Assessment Schedule – 2023

Accounting: Scholarship (93203)

Question One

Suggested solution

(a)

Dr		Allowance for doubtful debts	6 550	
	Cr	Bad debts / Allowance for doubtful debts		6 550
		Adjustment to allowance for doubtful debts		
Dr		Wages (Employment benefit expense or similar)	15 900	
	Cr	Accruals		15 900
		Recognising wages payable at reporting date		
Dr		Prepaid insurance	27 000	
	Cr	Insurance expense		27 000
		Recognising prepaid portion of insurance expense		
Dr		Income tax expense	340 500	
	Cr	Income tax paid in advance (Provisional tax)		220 800
	Cr	Income tax payable		119 700
		Recognition of income tax expense and income tax payable for the year		
Dr		Distributions (Dividends)	192 200	
	Cr	Contributed equity		192 200
		Correction of incorrect journal entry *(Note some candidates may debit retained earnings)*		
Dr		Depreciation expense	28 320	
	Cr	Accumulated depreciation		28 320
		Depreciation for year on item of plant sold 1 Mar 2023		
Dr		Accumulated depreciation	74 340	
	Cr	Disposal account		74 340
		Write-off of accumulated depreciation		
Dr		Sales	400 000	
	Cr	Disposal account		400 000
		Reallocation of sales proceeds		

Dr		Disposal account	424 800	
	Cr	Plant and equipment		424 800
		Write-off of cost of plant and equipment sold		
Dr		Disposal account	49 540	
	Cr	Gain on sale of item of plant		49 540
		Recognising gain on sale of items of plant 1 Mar 2023		
Dr		Depreciation expense	320 000	
	Cr	Accumulated depreciation		320 000
		Depreciation on plant ($3 624 800 – $424 800)		
Dr		Depreciation expense	40 400	
	Cr	Accumulated depreciation		40 400
		Depreciation on buildings to date of revaluation		
Dr		Accumulated depreciation	1 150 100	
	Cr	Buildings		1 150 100
		Writing off accumulated depreciation on revaluation		
Dr		Buildings	1 450 100	
	Cr	Gain on revaluation of buildings (OCI)		1 450 100
		Recognising gain on revaluation of building		
Dr		Gain on revaluation of buildings (OCI)	1 450 100	
	Cr	Revaluation surplus		1 450 100
		Transfer of gain from OCI to revaluation surplus *(Note that these are the correct entries. However, candidates are taught to Dr the asset and Cr revaluation surplus)*		
Dr		Depreciation expense	84 800	
	Cr	Accumulated depreciation		84 800
		Depreciation on revalued buildings from 1 Nov 2022		
Dr		Land	660 000	
	Cr	Gain on revaluation of land (OCI)		660 000
		Revaluation of land		

Dr		Gain on revaluation land (OCI)	660 000	
	Cr	Revaluation surplus		660 000
		Transfer of gain from OCI to revaluation surplus *See note above*		

(b)

Ice & Fire Limited

Statement of Changes in Equity

For the year ended 30 June 2023

		Revaluation surplus			
	Contributed equity	Land	Buildings	Retained earnings	Total
	NZ$	NZ$	NZ$	NZ$	NZ$
Balance 1 July 2022	8 096 000	3 808 000	–	2 549 200	14 453 200
Share buy-back	(961 000)				(961 000)
Total comprehensive income for the year		660 000	1 450 100	578 570	2 688 670
Distributions				(372 200)	(372 200)
Balance 30 June 2023	7 135 000	4 468 000	1 450 100	2 755 570	15 808 670

