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# S

93203A



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## OUTSTANDING SCHOLARSHIP EXEMPLAR



NEW ZEALAND QUALIFICATIONS AUTHORITY  
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QUALIFY FOR THE FUTURE WORLD  
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### Scholarship 2022 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.

Do not write in any cross-hatched area (▨). This area may be cut off when the booklet is marked.

**YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.**

## Question One

Accountants are the backbone to any business - why? It's simple - without cash, operations of any business aren't able to be carried out.

Because ~~each~~ cash & finance link to all sectors of a business, accountants know exactly where the supply of raw materials come from, where it goes etc. Therefore, with the great problem of modern slavery looming over all our heads, the accounting profession is in a perfect ~~good~~ place to play a role in combatting modern slavery.

As Covid has come & left it's mark on the world, accounting, or more traditional accounting practices of punching in numbers have become more automated, accountants now have a lot more time on their hands. As Resource B puts it, "they have in recent years been more heavily involved in developing useful ~~to~~ non-financial information about corporate "activities". As accountants move from the traditional roles to advisory, assurance & auditing, they are perfectly in place to investigate where a businesses operations are carried out.

As Resource D puts it, one of the main things companies can do is educating their staff to look for clues & suspicions in the

financials rather than just purely entry <sup>numbers</sup> things.  
 Financial information can tell a lot, especially if suppliers are insanely cheap & can pose questions like the ones in resource D "why are we able to get such a good deal from this supplier?"

Modern slavery is not something that can be easily detected, but cash always has to go somewhere, & therefore, accountants can be some of the first ones to detect ~~the~~ any exploitation of people happening.

Detecting modern slavery is all well & good, but accountants can also help prevent the need for modern slavery. Through management accountants, who budget ~~help~~ ~~of~~ ~~find~~ the company's operations & see it through in a financial lens. Resource D also talks about ways that accountants can help make sure the leadership team don't push for slavery. As they are in charge of budgets, they can run the costs & see what option is cheapest & most beneficial for the business. They can plan a way for the business to receive a good product or supply of materials without having to resort to slave labour, by proper management of payroll. \*

As mentioned earlier, accounting & auditing in the traditional sense have become very automated - which leaves a lot of spare time. They could use this to their advantage in combatting modern slavery.

First, they can carry out audits of not just the company's financials but also how they carry it out - ~~try~~ trying to connect the financials & what it really relates to such as wages below minimum wages etc. & report them to authorities.

Accountants also have a key role in helping abolish slavery as they are typically one of the key professional services that all businesses will engage with. "Not many other professions have the ~~opportunity~~ opportunity as said earlier "accountants are the back bone to any business" - whether it be agriculture, engineering or beauty. They, as well as having accounting knowledge will be able to familiarise themselves with the going-ons of the business & what seems to be a ~~norm~~ the norm, such as competitor's prices of a similar product or service the company is utilizing etc. \*

Accountants are in an optimal place to combat slavery. What however, needs to be utilised more is education, action & prevention. If accountants are ~~to~~ taught the main

Med plays and all employees are not just encouraged but bound to follow the code of conduct. <sup>©</sup> Due to finance being tied to every part of a supply chain, & financials being able to communicate what the ~~peop~~ workers being exploited can't, as M. Vittala says "with position of unique oversight & influence, accountants can help help businesses to prevent blatant or in advertent use of exploited labor."

\* because all businesses have to think about financials, leadership will have to rely on management accountants & their knowledge of what is financially right for the business as well as ethical.

⊕ Numbers also provide a black & white case - they prove a lot of cases - such as if ~~workers are~~ the pay roll doesn't reconcile with the number of workers in the business etc - compared to other pieces of evidence, they are quite verifiable, particularly if the accountants are educated & skilled in detecting these kind of scenarios.

© Modern slavery can be detected a lot earlier & efforts can be made to prevent it & punish those responsible.

In ~~December~~ the year  
Question Two

In the period 31 December 2021, Otago Stone Limited (OSL) sold 3,600 tonnes of natural stone to customers for \$580 each ( $2,088,000 \div 3600$ ). They have three independent scenarios, one of which they can implement in FY22.

