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QUALIFY FOR THE FUTURE WORLD
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Tick this box if there is no writing in this booklet

Scholarship 2021
Accounting

Time allowed: Three hours
Total score: 32

ANSWER BOOKLET

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

Write your answers in this booklet.

Show ALL working. Start your answer to each question on a new page. Carefully number each question.

Check that this booklet has pages 2–24 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.

Question	Score
ONE	
TWO	
THREE	
FOUR	
TOTAL	

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Question One. - Working.
Spellcast Limited.
General Journal

		Dr	Cr
*	Depreciation expense $(\frac{6}{12} \times 0.15 \times 350000)$	26250	
	Accumulated dep. - Plant and equipment		26250
	Disposal account	350000	
	Plant and equipment.		350000.
	Accumulated depreciation $(\frac{20}{12} \times 0.15 \times 350000)$	87500	
	Disposal account.		87500.
*	Loss on sale of plant and equipment.	38750	
	Disposal account.		38750
	Cash	223750	
	Disposal account		223750.
*	Sales	223750	
	Cash (reversing incorrect entry.)		223750.
*	Land revaluation surplus	946400	
	Land		946400.
*	Depreciation expense $(\frac{9}{12} \times 0.02 \times 5310000)$	79650 ~~4062000~~	
	Accumulated depreciation - buildings		79650 ~~1062000~~

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Accumulated depreciation - buildings.	1045050	
Buildings		1045050
Buildings	1215050	
* Buildings rev. surplus		1215050
* Depreciation expense	27400	
Acc. dep. - buildings.		27400
* Depreciation expense	420300	
Acc dep. - plant and equipment.		420300
~~Bank~~ Cash.	254000. ~~266000~~	
~~Retained earnings~~		
~~Prospectus and legal fees~~	~~12000~~	
Contributed equity		~~[illegible]~~ ~~[illegible]~~ 254000.
* Administration costs	5000	
Bank		5000
* Doubtful debts	9800	
Allowance for doubtful debts.		9800.

$\boxed{\text{profit}}$ = income summary - depreciation - loss on sale - sales - admin costs - doubtful debts. - income tax expense.
= $368200.

Q1 Answer

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Spellcast Limited
Statement of Financial Position (excerpt) as at 31 July 2021

Assets	Note	NZ$
Current assets		
Accounts receivable		490200
Cash		960700
Inventory		1177950
Non-current assets		
Property, plant and equipment	1.	14435450
Total assets		17064300
~~Less Liabilities~~		
Equity		
Contributed equity		6458500
Retained earnings		2474400
Revaluations surplus - buildings		1215050
Revaluations surplus - land		2365600
Total equity		12513550

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Spellcast Limited

Notes to the 2021 financial statements

1. Property, plant and equipment.

	Buildings	Land	Plant and Equipment	Total
	NZ$	NZ$	NZ$	NZ$
Opening carrying amount	4344600.	7279600	1553400	13177600
For the year ended 31st July 2021				
Additions	–	–	–	–
Disposals	–	–	(350 000)	(350 000)
Depreciation	(107050)	–	(446550)	(553600)
Revaluations	1215050	(946400)	–	2161450
Closing carrying amount.	5452600	8226000	756850	14435450
As at 31 July 2021				
Cost or valuation	5480 000	8226000	2802 000	16508000
Less accumulated depreciation	(27400)	–	(2045150)	2072550
Closing carrying amount	5452600	8226000	756850	14435450

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

- Buildings: 2% per annum
- Plant and equipment: 15% per annum.

On 1 May 2021 the land and buildings were revalued by Dee Noise, an independent valuer, based on the market value of the surrounding properties.

The gains (or losses) revaluations have been credited to revaluation surpluses in equity.

Had land not been revalued, the carrying amount under the cost model would be $5860400. Had buildings not been revalued the carrying amount under the cost model would be $4238400.

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Spellcast Limited
Statement of Changes in Equity for the year ended 31 July 2021

	Contributed Equity	Retained Earnings	Revaluation Surplus land	Revaluation Surplus buildings	Total
	NZ$	NZ$	NZ$	NZ$	NZ$
Balance at 1 August 2020	6204500	2216700	3312000	–	11733200
changes in equity for 2020/2021					
Proceeds from share issue	254000	–	–	–	254000
Total comprehensive income	–	368200	(946400)	1215050	636850
Distributions					
Share repurchase	–	–	–	–	–
Dividends paid	–	(110500)	–	–	(110500)
Balance at 31 July 2021	6458500	2474400	2365600	1215050	12513550

ASSESSOR'S USE ONLY

Question Four - Answer

a) ~~3477000~~ ~~18945000~~ Overheads are 20% of costs, so $\frac{\$3477000}{0.8}$ = ~~\$...~~ \$17385000 = total estimated costs.

$\frac{\$3477000}{\$1738500}$ = 0.2 so 20¢ ~~out of every~~ per dollar is allocated to overheads.