Judgment

	Score	
Outstanding Scholarship	**7, 8**	Exhibits the technical ability to correctly determine all the relevant financial statement figures (particularly retained earnings) from the scenario provided and ensures that they correctly flow through to the statement of changes in equity. *AND* Exhibits the technical skills necessary to correctly prepare the statement of changes in equity. *AND* Provides evidence of convincing communication in that the statement of changes in equity is neatly prepared and correct in all respects, and in a format suitable for external reporting purposes.
Scholarship	**5, 6**	Exhibits the technical ability to correctly determine the majority of the relevant financial statement figures (particularly retained earnings) from the scenario provided and ensures that the figures made flow through to the statement of changes in equity. *AND* Exhibits the technical skills necessary to correctly prepare the journal entries and statement of changes in equity. *AND* Provides evidence of convincing communication in that the statement of statement of changes in equity is prepared in a format suitable for external reporting purposes.
Below Scholarship	**3, 4**	Exhibits the technical ability to correctly determine some of the relevant financial statement figures from the scenario and ensures that the figures made flow through to the statement of changes in equity. *AND* Exhibits some of the technical skills necessary to correctly prepare the statement of changes in equity in a format suitable for external reporting purposes. *OR* Demonstrates the technical ability to calculate the adjustments but not adjust the statement of changes in equity, set out the answer clearly and neatly, or show any workings. *AND* Does not provide evidence of convincing communication in that they fail to set out the statement of changes in equity clearly and neatly or use the correct terminology. Accompanying notes are incomplete.
	2	Limited understanding of the material, not at Scholarship level.
	1	Minimal amount of relevant evidence, not at Scholarship level.
	0	Missing answer or irrelevant response.

Question Two

Suggested solution

This is an open-ended question, with the material from the resources providing the initial point of reference.

The key in this critical evaluation is candidate consideration of whether the traditional definition of accounting continues to be 'fit for purpose' and if not, suggest amendments or put forward a revised definition that accurately reflect accounting's modern purpose, influence, and contribution to society.

Judgment

Outstanding scholarship	**7, 8**	Draws on the resource material and produces and effectively communicates an outstanding and sophisticated analysis that demonstrates a high level of perception and insight in their critical evaluation of whether the traditional definition of accounting continues to be 'fit for purpose'. Depending on their arguments, suggests amendments or puts forward a revised definition that accurately reflect accounting's modern purpose, influence, and contribution to society. *AND* Demonstrates sophisticated abstraction and integration of the resource material. *AND* Demonstrates a high degree of critical thinking and analysis, convincingly arguing whether the traditional definition of accounting continues to be 'fit for purpose' and if not, putting forward a revised definition. *AND* Demonstrates independent reflection and extrapolation relevant to the evaluation of the resource material. *AND* Provides evidence of convincing communication. Answers are planned, succinct, and clearly articulated. (For 7, not to the same level as above.)
Scholarship	**5, 6**	Draws on the resource material and produces and effectively communicates an outstanding analysis that goes beyond a descriptive answer on whether the traditional definition of accounting remains 'fit for purpose'. Depending on their arguments, suggests amendments or puts forward a revised definition that accurately reflect accounting's modern purpose, influence, and contribution to society. *AND* Demonstrates a high level of analysis and critical thinking but not quite the depth of analysis necessary to reach the level required for Outstanding Scholarship. *AND* Incorporates a competent level of integration and synthesis of the resource material. *AND* The discussion and evaluation are clear, logically developed, and precise. (For 5, not to the same level as above.)
Below Scholarship	**3, 4**	Produces a sound analysis of whether the traditional definition of accounting remains 'fit for purpose'. Depending on their arguments, suggests some amendments that are not necessarily an accurate reflection of accounting's modern purpose, influence, and contribution to society. *AND* Produces a clear but unsupported discussion and evaluation. *AND* Demonstrates some level of integration and synthesis of the resource material. *AND* Demonstrates some application of the resources but is largely descriptive with insufficient evidence of independent analysis and evaluation. *AND*

		Shows little evidence of planning, were very descriptive, and may merely regurgitate the material provided in the resources. *AND* Critical thinking is limited or not evident.
	2	The answer shows limited understanding relevant to the question. Some information is recalled, but ideas are not explained or analysed.
	1	The answer contains a minimal amount of relevant evidence.
	0	No response. No relevant evidence.

