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NEW ZEALAND QUALIFICATIONS AUTHORITY
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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.

Q1) Modern Day Slavery

- accountants have access

⇒ transperancy - trust in accountants - knowledge of signs,
- annonymously speak out - reaching companies
- incentives - internal control / auditing
- incentives

Devestating, yet none the less a common practice, modern-day slavery is a prevalent issue that continues to plague everyday consumables and industries across the globe. Here is New Zealand, it is far to easy to simply ignore or remain naive about the issue, with no personal ~~interactions~~ interludes with such acts. However, in a society pressing for social and environmental justice in business, the risk of modern-day slavery ~~it~~ is becoming increasingly prevalent concern ~~amongst~~ investors and stakeholders, who, according to Jonathan To, if "businesses are not already being asked [about what they're doing], they'll get the questions soon". (Source E). Thus, given the inside access an accountant is in the position to be granted, the accounting profession should take this access seriously, to combat and abolish modern-day slavery, for once and for all.

As source B states, "Accountants are the gatekeepers of information about business." While it may not nessecarily be the culpable of accountants that many companies ~~such as~~ have slave labour, they certainly have a moral and ethical obligation to combat slavery, in the supply chains of their clients. As Benetton, Mango and Walmart discovered, in a Bangladesh garment factory collapsing killing over 1,100 people, these big brands are by no means ~~above~~ above the uncomfortable fact that they engage in slave labour. In fact, it can be argued that these big companies, with long and complex supply chains, are the most likely victims of this practice. However, in a modern day society, there is an increasing risk that if accountants continue to overlook the issue that is transperancy, not nessecarily out of disinterest but also if out of being uneducated, there rises the possibility that "accountants might be bypassed in the current push for transparency" (Source B). With society becoming more interested in the non-financial information - such as the social and environmental impacts of the entity - as opposed to simply the numbers, this has seen an increase in need to disclose information - such as working conditions or mental health - that may well affect the success of an entity. However, this is intangible, and thus there is a need for a way to disclose the information. Ultimately, ~~however~~, solutions such as integrated reporting and better internal control could pose a solution for entity's, to encourage ~~the~~ an increased transperancy amongst organizations. The accounting profession, is thus in the prime position to "help improve transparency in this area", and if accountants wish to remain trusted ~~and~~ financial advisors, they must have a proactive approach on recognicing, and combatting modern day slavery.

The first way accountants can combat modern-day slavery, ~~and~~ is to educate themselves about the common signs of modern-day slavery. As source B states, a familiarity with the SA8000, a framework for conducting business in a way that is "fair and decent to workers" and ~~has~~ adheres to "highest social standards" is a good starting point, to be familiar with what is clarrified as illicit working conditions, and the appropriate measuring if modern day-slavery is found. However, as Source C states, "more often than not, a pattern emerges when one analyses the business models typical of having slave labour. In particular "cash-based businesses", a series of businesses that are connected, a high output considering business size, staff levels and cost of goods produced, little funds being reinvested, trading with not spots ~~...~~ the list goes on. Ultimately, once accountants begin to uncover these modern-day slavery occurances, it will better prepare them to spot ~~and~~ it, and experience will be able to help determine which businesses are operating outside of the norms. While easy to dismiss, or even overlook, with moder-day slavery being "secreative", ~~...~~ and "under the radar" (Source C) ~~it is true as the~~ accountants are in the position to expose this moral issue, and thus must act in the publics interest, to combat modern-day slavery.

Accountants, additionally, hold the position of being able to educate organizations about these practices, and demonstrate the benefits that will ~~&~~ come from being open and transparent, should modern-day slavery be spotted. As Marit Mulder stated "Organisations that address and mitigate the exploitation risks in their own workplaces and supply chains outperform their competitors." (Source E). However, with ~~...~~ markets rife with competition, it is all too easy for organisations to "unintentially create pressures" (Source D) on their suppliers, that could "lead to the abuse of workers", such as short lead times or below-market prices. As a result, entities might be only unknowingly adding to this prevalent issue. However, as Source D suggests, should everyone in a company "receive training about the risks and red flags of forced labour in supply chains" it would only serve a greater purpose, of ~~about~~ combatting modern-day slavery. Vigilence is required to spot such acts, and thus accountants will require assistance from willing staff, if they are to combat slavery. As Source B suggests, the establishment of "taxation and subsidy incentives" for companies that "do the right thing" could be a good starting place to get organisations on board with becoming transperant, and ensure that the growth of forced labour and such practices is abolished. Additionally, if accountants work with organisations to establish anti-trafficking internal controls ~~to take~~, and perform outsourced, specialized audits of high-risk factories, this will decrease the risk of accountants becoming irrelevant or deemed untrustworthy, by society.

