

Assessment Schedule – 2021**Accounting: Scholarship (93203)****Question ONE solution****Spellcast Limited**

Notes

NZ\$

Statement of financial position**At 31 July 2021****Non-current assets**

Property, plant, and equipment	1	14 496 700
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Current assets

Inventory	2	1 177 950
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Accounts receivable (516 000 – 16 000 – 9 800)	3	490 200
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Cash (711 700 + 266 000 – 17 000)		960 700
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 2 628 850

Total assets		17 125 550
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Non-current liabilities

Long-term loan		4 226 900
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Current liabilities

Accounts payable		279 600
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Income tax payable		105 500
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 385 100

Total liabilities		4 612 000
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Net assets		12 513 550
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This is not required, but is provided for completeness.

Equity

Contributed equity		6 458 500
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Revaluation surplus land		2 365 600
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Revaluation surplus building		1 215 050
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Retained earnings (2 216 700 + 368 200 – 110 500)		2 474 400
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 12 513 550

Spellcast Limited**Statement of movements in equity****For the year ended 31 July 2021**

	Contributed equity NZ\$	Revaluation surplus		Retained earnings NZ\$	Total NZ\$
		Land NZ\$	Buildings NZ\$		
Balance 1 August 2020	6 204 500	3 312 000	–	2 216 700	11 733 200
Contributions by owners	254 000				254 000
Total comprehensive income for the year		(946 400)	1 215 050	368 200	636 850
Distributions				(110 500)	(110 500)
	6 458 500	2 365 600	1 215 050	2 474 400	12 513 550

1 Property, plant, and equipment

	Land	Buildings	Plant and equipment	Total
At 31 July 2020				
Cost or valuation	9 172 400	5 310 000	3 152 000	17 634 400
Accumulated depreciation	–	(965 400)	(1 624 850)	(2 590 250)
Net book value	<u>9 172 400</u>	<u>4 344 600</u>	<u>1 527 150</u>	<u>15 044 150</u>
Year ending 31 July 2021				
Opening net book value	9 172 400	4 344 600	1 527 150	15 044 150
Additions	–	–	–	–
Disposals	(–)	(–)	(262 500)	(262 500)
Revaluation surplus	(946 400)	1 215 050	–	268 650
Depreciation expense	–	(107 050)	(446 550)	(553 600)
Net book value	<u>8 226 000</u>	<u>5 452 600</u>	<u>818 100</u>	<u>14 496 700</u>
At 31 July 2021				
Cost or valuation	8 226 000	5 480 000	2 802 000	16 508 000
Accumulated depreciation	–	(27 400)	(1 983 900)	(2 011 300)
Net book value	<u>8 226 000</u>	<u>5 452 600</u>	<u>818 100</u>	<u>14 496 700</u>

The land was revalued on 1 April 2021 by Dee Noise, an independent valuer, to fair market value based on the fair value of surrounding properties. The deficit on revaluation has been debited to the asset revaluation reserve through other comprehensive income.

If land was stated at historical cost, the amount would be \$5 860 400.

If buildings were stated at historical cost, the amount would be \$4 238 400.

Land is mortgaged to the value of \$4 226 900.