~~b~~c) ~~direct~~ professional salaries: 17x450 + 21x ~~800~~ 390 + 45x250
= \$27090

+ overheads ~~in~~ of \$5418

Total cost = \$32508.

so should charge \$48762 for 50% profit on cost.

[redacted]

93203

SCHL - Accounting

Question One
Please refer to answer booklet
Question Two
According to the NZ Equivalent to the IASB Conceptual Framework for Financial Reporting, in order to be considered an asset the capitalised research costs (CRC) must meet the definition of an asset and meet the recognition criteria, which is to have a probable inflow of economic benefits and be reliably measured.
An asset is a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has potential to produce economic benefits. The capitalised research costs have come about as as a result of the past event of paying for the work done on the new console, evidenced by a source document such as receipts or invoices. Tripple X Limited (TXL) have present control over the console in that they can exclude other entities from obtaining any benefit that may arise out of owning the console. There is potential to produce economic benefits by marketing and selling this console to customers in the industry, therefore meeting the definition of an asset. However the recognition criteria requires that the information provided when recognising items be useful to users of financial statements, in essence contain relevant information and a faithful representation. Although the CRCs meets the definition of an asset, it does not meet the recognition criteria, as my friend cannot be certain of the probability of economic benefits that will flow from this console, as it has not yet reached the beta testing phase which will determine whether it actually works and can be sold to the general public, meaning it is not relevant to be recognising it as an asset in the Statement of Financial Position. Although this is reliably measured, and therefore faithfully represented, as the cost of the CRCs is a neutral, complete and free-from-error value obtained from payment for the work completed on the new console, because of the uncertainty around the probability to produce economic benefits my friend should not recognise these CRCs as an asset in the Statement of Financial Position and instead should recognise it as an expense in the Statement of Comprehensive Income (Income Statement).
An expense is a decrease in assets, or increase in liabilities, that results in a decrease in profit, and therefore a decrease in equity, other than those relating to distributions to holders of equity claims. The CRCs will cause a decrease in the asset bank and will thus decrease profit, therefore decreasing equity and are not a distribution to holders of equity claims. There is a high probability of an outflow of economic benefit as the costs of the CRCs must be paid for, and are reliably measured by the cost of the work done on the console. They should therefore be recognised as an expense in the Income Statement.

Goodwill is the difference in the price paid when purchasing an entity and net assets. The word of mouth from the positive experience gamers have had in their showrooms should not be considered goodwill, as there has been no purchase of TXL that would offer a difference in net assets and the purchase price. If someone were to buy TXL for an amount higher than the value of net assets, the difference would be considered goodwill as they are obtaining the existing customer base, good reviews, supply contracts etc that are not included in net assets. My friend making an estimate on the goodwill of the business is not a reliable measure of this asset as it is purely based on opinion of how satisfied his customers are with the showrooms, and is therefore not a neutral, free-from-error and complete representation of the goodwill of the company. Therefore the goodwill cannot be considered an asset in the Statement of Financial Position and should instead be ignored from the statements entirely as it is not an appropriate valuation.

8 7

My friend should therefore redraft the financial statements with the only asset in the excerpt being the 'Land and buildings at valuation' account.

Question Three
The Covid 19 pandemic shook the world to its core and has shown many industries, the accounting and auditing profession included, that 'business as usual' might no longer be the best way forward. Businesses found many employees could be just as productive working from home, cloud-based computing and networking was fast-tracked to allow for collaboration online and the advances in technology continue to rise. It is clear this is a disruptive time for all, and in order to adapt to this disruption there are three things the accounting and auditing profession should be focusing on if they want to remain relevant in the troubling times ahead, namely recognising the growing number of small business enterprises (SMEs) and the changing needs of businesses in general, adapting to and utilising the improving technologies we see as a result of rising globalisation and steering their business model towards face-to-face interactions with clients to provide direction and support in these uncertain times. It is time for change in the accounting and auditing profession, and in a changing world what better time is there to start than right now?
Globalisation and advancements in how business is carried out over the years has meant entrepeneurship and SMEs have become increasingly popular to date. Most of the time these small businesses simply cannot afford or

[redacted]