~~Hence~~ In conclusion, in a modern society fraught with high tensions as consumers demand transperancy about the ethicality ~~of~~ of organisations, accountants must "save the world". In their unique position, they must learn the signs to look for, and teach organisations the red flags of modern-day slavery. If accountants fail to do so, they risk becoming irrelevant and deemed untrustworthy, by a society demanding social justice. Thus, the accounting profession should leverage their position to combat modern-~~dn~~-day slavery, for once and for all.

Q2) Working= Cost of stone / tonne

Selling price 580
Variable Costs (190+120) (310)
Contribution margin 270
Fixed costs 560,000

Break even = $\frac{560000}{270}$
= 2075 tonnes
= $1,203,500

2022 Forecast

Sales	2,610,000
Variable Costs	1,395,000
	1,215,000
Fixed costs	560,000
Profit	655,000

Scenario 1 – opportunity cost 1500 full price sales
↓ CM ($210), ↕ BE, ↑ 1,560,000 to fixed costs / profit
However ↑ profit to 880,000
– new markets
– careful about special price
↑ shipping price?

Scenario 2 – ↑ FC + CM
FC = 789,900
CM (North Island) = ~~220~~ 190

Profit = 190 x 950 +
4500 x 270
= 1,395,500
Profit = 605,600

Scenario 3 – Fixed costs ↑ 117,000 = 677,000
CM = 320 BE = 2116 = $1227062.50
Profit = 763,000

Q2) Before them, Otago Stone Limited have three different options: Sell 3000 tonnes of stone at $520 per tonne to a one-off overseas customer, expand sales into the North Island, or purchase a new machine for stone extraction. For the following financial and non-financial reasons, I recommend that Otago Stone Limited should choose the third option, and purchase a new machine.

~~Financial [illegible]~~

Based on the calculated costs per tonne of stone, it is found that Otago Stone Limited currently sell stone at a sale price of $580 per tonne, with variable costs of $310/tonne giving a contribution margin of $270. As fixed costs total $560,000, this gives a break even of 2075 tonnes, which equates to $1,203,500.

As management expect sales volume for the 2022 reporting period to increase to 4500 tones, this gives a predicted profit of $655,000 for fiscal year 2022, a margin of safety of $1,406,500 (2425 tonnes), which is 53.9%. This is a 17% increase in profit and a 50% increase in production, which is excellent growth in just one year.

However, three independent scenarios have arisen for Otago Stone Limited, each of which present opportunities to further this growth, and increase their level of profits.

The first being, to accept a special order of 3000 tonnes of natural stone from overseas. As Otago Stone Limited have a production capacity of only 6000 tonnes per year, and management have estimated 4500 tonnes will be sold in 2022, this means that either Otago Stone Limited (OSL)

Will have to increase their relevant range to account for an additional 1500 of sales beyond their current production capacity, which is likely to increase fixed costs and thus increase breakeven and margin of safety, or, they will have to opportunity cost, and supply 1500 stones overseas for a lower price of $520 / tonne, instead of supplying them at $580/tonne to South Island customers. Ultimately, while the decrease in sales price of $60/ tonne, the increase in sales to maximum capacity gives a total sales potential (@ 580 for 3000 tonnes and 520 for 3000 tonnes) of $ 3300000, and a potential profit of $880,000, which is $225,000 more than if the special order was not accepted at all.

Should management decide the expand to the North Island, this would increase fixed costs to $789,900, giving a potential profit of $605,600, after 4500 tonnes sold in the South Island, and 950 tonnes sold in the south island, which is $49,400 less than if management did not choose to expand at all into the North Island.

The third option is to purchase a machine costing 1,170,000, adding $117,000 to fixed costs for the depreciation of the machine, but increasing the contribution margin by $50 per tonne. This gives a slightly increased breakeven of 2116 tonnes, however, a forecasted profit of $736,000.