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

Dr		Depreciation	26 250	
	Cr	Accumulated depreciation		26 250
		<i>Depreciation to until date of sale on plant sold</i>		
Dr		Accumulated depreciation	87 500	
	Cr	Disposal account		87 500
		<i>Write-off of accumulated depreciation</i>		
Dr		Sales	223 750	
	Cr	Disposal account		223 750
		<i>Reallocation of sales proceeds</i>		
Dr		Disposal account	350 000	
	Cr	Plant and equipment		350 000
		<i>Write-off of cost of plant and equipment sold</i>		
Dr		Depreciation	79 650	
	Cr	Accumulated depreciation		79 650
		<i>Depreciation on buildings to date of revaluation</i>		
Dr		Loss on disposal of asset	38 750	
	Cr	Disposal account		38 750
		<i>Recognising loss on disposal of asset</i>		
Dr		Accumulated depreciation	1 045 050	
	Cr	Buildings		1 045 050
		<i>Writing off accumulated depreciation on revaluation</i>		
Dr		Buildings	1 215 050	
	Cr	Gain on revaluation (OCI)		1 215 050
		<i>Recognising gain on revaluation</i>		
Dr		Gain on revaluation (OCI)	1 215 050	
	Cr	Revaluation surplus		1 215 050
		<i>Transfer of gain from OCI to revaluation surplus</i>		
Dr		Depreciation	27 400	
	Cr	Accumulated depreciation		27 400
		<i>Depreciation on revalued buildings</i>		
Dr		Bad debts/Allowance for doubtful debts	9 800	
	Cr	Allowance for doubtful debts		9 800
		<i>Adjustment to allowance for doubtful debts</i>		
Dr		Depreciation	420 300	
	Cr	Accumulated depreciation		420 300
		<i>Depreciation on plant (\$3 152 000 – \$350 000)</i>		

Dr		Cash	266 000	
	Cr	Contributed equity		266 000
		<i>Receipt of cash from issue of equity (140 000 × \$1.90)</i>		
Dr		Loss on revaluation (OCI)	946 400	
	Cr	Land		946 400
		<i>Recognising loss on revaluation of land through OCI</i>		
Dr		Revaluation surplus land	946 400	
	Cr	Loss on revaluation (OCI)		946 400
		<i>Transfer loss on revaluation to revaluation surplus</i>		
Dr		Contributed equity	12 000	
Dr		Administration expenses	5 000	
	Cr	Cash		17 000
		<i>Accounting for expenses associated with share issue</i>		
Dr		Income tax expense	105 500	
	Cr	Income tax payable		105 500
		<i>Recognising income tax expense for the year</i>		

Journal entries are not required but are provided for completeness, as a large number of candidates complete these as part of their workings.

Judgement

	Score		
Outstanding Scholarship	7, 8	Exhibits the technical ability to correctly determine all the relevant financial statement figures (particularly retained earnings) from the scenario provided, and ensures that they correctly flow through to the statement of financial position and statement of changes in equity. <i>AND</i> Exhibits the technical skills necessary to correctly prepare the statement of financial position and statement of changes in equity, including accompanying note. <i>AND</i> Provides evidence of convincing communication in that the statement of financial position and statement of changes in equity and accompanying notes are correctly and neatly prepared, and are correct in all respects and in a format suitable for external reporting purposes.	
		Exhibits the technical ability to correctly determine the majority of the relevant financial statement figures (particularly retained earnings) from the scenario provided, and ensures that the ones made flow through to the statement of financial position and statement of changes in equity. <i>AND</i> Exhibits the technical skills necessary to correctly prepare the statement of financial position and statement of changes in equity, including note. <i>AND</i> Provides evidence of convincing communication in that the statement of financial position and statement of changes in equity and accompanying notes are prepared in a format suitable for external reporting purposes.	
Below Scholarship	3, 4	Exhibits the technical ability to correctly determine some of the relevant financial statement figures from the scenario, and ensures that the ones made flow through to the statement of financial position and statement of changes in equity. <i>AND</i> Exhibits some of the technical skills necessary to correctly prepare the statement of financial position and statement of changes in equity, including note in a format suitable for external reporting purposes. <i>OR</i> Has the technical ability to calculate the adjustments, but does not adjust the statement of financial position and statement of changes in equity, set out their answer clearly and neatly, or show any workings. <i>AND</i> Fails to provide evidence of convincing communication in that they fail to set out the statement of financial position and statement of changes in equity clearly, neatly, or use the correct terminology. Accompanying notes incomplete.	
		2	Limited understanding of the material, not at Scholarship level.
		1	Minimal amount of relevant evidence, not at Scholarship level.
		0	Missing answer or irrelevant response.