Scenario One

The company in 2021 sold each tonne of natural stone at \$580, and this customer wants a discount of \$60 & buy it at \$520.

At the moment, the contribution margin for each tonne

$$i) \quad 580 - \overset{190}{\cancel{390}} = \overset{120}{\cancel{190}} = \overset{\$270,000}{\cancel{231.25}} \text{ or } \cancel{399}$$

However, if the company do decide to sell the stone to this customer for \$520, the contribution margin would be ~~\$190~~ <sup>\$130.00</sup>, which is a lot lower. <sup>\$140 less would go to workers fixed costs per unit</sup>

Additionally, OSL expects sales volume in the South Island to increase to 4500 tonnes. As the consent only allows them to only quarry 6000 tonnes of natural stone a year. Their relevant range can't expand to  $(4500 + 3000 = 7000)$  7000 tonnes a year unless they request another consent or find a new resource area. This would increase fixed costs, & also waste a lot of time while they look for another area to quarry natural stone.

Natural stone is heavy too - it's not easy to transport natural stone (3000 tonnes of it) overseas - a special

flight would have to be chartered - this would also increase costs, which may cause a loss or a ~~small~~ very small profit, especially as the client/customer is already receiving a discount.

When customers overseas hear about this deal, they may attract or even customers in New Zealand. They may also want a hefty discount. - so if the company does decide to sell to the overseas customer, it should be a one-time deal.

## Scenario 2.

Fixed costs now :  $216,000 + 234,000 + 110,000 + 229,900 = 789,900$

$580 + 80 = 660$  \$ per tonne in the North Island

	per unit	total	
Sales	580 <del>660</del>	627,000	581,000
Variables	(190)		
Manufacturing	(120) (190)	(180,500)	
Selling	200 (120)	(114,000)	(190,000)
Contribution Margin	350 <del>3</del>	332,500	<u>180,500</u>

## South Island

Sales	580	2,610,000
Variables		
Manufacturing	(190)	(855,000)
Selling	48 (120)	(540,000)
Contribution Margin	270	1,215,000

$$121,5000 + 332,500 = \del{154,7500}$$

$$139,5500$$

1,54,7500

- fixed costs  
(216,000)

(234,000)

(110,000)

(229,900)

= ~~757,600~~ in profit if

sell in North Island

\$ 605,600

only keep selling in south island

$$121,5000 - 216,000 - 234,000 - 110,000$$

$$= \$655,000$$

In the North Island, if ~~the~~ OSL do manage to sell their 950 tonnes of expected sales of natural stone, they would be able to make an additional ~~\$627,000~~<sup>551,000</sup> in revenue, & combined with the 4500 expected tonnes of stone expected to be sold in the South Island, they would make an expected profit ~~of~~<sup>of</sup> ~~\$757,600~~<sup>\$605,600</sup>; ~~even~~ with the added fixed cost of the advertising & additional commission costs

~~However~~ if they only kept their market to the South Island, even with the ~~added~~ higher volume of sales, they would ~~only~~ make an expected profit of \$655,000. \*

Furthermore, the initial expected sale of natural stone wouldn't exceed OSZ's relevant range, as they  $4,500 + 950 = 5450 \approx 6000$  tonnes.

However, because there are many more people on the North Island than the South, after the FY 22, demand for OSZ's natural stone may grow, & they may have to produce more than 6000 stones, and if they can't find another resource to quarry the stone from, this could pose a large problem for them.

\* The benefits of the additional sales don't outweigh the costs, as even with 950 tonnes more sold, they would still ~~not~~ make a lower profit, due to the addition of the fixed cost & sales commission.

### Scenario 3

Item	per unit	total	
Sales	580	2,610,000	
Manufacturing	(140)	(630,000)	
Selling	(120)	(540,000)	
Fixed costs	320		
Manufacturing	216,000 + 117,000 ← depreciation	(333,000)	
Selling	(234,000)		
Administration	(110,000)		
			contribution margin 1,440,000
			<u>28 = 763,000 profit.</u>

With the machine & if the company sells 4500 tonnes, they would make a profit of ~~762~~ 763,000, compared to the earlier calculated \$655,000 in the scenario 2 section.

