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NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

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

Scholarship 2022
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.

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The examination starts on the following page.

QUESTION ONE

Modern-day slavery is a current social concern.

> We may look on the very idea with horror, [redacted] poses a potential risk for New Zealand businesses operating internationally.
>
> (Adapted from) The University of Auckland News, 21 September 2021, https://www.auckland.ac.nz/en/news/2021/09/21/modern-slavery-time-for-nz-legislation.html

Required

Using the resources set out in **A** to **E**, critically evaluate whether the accounting profession should play a role in combating modern-day slavery.

QUESTION TWO

Otago Stone Limited mines schist, a natural stone with a rich texture and colour used in high value building projects. The following Contribution Margin Statement relates to the reporting period ending 31 December 2021.

Otago Stone Limited
Contribution Margin Statement for the year ended 31 December 2021

	$
Sales	2 088 000
Variable costs	
Manufacturing	(684 000)
Selling	(432 000)
Contribution margin	972 000
Fixed costs	
Manufacturing	(216 000)
Selling	(234 000)
Administration	(110 000)
Net profit	412 000

Additional information

For the reporting period ended 31 December 2021, *Otago Stone Limited* sold 3 600 tonnes of natural stone to customers in the South Island. The existing resource consent permits the company to quarry only 6 000 tonnes of natural stone a year. *Otago Stone Limited*'s management expect sales volumes for the 2022 reporting period to increase to 4 500 tonnes.

Prices and costs are expected to remain at the same level as for the reporting period ending 31 December 2021.

Required

Draft a report to *Otago Stone Limited* in which you evaluate the following independent scenarios and recommend which of the options the company should implement for 2022. Show all your workings to support your answer.

1. An overseas customer has offered to purchase 3 000 tonnes of natural stone at $520 per tonne.

2. Management is considering expanding sales into the North Island. They estimate that the cost of advertising this expansion would be $229 900 per year. An additional commission of $80 per tonne would be paid for sales in the North Island. They expect to sell an additional 950 tonnes in 2022.

3. As natural stone extraction is labour intensive, management are considering purchasing a machine at a cost of $1 170 000. Introducing this machine into the production process would reduce variable costs by $50 per tonne. This machine would be depreciated on a straight-line basis over 10 years.

QUESTION THREE

Your friend has a small company, *Boats R Us Limited*, that patented a new material that the company uses in the manufacture of inflatable boats. When your friend set up *Boats R Us Limited*, a mutual acquaintance lent the company $500 000 to lodge patents protecting the material and the boat design. The loan was for an initial period of 8 years, and interest at the rate of 6 percent per annum was payable. *Boats R Us Limited* also provides a written manufacturer's guarantee on all the boats it sells. This guarantee will replace or repair any boats that experience manufacturing defects within three years of the date of sale.

After three years of modest sales, *Boats R Us Limited* has yet to make a profit. To protect the company's intellectual property, your mutual acquaintance has indicated that he is prepared to forgive the loan, which currently stands at $590 000. Although the inflatable boats are sold with a manufacturer's guarantee, your friend does not believe that any provision for warranty should be reflected in the statement of financial position. He bases his position on two factors: first, the difficulties in determining a reliable measurement of future warranty claims based on sales to date, second, the company has yet to receive any major warranty claims.

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 what the implications are of the above events on *Boats R Us Limited*'s financial statements.

QUESTION FOUR

The following information has been extracted from the financial records of *Coldbreeze Limited* at 31 August 2022.

	NZ$
Accounts payable	1 321 500
Accounts receivable	1 412 200
Allowance for doubtful debts	71 700
Buildings	6 060 000
Accumulated depreciation – Buildings 1 September 2021	1 110 200
Bank (Dr)	1 615 600
Contributed equity	7 135 200
Dividends paid	54 500
Inventory (finished goods)	2 199 400
Land	10 548 300
Revaluation surplus – land	3 806 800
Long-term loan payable	6 191 200
Plant and equipment	3 625 600
Accumulated depreciation – plant and equipment 1 September 2021	1 868 600
Income tax paid in advance (Provisional tax)	200 000
Retained earnings	2 549 200
Unadjusted profit before income tax	1 661 200

Additional information

1. The long-term loan is secured over the company's land. Interest is charged at the rate of 5 percent per annum.

2. The average issue price of *Coldbreeze Limited*'s shares was $1.20. On 31 August 2022, *Coldbreeze Limited* bought back 450 000 ordinary shares at $2.25 each. No adjustment has been made to take this transaction into account.

3. A debtor who owed *Coldbreeze Limited* $18 200 on 31 August 2022 was declared bankrupt on 14 August 2022. This has not yet been adjusted for. At the reporting date the directors decided that the allowance for doubtful debts for the current reporting period should be adjusted to 2.5 percent of the accounts receivable balance.

4. The income tax expense, which has been correctly calculated, is $178 800.

5. *Coldbreeze 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 percent per annum
   - plant and equipment – 15 percent per annum.

6. An item of property, plant and equipment that cost $449 600 on 1 August 2020 was destroyed by fire on 1 February 2022. The only entry made to record the insurance proceeds was:

Dr	Cash	300 000	
Cr	Sales		300 000

Recognising insurance proceeds on item of plant and equipment destroyed by fire

7. On 1 May 2022, the land and buildings were revalued by *Spin Ditty*, an independent valuer. The revaluation of $9 460 000 for the land, and $6 300 000 for the buildings was based on the market value of the surrounding properties.

Required

Prepare only the asset section of the Statement of Financial Position at 31 August 2022 in a format suitable for external reporting purposes. Provide only those asset notes that can reasonably be determined from the above information.

Note: Use only the information provided. Ignore GST.