Question TWO

Suggested solution

- Only those items that meet the definition of asset should be included in the statement of financial position.
- Do the three items listed meet the definition of an asset? An asset is a present economic resource controlled by the entity as a result of past events.
- What can we take from the definition?
 - *Tripple X Limited* has a number of economic resources that it controls that provide it with certain rights. These rights arose through a number of purchases, a contract, and *Tripple X Limited* has control over the rights.
 - The rights arose as a result of past events. The past event was the signing of the contract for the revaluation or undertake research or purchase the goodwill.
 - *Tripple X Limited* has rights that have the potential to produce economic benefits. There is the expectation that assets will be used to generate economic benefits in the form of sales/cash that will flow to *Tripple X Limited*.
- The three elements of the definition appear to be met, so the entry to recognise the three separate assets on 31 August 2021 is correct.
- However, to recognise the asset in the statement of financial position at 31 August 2021, your friend needs to make a judgement that the disclosure of the asset will provide information that is both relevant and representationally faithful to the bank.
- Two factors to consider in determining whether information disclosed by an asset is relevant are:
 - existence uncertainty; and
 - probability associated with the expected inflow of economic benefits.
- *Tripple X Limited* has a clear right to make use of the assets, so there is no existence uncertainty.
- However, there is a high degree of measurement uncertainty associated with the inflow of economic benefits. Information about the research costs or goodwill might therefore not be relevant to the users of the financial statements and in particular the bank.
 - Given that it would be difficult in the circumstances to attribute a value that faithfully represents the value of the goodwill or the research, coupled with the measurement uncertainty that undermines faithful representation, it is not appropriate to recognise the goodwill or research costs in the statement of financial position.
 - Excluding the goodwill and the research costs from the statement of financial performance is the most appropriate action to take in this case.

Judgement

	Score	
Outstanding Scholarship	7, 8	<p>Thorough understanding of the definition and recognition criteria for financial statement elements contained in the 2018 NZ Conceptual Framework.</p> <p><i>AND</i></p> <p>Draws on the scenario and correctly applies the definition and recognition criteria to convincingly argue that:</p> <ul style="list-style-type: none"> • the amounts paid for the goodwill and research are assets • at the end of the reporting period these do not meet the recognition criteria, and in particular, faithful representation. Provides an appropriate recommendation on how to deal with these assets. <p><i>AND</i></p> <p>Clearly uses convincing communication to convey their point of view. The answer must be succinct. (For 7, the level of communication and innovation not as developed as above).</p>
		<p>Thorough understanding of the definition and recognition criteria for financial statement elements contained in the 2018 NZ Conceptual Framework.</p> <p><i>AND</i></p> <p>Draws on the scenario and correctly applies the majority of the definition and recognition criteria to convincingly argue that:</p> <ul style="list-style-type: none"> • the amounts paid for the goodwill and research are assets • at the end of the reporting period, these items do not meet the recognition criteria. <p><i>AND</i></p> <p>Clearly uses communication to convey their point of view. However, the answer may not be succinct. (For 5, the level of communication and innovation not as developed as above).</p>
Below Scholarship	3, 4	<p>Some understanding of the financial statement elements contained in the 2018 NZ Conceptual Framework.</p> <p><i>AND</i></p> <p>Draws on the scenario and correctly applies some of the definition and recognition criteria to convincingly argue that the amounts paid for the goodwill and research are assets. May understand parts of the recognition criteria.</p>
	2	Limited understanding of the material, not at Scholarship level.
	1	Minimal amount of relevant evidence, not at Scholarship level.
	0	Missing answer or irrelevant response.

Question THREE

This is an open-ended question, with the material from the resources providing the initial point of reference.

The key in the discussion is how can chartered accountants deal with disruption and changing technology while maintaining public confidence? Do the candidates recognise this tension, and how do they deal with it?