Because ~~there~~ the stone extraction is labour-intensive, this machine will make the process a lot easier, even though it may mean many staff are made redundant or 55.17%.

The new contribution margin is \$320, compared to <sup>4655%</sup> \$270, which means that more of each sale now goes to fixed costs & to contribute to profit.

The additional funds will allow the company to allocate costs to other parts of the business such as innovation, where they can ~~do~~ <sup>conduct</sup> research & development to keep their business growing & mitigate the risk of having to produce more extract more stone & the risk of going on the maximum amount of stone allowed from their permit.

OSL should implement ~~the~~ scenario 3 of buying a new machine as it will allow them to increase their expected profit. If they manage to sell the expected 4500 tonnes. It would also allow them to branch out into more business practices than simply

exactly same like the other 2 scenarios, which would also see lower profits compared to the expected profit of scenario 3. it is recommended. Based on the ~~expected~~ evidence, ~~it would~~ ~~recommend~~ O/S implement scenario 3 & purchase a machine.

Question One plan:

Accountants should play a role.

- as the things become more automated, directly advisory

- role of management

- role of auditors.

## Question Three

Plan → Forgive the loan = write it off?

He still has to pay 500,000 + 90,000 interest  
Guarantee - similar to doubtful debts?

If ~~the~~ my friend accept his mutual acquaintances offer to forgive the loan, the intangible assets of patents would be protected.

~~However, the loan, which is a liability~~

The promise for warranty would be a liability - this is because, it is a service offered by my friend. It is a liability because the warranty is a past event that occurred when my friend provided to all customers when they bought the boat, it is a present obligation for them to fulfill, & it will lead to an outflow of future economic benefits as my friend would have to repair the boats free of charge.

As the warranty ~~has~~ lasts for up to 3 years it can be considered a non-current liability.

My friend's business hasn't seen any major warranty claims & there is an issue with the reliable measurement of future warranty claims. This is a valid concern by my friend's acquaintance. In order for a liability to

be recognized, it must have proof of occurrence.

Because all repairs to boats may be different, such as one may have a slip, or one may be faulty in other ways, there isn't a suitable price that can be put on the warranty. However, there is a proof of the guarantee of a warranty occurring as there are invoices or bank statements verifying the purchase as well as the written guarantee of the warranty.

Ⓐ You can never perfectly measure risk. Although the my friend has never received a major warranty claim, they must have received some smaller ones which would be a good baseline point of assessing the risk of a warranty needing to be claimed in the following year, calculated in a similar manner to doubtful debts. Ⓐ ⊕

The ~~the~~ warranty claims provision being in the non-current liabilities section would decrease net assets.

If my friend chooses to forgo reporting the warranty claims in the statement of financial position this could be considered material & the statements are no longer faithfully represented. Faithfully represented means that the information presented is neutral, free from bias & error, & complete. Taking away a risk of an outflow of economic benefit such as the warranty claim would over-inflate net

assets & make it seem like the company is in a better ~~posi~~ position than it really is in.

This is material as net assets influence the decisions of many men, & they would be making decisions based on ~~mis~~misinformation. ~~such~~  
 Therefore, if my friend decides to forgo the provision on warranty, ~~it~~ ~~could have~~ ~~ser~~ wouldn't be compliant with the NZ conceptual framework. \*

\* the financial statements

If my friend's acquaintance decides to forgive the loan to protect the company's ~~image~~ intellectual property, that means the current liability of interest payable at \$90,000 & the non-current liability may be written off, increasing the net assets.

~~However~~

⊕ A possible journal entry of the provision for ~~starts~~ warranty claims could be

Dr Sales	\$ x x x . 00
Cr Provision for warranty claim	\$ x x . x . 00

Sales in the income statement ~~could~~ would show the amount after sales & a note showing why.



## Question Four

② Contributed equity 540,000

Bank 101,250

Retained earnings 472,500

③ Bad debts 18,200

Accounts Receivable 18,200

3.2 Allowance for doubtful debts 36,850

Doubtful debts 36,850

④ Income tax receivable: 21,200

⑤ ~~Depreciation buildings~~

~~Accumulated depreciation on buildings~~

⑥ 449,600 original cost dep.

