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93203Q



Mana Tohu Mātauranga o Aotearoa
New Zealand Qualifications Authority

Scholarship 2024 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 2–6 in the correct order and that none of these pages is blank.

YOU MAY KEEP THIS BOOKLET AT THE END OF THE EXAMINATION.

QUESTION ONE

The following information has been extracted from the accounting records of *Tagesta Limited* for the reporting period ending 30 June 2024.

	Dr	Cr
	NZ\$	NZ\$
Advertising expenses	93 400	
Auditors' remuneration	94 500	
Bad debts expense	21 500	
Dividends received		10 300
General expenses	221 400	
Income tax expense	220 600	
Insurance expense	45 360	
Interest expense	42 900	
Interest received		19 450
Inventory at 1 July 2023	260 800	
Loan		1 020 000
Purchases	2 670 000	
Rent and electricity expense	1 057 300	
Rental income		81 800
Sales		6 978 900
Staff salaries expense	1 036 800	
Net assets	2 345 890	
	8 110 450	8 110 450

Additional information

1. A debtor who owed *Tagesta Limited* \$26 800 at 30 June 2024 was declared bankrupt. As a result of the underlying economic environment, *Tagesta Limited* also decided for the first time to create an allowance for doubtful debts of \$28 400.
2. A 12-month insurance policy covering accident, fire, and theft was purchased on 1 December 2023 for \$45 360.
3. Staff salaries of \$48 000 due on 30 June 2024 were paid on 6 July 2024.
4. On 1 September 2023, *Tagesta Limited* obtained a loan from a bank. The loan is repayable in full on 1 June 2030. The bank charges interest at the rate of 9 per cent per annum.
5. Inventory on hand at 30 June 2024 was \$212 400.
6. Included in net assets at 30 June 2023 is land that originally cost \$900 000. This land is held for administration purposes. On 23 January 2024, the land was revalued to \$760 000. This is the first time that the land had been revalued. No entry has been made in respect of this transaction.

7. Included in net assets on 30 June 2024 are the balances on the plant and equipment ledger accounts, as follows:

	NZ\$
Plant and equipment	5 827 500
Plant and equipment – accumulated depreciation	2 174 400

On 1 October 2023, an item of plant and equipment that had originally cost \$822 000 and had a carrying amount of \$376 500 at the beginning of the reporting period, was traded in on a new item that cost \$657 600. *Tagesta Limited* received \$240 000 trade-in on the old plant and equipment. The following is the only journal entry for plant and equipment that has been made for the reporting period:

1 October 2023	Dr	Plant and equipment	417 600	
		Cr	Cash	417 600

*Recognising the acquisition of plant and equipment, \$657 600
less trade-in amount*

The directors have decided that any gain or loss on the trade-in of the plant and equipment would be allocated to cost of sales. Plant and equipment are depreciated on a straight-line basis at 10 per cent per annum.

8. Auditors' remuneration comprises \$55 000 for the annual audit and \$22 500 for consulting services, with the balance paid for taxation services.
9. In the general expenses account are donations of \$30 000. General expenses are allocated to Administration expenses.
10. Management allocates company expenditure as follows:

	Cost of sales	Distribution expenses	Administration expenses
Depreciation expense	55%	15%	30%
Insurance expense	50%	25%	25%
Rent and electricity expense	60%	10%	30%
Staff salaries expense	65%	10%	25%

11. The income tax expense has been correctly calculated.

Task

- (a) From the additional information above, provide the journal entries and narrations necessary to prepare the financial statements at 30 June 2024.
- (b) Prepare, in a format suitable for external reporting purposes, *Tagesta Limited's* Statement of Comprehensive Income classified by function, together with accompanying notes for the reporting period ending 30 June 2024.

Note: You are NOT required to provide an income tax or property, plant, and equipment note. Ignore GST.

QUESTION TWO

Ethical behaviour



Source: Grant, S. & McWilliams, K. (2018). Foreword. In Chartered Accountants Australia and New Zealand. *Machines can learn, but what will we teach them?* <https://www.charteredaccountantsanz.com/-/media/746d9bb465154cbb891f147eacde869d.pdf>

Task

The accounting profession's fundamental ethical standards require integrity, professionalism, duty of care, confidentiality, and competency. Drawing on **Resources A to E** in the resource booklet, discuss how the advances in artificial intelligence (AI) enhance and challenge the profession's ethical standards in addressing the concerns of society, business, regulators, and individuals.

QUESTION THREE

Mighty Tanks Limited manufactures 30 000-litre water tanks used in a variety of commercial and farming operations. *Mighty Tanks Limited* expects to sell 4 500 water tanks at \$6 500 each in the 2025 reporting period. The budgeted costs to manufacture the water tanks in 2025 are as follows:

	NZ\$
<i>Direct costs</i>	
Direct labour	8 550 000
Direct material	9 405 000
<i>Indirect costs</i>	
Variable overheads	1 552 500
Fixed overheads	6 900 000
Total costs	26 407 500

The managers of *Mighty Tanks Limited* believe that by modifying the water tanks they can make them more acceptable for use by a wider range of users. This would include households, as resource consent will no longer be required before installing them on their property. Market research reveals that in 2025 there is a potential to sell 5 200 improved tanks at the current selling price.

As part of this exercise *Mighty Tanks Limited* was able to source an improved steel reinforcing framing system. The cost of the steel reinforcing framing system currently included in the tanks is \$680, while the improved framing system costs \$920.

A new manufacturing system will need to be devised to mould the tanks. This new manufacturing system, which will cost \$4 500 000 and have a useful life of 10 years, will also allow for an increase in annual production capacity to 7 000 units from the current 5 000.

The modification of the water tanks will increase direct labour costs by 15 per cent.

To meet performance expectations, the management of *Mighty Tanks Limited* must make a profit of \$3 806 000 annually.

Task

From the above information, draft a report to *Mighty Tanks Limited* in which you recommend whether it should go ahead and modify its water tanks.

Note: Ignore tax and GST.

QUESTION FOUR

Your friend has identified a niche business opportunity providing a range of services to lifestyle block owners in the wider Auckland area. His customers enter into an annual contract for a basic service that is invoiced monthly. Any work in addition to the basic service is invoiced separately.

Your friend's business model has proved successful. To provide his clients with the best possible service, he has approached a bank to finance the purchase of several different-sized compact tractors. When not in use, these tractors will be hired out to lifestyle block owners who want to do the work themselves. The business is managed through a sophisticated digital presence that your friend developed.

The relevant extract of the statement of financial position that your friend wishes to supply to the bank is shown below.

Earthwormers Limited
Statement of Financial Position extract at 30 June 2024

	NZ\$
<i>Assets</i>	
Contracts at valuation	1 800 000
Digital assets	450 000

Contracts at valuation relate to the amounts that will be invoiced over the remaining life of the contracts, while the digital assets comprise the website with the online booking forms and contracts, as well as other social media presence.

Task

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 whether the above financial information is useful to the bank when it makes a decision about lending his business \$500 000 to purchase the compact tractors.

