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Mana Tohu Mātauranga o Aotearoa
New Zealand Qualifications Authority

Scholarship 2023
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 financial records of *Ice & Fire Limited* at 30 June 2023.

	$
Accounts payable	321 500
Accounts receivable	592 500
Allowance for doubtful debts	18 400
Buildings	6 060 000
Accumulated depreciation – buildings 30 June 2022	1 109 700
Cash (Dr)	666 200
Contributed equity (30 June 2023 – 3 567 500 ordinary shares)	6 942 800
Dividends paid	180 000
Income tax paid in advance (provisional tax)	220 800
Inventory	1 354 600
Land	8 490 000
Revaluation surplus – land	3 808 000
Long-term loan payable	2 855 300
Plant and equipment	3 624 800
Accumulated depreciation – plant and equipment 30 June 2022	1 858 600
Retained earnings	2 549 200
Unadjusted profit before income tax	1 725 400

Additional information

1. At the reporting date, the directors decided that the allowance for doubtful debts for the current reporting period should be adjusted to 2 per cent of the accounts receivable balance.
2. At 30 June 2023, an amount of $15 900 was still owed to employees for work undertaken.
3. An insurance invoice for $36 000 for the period 1 April 2023 to 31 March 2024 was paid on 30 June 2023.
4. The income tax expense, which has been correctly calculated, is $340 500.
5. On 16 December 2022, *Ice & Fire Limited* bought back 480 500 shares at $2.40 per share. The following entry was made to account for the transaction.

Dr		Contributed equity	1 153 200	
	Cr	Cash		1 153 200

Buyback of 480 500 shares at $2.40 per share

6. *Ice & Fire 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 per cent per annum
   - plant and equipment 10 per cent per annum.
7. An item of property, plant, and equipment that originally cost $424 800 on 1 June 2021 was sold on 1 March 2023. The entry made to record the sale was:

Dr		Cash	400 000	
	Cr	Sales		400 000

Recognising proceeds on sale of item of plant and equipment

8. On 1 November 2022, the land and buildings were revalued by J. Cricket MIV, an independent valuer. The revaluation of $9 150 000 for the land, and $6 360 000 for the buildings was based on the market value of the surrounding properties.

Task

(a) Prepare all the adjusting journal entries together with narrations that can be determined from the above information.

(b) Prepare the Statement of Changes in Equity for the reporting period ending 30 June 2023. Notes are not required.

Note: Use only the information provided. Ignore GST.

QUESTION TWO

[redacted]

[redacted]

Source: Carnegie G., Parker. L., & Tsahuridu, E. (2023, February 2). Do we need a new definition of accounting? *Acuity*. https://www.acuitymag.com/opinion/do-we-need-a-new-definition-of-accounting?

Task

Resources **A** to **E** discuss some of the current issues facing accountants in practice or business. Drawing on these resources, critically evaluate whether the traditional definition of accounting continues to be ‘fit for purpose’, and suggest how it may be amended to more accurately reflect accounting’s modern purpose, influence, and contribution to society.

QUESTION THREE

Your friend has an entrepreneurial spirit. Her latest venture, *Frolicking Pets Limited*, involves the creation of a range of products targeted at the popular pet market. This includes a range of nutritionally balanced frozen pet food using fresh ingredients. Your friend also stocks pet accessories. The cost of the contract to develop the formula for the frozen pet food was $90 000, while the costs of designing the accessories was $25 000.

To ensure the success of her latest venture, your friend engaged the services of a marketing consultant to create a website linked to a social media campaign. The cost of this was $35 000.

Your friend believes that the best way to account for the above payments is as follows.

1 April 2023	Dr		Pet formula	90 000	
	Dr		Design costs	25 000	
	Dr		Advertising and social media	35 000	
		Cr	Cash		150 000
	Costs of setting up pet business				

At the 31 March reporting date, she then proposes to make the following entry.

31 March 2024	Dr		General business expenses	30 000	
		Cr	Pet formula		18 000
		Cr	Design costs		5 000
		Cr	Advertising and social media		7 000
	Writing off costs to set up pet business over five years				

Task

Using the definition and recognition criteria of the financial elements in the New Zealand equivalent to the IASB *Conceptual Framework for Financial Reporting* (2018 *NZ Conceptual Framework*), discuss whether you agree with your friend's accounting treatment for the costs of setting up her pet business detailed in the journal entries above.

QUESTION FOUR

Forge Audio Limited is a specialist electronics company that manufactures luxury headsets for computers and tablets. The following contribution margin statement relates to the reporting period ending 30 September 2023.

Forge Audio Limited
Contribution Margin Statement for the year ended 30 September 2023

	$
Sales	5 390 000
Variable costs	
Manufacturing	(1 372 000)
Selling	(514 500)
Contribution margin	3 503 500
Fixed costs	
Manufacturing	(1 496 000)
Selling	(834 000)
Administration	(440 500)
Net profit	733 000

Additional information

For the reporting period ended 30 September 2023, *Forge Audio Limited* sold 24 500 headsets. *Forge Audio Limited*'s current capacity is 35 000 headsets per year.

At the beginning of the 2024 reporting period, the management of *Forge Audio Limited* projected a sales volume of 29 500 headsets. Prices and costs are expected to remain at the same level as in 2023.

Task

Draft a report for *Forge Audio Limited* in which you evaluate the following scenarios and recommend which of the three options it should implement. You should provide all your working to support your answer.

1. *Forge Audio Limited* has a customer in South Africa who has offered to purchase 15 000 headsets at $170 each. There is a potential for future sales to this customer.
2. Management is considering expanding sales into Australia. They estimate that the costs to advertise this expansion would be $840 000 per year. An additional sales commission of $13.80 per headset would also be paid by *Forge Audio Limited* for Australian sales.
3. Given that the assembly of the units is a labour-intensive activity, management is considering shifting the production of the headsets to Vietnam. Should they adopt this strategy, manufacturing variable costs are expected to be $48.50 per headset, while manufacturing fixed costs are expected to reduce to $1 265 000.

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