1 Aug 20 - 31 Aug 20 = 5620

1 Sep 20 - 31 Aug 21 = 67,440

1 Sept 21 - 1 <sup>Feb</sup> Aug 22 = 28,100

Acc. dep 101,160

carrying amount:

348,440

dep on equipment

loss on insurance proceeds: 48,440

476,400

⑦ Buildings

Dep 1 Sept 21 - 31 Apr 22 = 8 months

$6,060,000 \times 0.02 = 80,800$  dep

Buildings revaluation surplus: 1431,000

42,000

Dep 1 May - 31 Aug

42,000

Land revaluation surplus	10,883,000	
Land		1,088,300

Coldbreeze Limited  
Statement of Financial Position  
As at 31 August 2022

Notes

2019

NZ\$

## Assets

## Current Assets.

Accounts Receivable	1	1,359,150
Bank		603,100
Income Tax receivable		21,200
Inventory (finished goods)		2,199,400
Total current assets		<u>4,182,850</u>

## Non-current Assets

Plant, property & equipment	2	16,622,060
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## Total Assets.

20,804,810.

## Notes to the Statement of Financial Position 2022

## 1: Accounts Receivable

Accounts Receivable	1,394,000
Less doubtful debts	(34,850)
Closing accounts receivable balance	<u>1,359,150</u>

## 2 Plant, Property &amp; Equipment

Plant &amp; Equipment

1/1/2021

	Land	Buildings	Plant & equipment
As at 1 September 2021			
Opening cost/valuation	10,548,300	6,060,000	3,625,600
Accumulated depreciation	-	(1,110,200)	(1,868,600)
Closing book value	10,548,300	4,949,800	1,757,000

	Land	Buildings	Plant & equipment
At 31 August 2022			
Opening carrying value	10,548,300	4,949,800	1,757,000
Additions	-	-	-
Disposals	-	-	(348,440)
Depreciation	-	(122,800)	(504,500)
Revaluations	(1,088,300)	1,311,000	-
Closing carrying value	9,460,000	6,258,000	904,060

	Land	Buildings	Plant & equipment	Total
At 31 August 2022				
Cost/valuation	9,460,000	6,300,000	3,176,000	18,936,000
Accumulated depreciation	-	(42,000)	(227,940)	(2,313,940)
Net book value	9,460,000	6,258,000	904,060	16,622,060

An independent valuer, Spin Ditty, on May 1 2022, valued the land and buildings to \$9,460,000 & \$6,300,000 respectively. The revaluations were based on the value of the surrounding properties.

The long term loan of \$6,191,200 is secured over the company's land.

Coldbreeze Limited calculates its depreciation on the straight line basis at the following rates.

- buildings - 2% per annum
- plant & equipment 15% per annum.