While it would appear after looking at these financial statistics that it would make the most sence to choose option 1, since this increases profit the most in 2022, I do not believe it is the right decision. Accepting a special order at $520 per tonne may only seek to disadvantage OSL, as if other customers hear about it, they may feel obligated to accept more ~~work~~ orders at $520 / tonne,

Which would decrease their contribution margin by $60, increasing breakeven to $2667 tonnes, decreasing their margin of safety, which is the amount sales can drop before OSL cease to make a profit, should they continue to accept work at this price.
Additionally, ~~there~~ there seems to be no allowance for shipping costs, (which is likely to be very expensive given the proposed order is for 3000 tonnes and is to be sent overseas), and thus it is likely that variable costs are higher for this order than management may think.
Additionally, in years to come, if production returns to 4500 tonnes sold per year, profits will return to $655,000 / year.
In comparison, while option 3 may not ~~be~~ result in the most increase in profits, it presents an opportunity for OSL to increase their profits over the long term, as long term will see variable costs decrease for the next 10 years. While fixed costs increase slightly by $117,000, this is offset by the decrease in ~~profits~~ variable costs of $50/tonne. Thus, in future years when ~~OSL~~ OSL sell even higher volumes of natural stone, and ↑ contribution margin will mean that they can make even higher profits for selling the same volume of stone.
Option 2, seems like an obvious bad decision, ~~Decreasing~~ profits will decrease as a result of expansion into the North Island, and it does not seem like management have considered market research costs, or shipping expenses, when supplying to a market in the North Island.
Thus, as it seems clear that of the three options, number 3 has the most long term profit potential for OSL, and in the interest of protecting their contribution margin, I would recommend they choose to purchase a new machine over and against the other 2 options. While it may not see the most profitable of the 3 options for fiscal year 2022, in the long run,

OSL will reap the benefits of having ~~a lower~~ a contribution margin that is $50 larger ($320). Ultimately, OSL's decisions must not only serve the immediate outcomes, but also consider the long term impacts and effects that such decisions will make in the long term. While accepting the special order may appear to give them additional money to put towards covering fixed costs and producing a profit in this financial year, OSL must be realistic, and recognize and identify which choice is going to prove the most beneficial and profitable in the long-term - and purchasing a machine provides the solution.

Q3) My friend, owner of Boats R Us Limited, has an outstanding loan of \$590,000, to which his acquaintance has lent him.
In order to "protect the company's intellectual property", my friends mutual acquaintance has agreed to forgive the loan.
This is a material amount that my friend's acquaintaince is prepared to forgive, which raises concerns as to the faithful representation of my friends statement of financial position, should my friend choose to write off the loan as 'bad debts', as in excluding it from the Statement of Financial Position, this means that the statements may no longer be considered 'free from error', since they will look better than they are in reality.
As it stands, the loan is a liability.
A liability is a present obligation of an entity to transfer an economic resource, as a result of a past event.
There are three criteria to meet the definition of a liability =
→ There must be an obligation: As my friend borrowed \$500,000 from his acquaintance 3 years ago, for an agreed period of 8 years, and an interest rate of 6 percent per anum, my friend has an obligation to repay this loan and interest in full.
→ The obligation must involve the transfer of an economic resource: As my friend has borrowed an amount of \$500,000, it is expected that they will pay back their acquaintance, of which will result in a decrease in Bank asset, and a tranfer of an economic resource.
→ Finally, the obligation must have arisen as a result of a past event = The past event was the tranfer of \$500,000 to my friend for the purchase of the patents, and the

agreement on settlement date and interest rate.
Thus, the loan of $500,000, and any interest payable accumulated on it, can be defined as liabilities, and must be included in the statement of Financial Position as loan $500,000, and interest payable $90,000, as my friend has an obligation to repay this loan.

My friend additionally sells inflateable boats with a manufacturer's warrenty, valid for three years after the date of sale.
As stated before, a liability is a present obligation to transfer an economic resource as a result of past events.
In order to meet the definition of a liability=
→ There must be a present obligation: My friend has an obligation to replace or repair any boats with manufacturing defects, in the first three years ~~at~~ after sale. Should there be any defects, my friend will be responsible for covering the cost of fixing/replacing the boat, and thus ~~to~~ my friend has an obligation
→ The obligation must involve the transfer of an economic resource: As my friend has issued these manufacturing gaurantee's, should any boat be faulty it is highly likely that consumer will use the warentee and return the boat for repair / replacement, ~~of~~ which will require my friend to cover the cost of repair / issuing and manufacturing a new boat, to which will result in an outflow of economic resources.
→ The obligation must have arisen as a result of a past event = The past event being the purchase of the inflatable boat, with its manufacturing gaurentee.
Thus, the value of any ~~all~~ and all inflatable boats purchased in the past 3 years by my friends customers of Boats R Us Limited, ~~must~~ meets the definition of a liability. While the probability

that my friend must settle the liability may be low, the value of all boats purchased must be included in the Statement of Financial Position as a contingent liability, as should a defect occur, my friend will be responsible for covering it.