will look to reduce the costs of accounting and auditing fees because, as Resource A states, "the increasing popularity of intuitive and cost-effective tools...means the accounting side of business is becoming much easier to DIY." Many of the services offered by accountants are no longer in need as there are other, less costly methods of achieving the same outcome, evidenced by Adam Davy stating "most New Zealand businesses won't need accountants in the future if they're just after historical numbers." (Resource B) Accountants must realise it is their knowledge of how to *use* the information rather than how to read or write it that is what is becoming most highly sought after by businesses, especially ones that cannot afford it like many of the SMEs in New Zealand today. Providing useful and professional guidance on where to take their business is the key to surviving this disruption caused by the surge in innovation of technology and it is up to those with the knowledge, the accountants and auditors of the world, to take up this responsibility if they hope to remain relevant and viable in the future. Recognising that the accounting and auditing profession is changing through the development of technology aimed at automating many tasks within the industry is the next step to understanding where to go from here. There is the common argument that the jobs in the profession will soon be replaced by technology, but it is up to the accountants to decide whether that argument holds true or not. We are approaching a defining moment in the accounting profession that will decide whether they are able to "innovate or fade away" (Resource A) - in essence, accountants must decide between using the developments in technology to their advantage to help provide advice and guidance to their clients or allowing it to take over their job of analysing numbers and historical figures. It is time to embrace the move to utilising new technology in the industry, as "Advanced technology lets auditors do audits faster, with a reduced risk of error, and also adds value." (Resource E). Instead of letting this technlogy move in and replace the demand for services in the profession, seizing the opportunities presented with this new technology is the key to ensuring the accounting industry will survive well into the future. It is vital that accountants and auditors keep pace with the evolving technology present today and ensure it works with them, not against them, to provide the best possible service to a wide range of clients who need the knowledge and advice of a professional.

Finally, Resource C mentions "consumers rank accountants as the most competent source of financial advice," but most importantly are "highly trusted...ranked just below family and friends..." There is a clear opportunity arising here for accountants to utilise their inter-relational skills and reinforce their connection with clients through face-to-face interactions that provide this guidance and future-thinking mentioned earlier. Although technology is racing ahead of accountants in terms of its number-crunching and forecasting ability, it will be a long time before technology rises above accountants on the list of most trusted group we interact with. It is therefore time accountants start using this to their advantage and selling their services through human interactions and face-to-face discussions with clients on strategic decisions impacting the future and advice given based on the numbers provided by the technology. Resource C also states "only a small percentage of consumers use accountants for advice." This is simply not sustainable in future, as technology is quickly becoming more and more able to provide this analysis of numbers in the everyday operations of a business, which is something accountants are focusing too much on at the moment and should instead be using the relationships they have with their clients to discuss future plans for their business and what steps to put in place to achieve long-term success.

The world is changing, technology is changing, the needs of business - small and large - are changing and it is time the accounting profession followed suit. Through a proper analysis of what small and large businesses' demands are nowadays, a streamlined integration of new technologies into the services provided by accountants and a focus on building face-to-face relationships with clients, the accounting and auditing profession can expect to remain in demand and sustainable despite these disruptive events that threaten the jobs of many of those involved in the industry. However, these changes will not be made without cohesive action. As Adam Davy put it so well, it will all depend on "whether the profession is able, willing, and prepared to change."

Question Four

a) Please refer to answer booklet

b) Seasons Limited (SL) can justify using a single overhead rate to cost each client engagement as there is only direct labour and other less significant overheads involved in the costing process. Unlike a capital-intensive manufacturing plant, there is not a lot of machinery working that require electricity, maintenance, depreciation etc, so only having one single overhead rate driven by professional salaries is adequate for the costing process.

c) Please refer to answer booklet

d) Overhead costs are costs not directly attributable to a specific job. They are applied using a cost driver (in this case professional salaries) and are used to spread out indirect costs over multiple jobs throughout the year. It is important to keep an accurate time sheet, as not only are the Summer and their partners paid by the hour, overheads are also allocated to the job based on the amount of hours spent working on the specific job. If one partner was to incorrectly record their hours spent on a job, this would result in an over- or under-applied overhead. Over-applying an overhead will increase the overall final price of the job, as more labour hours have been allocated to it so more overhead is allocated to it. This can result in pricing becoming less competitive and possibly resulting in lost customers as a result. Under-applying an overhead can result in the overall cost of overheads at the end of the year not being covered as not enough was charged per job to account for overheads through the year. This means it is imperative to keep an accurate time sheet as then accurate overheads can be recorded and a competitive price can be charged that still covers costs in the long run.

e) Charging the amount of $42,260 will result in $9752 profit for SL. Although this is not as much profit as they might make if they were to charge 50% on cost or some figure similar, it may be because of two reasons. The first is that the partner, Winter, appeared to spend a lot longer on the job than Summer and Autumn (45 hours compared to 17 and 21 hours respectively). Winter is also on a significantly lower hourly rate than the two partners. This may indicate that Winter is relatively new to the business and is still learning how the business operates so can be expected to take longer to complete her job than her other two partners. This will have resulted in a higher direct labour cost, and thus higher overhead being applied to the job than what was expected by Robo Limited, so Summer may have lowered the price to charge a fair amount to their client that ensures a competitive pricing outcome. The second reason might be that this is appears to be the first interaction with Robo Limited, so Summer may want to charge their client a low price to establish a loyalty to SL that ensures if they want sound, affordable specialist investigations next time then they should come to SL again. Robo Limited also operates in an industry that sells easily transportable, high value items which is likely to be prone to events such as the one being investigated by SL in this example. Therefore these two reasons may be justification for why Summer would charge a lower price and receive a lower than usual profit when charging Robo Limited.

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