Judgement

	Score	
Outstanding Scholarship	7, 8	<p>Draws on the resource material and produces an outstanding and sophisticated critical evaluation of the role of the profession in an era of disruption. Shows a high level of insight.</p> <p><i>AND</i></p> <p>Demonstrates sophisticated abstraction and integration of the resource material.</p> <p><i>AND</i></p> <p>Demonstrates a high degree of critical thinking and analysis, with candidates outlining the steps a member of the accounting profession should take to prevent complacency or an absence of visionary leadership from irreversibly damaging the profession.</p> <p><i>AND</i></p> <p>Demonstrates independent reflection and extrapolation relevant to the evaluation of the resource material.</p> <p><i>AND</i></p> <p>Provides evidence of convincing communication. Answers are planned, succinct, and clearly articulated. (For 7 not to the same level as above.)</p>
Scholarship	5, 6	<p>Draws on the resource material and produces an outstanding analysis that goes beyond a descriptive answer of the steps a member of the accounting profession should take to prevent complacency or an absence of visionary leadership from irreversibly damaging the profession.</p> <p><i>AND</i></p> <p>Demonstrates a high level of analysis and critical thinking, but not quite the depth of analysis necessary to reach the level required for Outstanding Scholarship.</p> <p><i>AND</i></p> <p>Incorporates a competent level of integration and synthesis of the resource material.</p> <p><i>AND</i></p> <p>The discussion and evaluation are clear, logically developed, and precise.</p>
Below Scholarship	3, 4	<p>Produces a sound analysis of the steps a member of the accounting profession should take to prevent complacency or an absence of visionary leadership from irreversibly damaging the profession.</p> <p><i>AND</i></p> <p>Produces a clear but unsupported discussion and evaluation.</p> <p><i>AND</i></p> <p>Demonstrates some level of integration and synthesis of the resource material.</p> <p><i>AND</i></p> <p>Demonstrates some application of the resources, but is largely descriptive with insufficient evidence of independent analysis and evaluation.</p> <p><i>AND</i></p> <p>Shows little evidence of planning, is very descriptive, or may merely regurgitate the material provided in the resources.</p> <p><i>AND</i></p> <p>Critical thinking is limited or not evident.</p>
	2	Limited understanding of the material, not at Scholarship level.
	1	Minimal amount of relevant evidence, not at Scholarship level.
	0	Missing answer or irrelevant response.

Question FOUR

(a)

Calculation of overhead recovery rate based on professional labour dollars.

Annual budgeted overhead costs	\$3 477 000
Less professional salaries	\$2 897 500
Overheads	579 500
Overhead \$ rate based on professional salaries ($\$579\,500 \div \$2\,897\,500$) =	\$0.20

Essentially, the overhead recovery rate is \$0.20 in the dollar.

(b)

As overhead represents only 20 cents per dollar of professional salaries, *Seasons Limited* needs to decide whether it needs to spend time and money developing and applying a system to calculate a different rate for each level of partner.

Based on an amount of 20 cents in the dollar, the costs of keeping track of the different overhead costs (such as administrative and support labour, telephone calls, and photocopying) and allocating them to the different levels of partners does not appear to be justified. It could be argued that a single rate based on professional salaries may also reflect reality in a sense. As partners are paid more than investigators and clerical staff, their charge-out rate will also attract a higher allocation of overhead. Because they will do more of the higher-skilled accounting tasks, they may have less time to spend on support tasks, and so will need to employ support staff to carry out these functions on their behalf, thereby justifying the higher level of overhead charged out.

(c) Client cost sheet: fraud investigation

Date	Details	Summer	Autumn	Winter
27 June	Initial meeting with new client	3 hours		
28 June	Completion of engagement letter and forward to client	1 hour		
29 June	Briefing meeting with Autumn and Winter	3 hours	3 hours	3 hours
30 June	Finalisation of engagement with client	3 hours		
30 June	Interview with senior managers		2 hours	
	Total hours	10 hours	5 hours	3 hours
	<i>Charge-out rate</i>	450	390	250
	Total costs June	4 500	1 950	750
1 July	Review company internal control systems			7 hours
2 July	Interview line managers			6 hours
3 July	Undertake background checks on key individuals			6 hours
5 July	Reviewing supply chain			5 hours
7 July	Auditing inventory, supplier, and sales transactions		8 hours	8 hours
8 July	First draft of report			4 hours
	Reviewing and editing draft report	1 hour	2 hours	
9 July	Meeting with lawyers	2 hours	2 hours	2 hours
12 July	Final meeting with client	4 hours	4 hours	4 hours
	Total hours	7 hours	16 hours	42 hours
	<i>Charge-out rate</i>	450	390	250
	Total costs July	3 150	6 240	10 500