Question Three

Suggested solution

- Only those items that meet the definition of asset should be included in the statement of financial position.
- Do the three items listed meet the definition of an asset?
- An asset is a present economic resource controlled by the entity as a result of past events.
- What can we take from the definition?
- *Frolicking Pets Limited* controls a number of economic resources that provide it with certain rights. These rights arose through a purchase, or a contract, and *Frolicking Pets Limited* has the control over manufacturing rights of the pet food, accessories, and use of the website.
- The rights arose as a result of past events. The past event was the signing of the contract for the development of the pet food, accessories, and website development.
- *Frolicking Pets Limited* has rights that have the potential to produce economic benefits. There is the expectation that assets will be used to generate economic benefits in the form of sales / cash that will flow to *Frolicking Pets Limited*.
- The three elements of the definition appear to be met so the entry to recognise the three separate assets on the 1 April 2023 is correct.
- However, to recognise the asset in the statement of financial position at 1 April 2023, your friend needs to make a judgment that the disclosure of the asset will provide information that is both relevant and representationally faithful to the bank.
- Two factors to consider in determining whether information disclosed by an asset is relevant are:
  - existence uncertainty
  - probability associated with the expected inflow of economic benefits.
- *Frolicking Pets Limited* has a clear right to make use of the pet food formula, accessories, and website so there is no existence uncertainty.
- However, there is a high degree of measurement uncertainty associated with the inflow of economic benefits. Information about the pet food formula, accessories, and website might therefore not be relevant to the users of the financial statements.
  - Given that it would be difficult in the circumstances to attribute a value that faithfully represents the value of the pet food formula, accessories, and website coupled with the measurement uncertainty that undermines faithful representation, then it is not appropriate to recognise these items in the statement of financial position.
  - Excluding the pet food formula, accessories, and website from the statement of financial performance is the most appropriate action to take in this case and they should be expensed in the year incurred.

Judgement

	Score	
Outstanding Scholarship	**7, 8**	Demonstrates a thorough understanding of the definition and recognition criteria for financial statement elements contained in the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (2018 *New Zealand Conceptual Framework*). *AND* Draws on the scenario and correctly applies the definition and recognition criteria to convincingly argue that the amount paid for the pet food formula, accessories, and website do not meet the recognition criteria, particularly faithful representation. Provides an appropriate recommendation on how to deal with these items. *AND* Clearly uses convincing communication to convey their point of view. The answer must be succinct. (For 7, the level of communication and innovation not as developed as above).
Scholarship	**5, 6**	Thorough understanding of the definition and recognition criteria for financial statement elements contained in the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (2018 *New Zealand Conceptual Framework*). *AND* Draws on the scenario and correctly applies most of the definition and recognition criteria to convincingly argue that the amount paid for the pet food formula, accessories, and website do not fully meet the definition and recognition criteria. *AND* Communicates clearly to convey their point of view. However, the answer may not be succinct. (For 5, the level of communication and innovation not as developed as above.)
Below Scholarship	**3, 4**	Some understanding of the financial statement elements contained in the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (2018 *New Zealand Conceptual Framework*). *AND* Draws on the scenario and correctly applies some of the definition criteria to the amounts paid for the pet food formula, accessories, and website. May have limited understanding of the recognition criteria.
	2	Limited understanding of the material, not at Scholarship level.
	1	Minimal amount of relevant evidence, not at Scholarship level.
	0	Missing answer or irrelevant response.

Question Four

Suggested solution

Unit contribution margin $= \dfrac{\$3\ 503\ 500}{24\ 500}$

$= \$143.00$

Breakeven point in headsets $= \dfrac{\text{Fixed costs}}{\text{Unit contribution margin}}$

$= \dfrac{\$2\ 770\ 500}{\$143}$

$= 19\ 374$

The company's net profit would increase from $733 000 in 2023 to $1 448 000 in 2024 if the sales volume is increased to 29 500 headsets. The revised contribution margin statement is as follows.

Forge Audio Limited
Contribution Margin Statement
For the year ended 30 September 2024

	$
Sales ($5 390 000 ÷ 24 500) × 29 500	6 490 000
Variable costs	
Manufacturing ($1 372 000 ÷ 24 500) × 29 500	(1 652 000)
Selling ($514 500 ÷ 24 500) × 29 500	(619 500)
Contribution margin	4 218 500
Fixed costs	
Manufacturing	(1 496 000)
Selling	(834 000)
Administration	(440 500)
Net profit	1 448 000

Should *Forge Audio Limited* accept the South African order, the contribution margin statement would be as follows.

