, totalling \$12 000. Additionally, indirect administration costs of \$5 000 were paid. No adjustment has been made to take these transactions into account.
- (5) At the reporting date, the directors decided that the allowance for doubtful debts for the current reporting period should be adjusted to 5 per cent of the accounts receivable balance.
- (6) The income tax expense, which has been correctly calculated, is \$105 500.
- (7) The long-term loan is secured over the company's land.

Required

- (a) Prepare the asset and equity sections of the statement of financial position at 31 July 2021.
- (b) Prepare only the appropriate accompanying property, plant, and equipment disclosure note in a format suitable for external reporting purposes.
- (c) Prepare the statement of changes in equity for the reporting period ending 31 July 2021.

Note: Use only the information provided. Ignore GST.

QUESTION TWO

Your friend is the sole shareholder in a company *Tripple X Limited*, which develops electronic game software and manufactures gaming consoles. *Tripple X Limited* operates from premises that it owns in the centre of a major city.

Your friend has prepared the following statement of financial position so that he can apply to a bank for a business loan to expand the company. The relevant extract of the statement of financial position detailing the company's assets is shown below.

Tripple X Limited
Statement of financial position extract at 31 August 2021

	NZ\$
<i>Assets</i>	
Land and buildings at valuation	1 500 000
Goodwill	500 000
Capitalised research costs	600 000

The company relies on word of mouth from the positive experience gamers have in the interactive showroom for the increasing levels of sales of gaming software and consoles. Your friend therefore believes that this represents the 'goodwill' shown in the financial statements. The 'capitalised research costs' relate to work done on a new console that can be controlled through a player's mind. This console has not yet reached the beta testing phase (one of the final steps in the software development lifecycle before a product goes live or is ready for sale).

Your friend is concerned that although the bank was happy with the 'land and buildings at valuation' figure, it was unhappy with the 'goodwill' and 'capitalised research costs' being disclosed in the statement of financial position accompanying the loan application. The bank has therefore asked your friend to redraft the financial statements.

Required

Using the definition and recognition criteria contained in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting (2018 NZ Conceptual Framework), explain to your friend why the bank asked for the financial statements to be redrafted.

QUESTION THREE

Accountants and auditors find themselves overwhelmed by the changes facing the profession. However, failing to face these changes, either through complacency or an absence of visionary leadership, may irreversibly damage the profession.

Many of those we spoke with were concerned about whether the [accounting] profession will even have a future to shape. “The most important issue currently facing the accounting profession, in a nutshell: the battle between obsolescence and innovation,” warned CPA [chartered accountant] Trendlines president Rick Telberg. “The profession as a whole, across the globe, in public practice and in industry, teeters on the brink of competitive irrelevancy and irreversible obsolescence. Businesses are increasingly recognising that they don’t necessarily need a CPA to do what they need most profoundly: apply a discipline of metrics and controls to provide operational insight and strategic leadership.”

Source: Hood, D. (2014). 10 issues that are keeping accountants up at night. *Accounting Today*, 28(10), 54.

Required

Drawing on Resources A–E, critically evaluate the role of the profession in an era of disruption.

QUESTION FOUR

Seasons Limited is an accounting firm that undertakes specialist investigations. During June 2021, a senior manager from *Robo Limited* approached Summer, the senior partner in *Seasons Limited*, to investigate a possible misappropriation of inventory in a business division that sells easily transportable, high-value items.

Summer agreed to undertake the investigation, and in the engagement letter detailed that due to its confidential nature, partners Autumn and Winter would also work on the assignment. The following labour rates were quoted for the investigation.

	\$ Per hour
Summer	450
Autumn	390
Winter	250

Extracts from each of the three partners' time sheets are detailed below.

Summer			
Date	Client	Detail	Hours
27 June	Robo01	Initial meeting with new client	3
28 June	Robo01	Completion of engagement letter and forward to client	1
29 June	Robo01	Briefing meeting with Autumn and Winter	3
30 June	Robo01	Finalisation of engagement with client	3
8 July	Robo01	Reviewing and editing draft report	1
9 July	Robo01	Meeting with lawyers	2
12 July	Robo01	Final meeting with client and presentation of invoice for professional services rendered	4

Autumn			
Date	Client	Detail	Hours
29 June	Robo01	Briefing meeting with Summer and Winter	3
30 June	Robo01	Interview with senior managers	2
7 July	Robo01	Auditing inventory, supplier, and sales transactions	8
8 July	Robo01	Reviewing and editing draft report	2
9 July	Robo01	Meeting with lawyers	2
12 July	Robo01	Final meeting with client	4

Winter			
Date	Client	Detail	Hours
29 June	Robo01	Briefing meeting with Summer and Autumn	3
1 July	Robo01	Review company internal control systems	7
2 July	Robo01	Interview line managers	6
3 July	Robo01	Undertake background checks on key individuals	6
5 July	Robo01	Reviewing supply chain	5
7 July	Robo01	Auditing inventory, supplier, and sales transactions	8
8 July	Robo01	First draft of report	4
9 July	Robo01	Meeting with lawyers	2
12 July	Robo01	Final meeting with client	4

Seasons Limited calculates a predetermined overhead rate to cover the costs of running its practice. Professional labour comprises 80 per cent of *Seasons Limited's* costs. *Seasons Limited* works on an annual budgeted overhead cost of \$3 477 000, which includes total professional salaries of \$2 897 500. The balance comprises other overheads, including administration salaries, rent, power, water, motor vehicle expenses, marketing, depreciation, phone, internet, and professional subscriptions.

Required

- Calculate the predetermined overhead rate per dollar using professional salaries as the cost driver.
- Explain why an accounting firm such as *Seasons Limited* can justify using a single overhead rate to cost each client engagement.
- Calculate the amount *Seasons Limited* should charge for the investigation if it wants to make a profit of 50 per cent on cost.
- Explain to a new inductee why the partners of *Seasons Limited* require all staff to maintain accurate time sheets.
- Summer, the senior partner, decided to invoice *Robo Limited* an amount of \$42 260 for the engagement. What profit would *Seasons Limited* make on this engagement, and how can Summer justify invoicing this amount to her partners?

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