A simpler way would be to total hours and multiply by the charge-out rates.

Total professional labour	27 090
Overhead @ 20%	5 418
Total cost of job	\$32 508
Required profit margin 50% on cost	16 254
Amount to invoice	\$48 762

(d)

Staff should keep detailed time sheets for all their work to:

- (1) account for how they spend their time;
- (2) enable partners to plan staffing needs;
- (3) evaluate the capacity of the practice to undertake additional work;
- (4) calculate the cost of completing the investigation, in total, and by stage;
- (5) evaluate overhead recovery;
- (6) justify the cost to the client;
- (7) enable partners to estimate the costs of undertaking any future investigations of a similar nature.

(e)

Summer invoicing *Robo Limited* \$42 260 means that although the practice will recover all its direct and support costs, it will not earn a profit of 50 per cent on cost, but rather 30 per cent on cost.

Reasons why Summer may have made the decision not to invoice at 50 per cent profit include:

- It is a competitive market.
- The practice may have 'idle capacity' and be happy to keep the staff occupied while it waits for activity levels to increase.
- By undertaking the investigation, *Seasons Limited* may be able to secure the client for other accounting or auditing work.
- If *Seasons Limited* does not take on this client, they may engage a competitor to do it, thereby losing the benefits of any future work.
- *Seasons Limited* has a reputation for undertaking investigative work and want to maintain or continue to build reputation with other professional practices such as the lawyers.

Judgement

	Score	
Outstanding scholarship	7, 8	Thorough and insightful understanding of job costing/ decision-making in the context of <i>Seasons Limited</i> . <i>AND</i> Demonstrates the technical ability to make the correct supporting calculation for determining overhead rate per dollar using professional salaries as the cost driver. Explains why a single overhead rate can be justified, calculates the amount charged for the investigation, and justifies invoicing a lower amount. <i>AND</i> Shows a high degree of critical thinking, technical ability thinking and analysis, and convincing communication. Produces a well-constructed response that clearly communicates their recommendation. (For 7, the level of communication not as developed as above).
		Scholarship
Scholarship	5, 6	Illustrates some understanding of job costing/ decision-making in the context of <i>Seasons Limited</i> . <i>AND</i> Demonstrates the technical skills necessary to support their answer with correct calculations, including calculation for determining overhead rate per dollar using professional salaries as the cost driver. Explains why a single overhead rate can be justified, calculates the amount charged for the investigation, and includes some justification for invoicing a lower amount. <i>AND</i> Thorough understanding of management decision-making in this context. Presents evidence of critical thinking and analysis in their discussion, but may have some inconsistencies within their response. (For 5, the understanding, critical thinking, technical skills, and decision-making not as detailed as above.)
		Below Scholarship
Below Scholarship	3, 4	Provides some understanding of job costing/ decision-making in the context of <i>Seasons Limited</i> . <i>AND</i> Partially correct calculations, but some information misinterpreted. <i>AND</i> Some understanding of job costing/ management decision-making. Does not calculate the overhead rate per dollar using professional salaries as the cost driver or the amount to be charged for the investigation. <i>AND</i> Provides limited evidence of critical thinking. (For 3, limited understanding of management decision-making. Does not calculate the amount to be charged for the investigation.)
		2
	1	The answer contains a minimal amount of relevant evidence.
	0	No response. No relevant evidence

Cut Scores

Scholarship	Outstanding Scholarship
17 – 23	24 – 32