If land was recorded at historical cost it would be valued at \$6,741,500

If buildings were recorded at historical cost it would be valued at \$6,060,000

(\*) Total

closing book value: \$17,255,100

(2\*) Total closing carrying value: 16,622,060

## Outstanding Scholarship Exemplar 2022

Subject	Accounting		Standard	93203	Total score	24
Q	Score	Annotation				
1	6	<p>This was a current issues question that required candidates to review unseen resources before critically evaluating whether the accounting profession should play a role in combating modern-day slavery.</p> <ol style="list-style-type: none"> <li>1. Evidence of planning, logical development, precision, and clarity of ideas.</li> <li>2. The candidate highlights the key issue in the introduction, whether the accounting profession should play a role in combating modern-day slavery, providing evidence of perception and insight. The candidate argues that the accounting profession is perfectly placed to play a role in combating modern day slavery.</li> <li>3. The candidate draws on the resources to provide evidence of independent reflection and extrapolation to critically evaluate whether the accounting profession should play a role in combating modern day slavery.</li> </ol> <p>Elements of critical thinking are present throughout the response with some evidence of convincing communication. Although other candidates may have presented a more complete response, in framing their answer, this candidate presents sufficient depth of analysis overall to reach the level of scholarship.</p>				
2	7	<p>Question 2 was a management decision question. Candidates were required to establish the break-even and net profit for 2022 before evaluating three independent scenarios. As part of their answer, candidates were required to apply critical thinking and consider both financial and non-financial information when coming to their decision.</p> <ol style="list-style-type: none"> <li>1. The candidate demonstrated the technical skills in calculating the net profit for 2022 based on expected sales in the South Island. This provides a basis for their answer.</li> <li>2. The candidate provides evidence of critical thinking in that they recognise and take into account financial as well as non-financial factors when evaluating the three independent scenarios.</li> <li>3. Recognised that the depreciation of the new machine should form part of the fixed costs in scenario three.</li> <li>4. Provided evidence of independent reflection and extrapolation when recommending an option that Otago Stone limited should implement in 2022.</li> </ol> <p>This answer could have been improved further had they calculated the break-even points (scenario two and three) and calculated the net profit for scenario one. Nevertheless, in framing their answer, the analysis and critical thinking provided by the candidate is sufficiently sophisticated to reach the level of outstanding scholarship.</p>				
3	5	<p>This is a concepts question that required candidates to use the definition and recognition criteria contained in the New Zealand Equivalent to the IASB Conceptual framework for Financial Reporting 2018 (NZ Framework) to explain to a friend what the implications are of recognising a provision for warranty and the forgiveness of a loan and accrued interest have on <i>Boats R Us Limited's</i> financial statements.</p> <ol style="list-style-type: none"> <li>1. The candidate provides some evidence of an understanding of the individual elements of the NZ Framework.</li> <li>2. The candidate shows some understanding of the recognition criteria for a liability contained in the NZ Framework.</li> </ol>				

		<ol style="list-style-type: none"> <li>3. The candidate is demonstrating some perception and insight in that they recognise the recognition of a provision of warranty involves the measurement of risk and the difficulty associated with this.</li> <li>4. Recognises that the failure to recognise the provision for warranty means that the financial statements will no longer be faithfully represented.</li> </ol> <p>There is clear evidence that the candidate understands the definition and recognition criteria for a liability contained in the New Zealand Equivalent to the IASB Conceptual framework for financial Reporting 2018 (NZ Framework).</p> <p>The candidate has attempted to use elements of the definition of a liability in their answer. The candidate also identified the recognition criteria. A little more focus to the answer coupled with a more in-depth discussion of the high degree of measurement uncertainty associated with the transfer of economic resources (that is attributing a value that faithfully represents the value of the liability) would have rounded out the answer. However, this is mitigated in part by the candidate recognising the difficulties associated with measuring risk. The candidate did not consider the forgiveness of the loan and accrued interest in any depth. This is a reasonably succinct answer that meets the scholarship criteria.</p>
4	6	<p>This is a technical question that required candidates to use the information provided to prepare the asset section of the statement of financial position at 31 August 2022 and accompanying notes. Correct preparation of the statement of financial position extract, accompanying notes is necessary to provide evidence of convincing communication to users of the financial statements.</p> <ol style="list-style-type: none"> <li>1. The candidate's answer and how the workings have been set out provides evidence of logical development, precision, and clarity of ideas. Furthermore, the candidate's answer provides evidence of highly developed knowledge, skills, and understanding in that the candidate was aware that they needed to make a number of adjustments in order to prepare a correct statement of financial position extract and accompanying notes at 31 August 2022.</li> <li>2. Although there is an inconsistent date and a missing note, the candidate provides evidence of convincing communication of accounting information in the format of a statement of financial position extract and accompanying note. Appropriate terminology used.</li> <li>3. Evidence of sophisticated integration and abstraction and evidence of critical thinking in that the candidate was able to prepare a statement of financial position extract and accompanying notes after considering some of the adjustments required by the additional information provided.</li> </ol> <p>The candidate omitted a single note in their answer and provided incorrect financial note figures, which prevented a higher score being awarded for this question. The candidate has, nevertheless, provided a thorough answer to a technical question.</p> <p>Although the candidate made a number of technical errors in the calculation of retained earnings at 31 July 2021, they recognised that they needed to fully consider the additional information provided. The candidate recognised that the indirect administration costs associated with the share issue needed to be adjusted for in determining profit for the year and ultimately retained earnings at 31 July 2021. Overall, the candidate has provided a good answer that meets the scholarship criteria.</p>