~~Thus my friend must disclose the following liability~~

~~Dr~~ Dr 'Warenny expense'

Cr 'Waranree on inflatable boats issued'

Q4)

General Journal - Cold Breeze Limited

Date		Dr NZ$	Cr NZ$
31-08-22	Interest expense	309,560	
	Interest payable		309,560
	Contributed Equity	540,000	
	Retained Earnings	472,500	
	Bank		1,012,500
	Bad Debts	18,200	
	Accounts Receivable		18,200
	Allowance for Doubtful Debts	36 850	
	Doubtful debts		38,850
	Income tax expense	178,800	
	Taxation payable		178,800
	Taxation payable (receivable)	200,000	
	Income tax ~~pre~~paid in advance		200,000
	Land Revaluation Surplus	1088,300	
	Land		1,088,300
	Depreciation - Buildings	80,800	
	Accumulated Depreciation - Buildings		80,800

Accummulated Depreciation-Buildings	1191000	
Buildings		1,191,000
Buildings	1,431,000	
Revaluation surplus - Buildings		1,431,000
Depreciation - Buildings	42,000	
Accummulated Depreciation-Buildings		42,000
Depreciation- Plant and Equipment	476,400 ~~543,840~~	
Accummulated depreciation - plant and equipment		476,400 ~~543,840~~
Depreciation- Plant and Equipment	28,100	
Accummulated Depreciation - Plant and Equipment		28,100
Accummulated Depreciation - PPE	101,160	
Disposal Account		101,160
Disposal Account	449,600	
Property, plant and equipment		449,600
Sales	300,000	
Disposal Account		300,000
Loss on destroyed plant and equipment	48,440	
Disposal account		48,440

Coolbreeze Limited
Statement of Financial Position as at 31 August 2022

	Notes	2022
		NZ$
Assets		
Non-current Assets		
Property, plant and equipment	1	16,622,060
Current Assets		
Accounts Receivable	2	1,359,150
Bank		603,100
Inventory	3	2,199,400
Taxation receivable		21,200 ~~4,161,650~~
~~Total Assets~~		4,182,850 ~~20,783,710~~
Total Assets		20,804,910
Liabilities		
Non-current Liabilities		
Long-term loan payable		6,191,200
Current Liabilities		
Accounts payable		1,321,500
Interest payable		

Coolbreeze Limited

Notes to 20202 Statement of Financial Position

1. Property, planet and equipment

	Land	Buildings	Plant and equipment	Total
As at 31 August 2021	~~10,548,300~~			
Cost or Valuation	10,548,300	6,060,000	3,625,600	
Accumulated Depreciation	—	1,110,200	1,868,600	
Net Book Value	10,548,300	4,949,800	1,757,000	
For the year ending 31 August '22	~~10,~~			
Opening book value	10,548,300	4,949,800	1,757,000	
Additions	—	—	—	
Disposals	—	—	(348,440)	
Depreciation	—	(122,800)	(504,500)	
Revaluation surplus (deficit)	(1,088,300)	1,431,000	—	
Closing book value	9,460,000	6,258,000	904,060	
As at 31 August 2022				
Cost or Valuation	9,460,000	6,300,000	3,176,000	
Accumulated Depreciation	—	42,000	2,271,940	
Net Book Value	9,460,000	6,258,000	904,060	16,622,060

On 1st May 2022, ~~fair~~ independent valuer Spin Ditty revalued the land to $9,460,000 and the buildings to a new fair value of $6,300,000, based on the market value of the surrounding property. The ~~revaluation surplus~~ gain on revaluation were credited to Revaluation surplus in equity / the loss on revaluation was recognized in the

00488

Statement of Comprehensive Income

Had land not been revalued, its value based on its cost model would be $ 6,741,500
Hada buildings not be revalued, their value based on the cost model would be $ 4,828,600.

Depreciation is calucaulated on a straight-line basis at the following rates:
- Buildings – 2 percent per annum
- Plant and equipment – 15 percent per annum

Long term loan is secured over company's land (see note 4)

2. Trade and other receivables

Accounts Receivable	13,94,000
Less: Allowance for Doubtful Debts.	(34,850)
	13,59150

~~Fath~~

3. Inventory

Finished goods	2,199,400
	2,199,400