Forge Audio Limited
Contribution Margin Statement
For the year ended 30 September 2024

	$
Sales (20 000 × $220) + (15 000 × $170)	6 950 000
Variable costs	
Manufacturing ($1 372 000 ÷ 24 500) × 35 000	(1 960 000)
Selling ($514 500 ÷ 24 500) × 35 000	(735 000)
Contribution margin	4 255 000
Fixed costs	
Manufacturing	(1 496 000)
Selling	(834 000)
Administration	(440 500)
Net profit	1 484 500

While there is an increase in profit there is no indication of how long the South African order will last. There are issues associated with not being able to supply existing customers. Again, there are reputational issues to consider. Currently, *Forge Audio Limited* has no room for expansion so taking on this order could be risky.

For *Forge Audio Limited* to maintain the new profit for the previous year of $733 000 or $1 448 000 for the current year, Australian breakeven sales would be calculated as follows.

Australian contribution margin = $143 − $13.80 = $129.20

Australia breakeven headsets = $840 000 / $129.20

= 6 502 headsets

However, the relevant range is currently 35 000 headsets. For *Forge Audio Limited* to breakeven on Australian sales the company would need to sell 6 502 headsets. If this strategy were adopted, a small number of local sales would need to be sacrificed. However, the number of headsets is not material and reputational issues could be managed. The costs associated with transport to Australia would need to be considered. However, if *Forge Audio Limited* can sell 29 500 headsets locally without Australian sales, and given breakeven is 6 500 headsets, why would they sell more in Australia than in the local market that generates a higher contribution margin?

Should *Forge Audio Limited* move the manufacturing operations to Vietnam, the contribution margin statement would be as follows.

Forge Audio Limited

Contribution Margin Statement

For the year ended 30 September 2024

	$
Sales ($5 390 000 ÷ 24 500) × 29 500	6 490 000
Variable costs	
Manufacturing ($48.50 × 29 500)	(1 430 750)
Selling ($514 500 ÷ 24 500) × 29 500)	(619 500)
Contribution margin	4 439 750
Fixed costs	
Manufacturing	(1 265 000)
Selling	(834 000)
Administration	(440 500)
Net profit	1 900 250

Based on the original projected sales of 29 500 headsets, there is a projected increase in profit of $452 250 if manufacturing operations are moved to Vietnam. While this may seem significant, management of *Forge Audio Limited* should consider other factors such as the impact that reductions of staff may have on the local economy. There are also product factors that management should consider. Management needs to consider whether the overseas factory will have the same level of expertise, potential warranty issues, and having to move senior managers to the overseas location to oversee the operation. There is no indication of what the change in manufacturing capacity will be. It may initially reduce until staff there become familiar with the product.

Make a recommendation. No change, take on South African order, consider sales into Australia or move manufacturing to Vietnam.

Judgment

	Score	
Outstanding Scholarship	**7, 8**	Thorough and insightful understanding of management decision-making in the context of *Forge Audio Limited*. AND Demonstrates the technical ability to make the correct supporting calculations, including margin of safety and incremental revenue, and use them to explain whether *Forge Audio Limited*'s management should expand sales into Australia, or shift manufacturing overseas. AND Responses are well constructed and show a high degree of critical thinking, technical ability and analysis, and convincing communication and clearly communicate the recommendation. (For 7, the level of communication not as developed as above.)
Scholarship	**5, 6**	Illustrates why a product's contribution margin was important for management decision-making. AND Demonstrates the technical skills necessary to support their answer with correct calculations, including margin of safety, and attempts to calculate incremental revenue and use them to explain whether *Forge Audio Limited*'s management should accept the new order, sell to Australia, or move the manufacturing operations overseas. AND Thorough understanding of management decision-making in this context. Presents evidence of critical thinking and analysis in the discussion but may have had some inconsistencies. (For 5, the understanding, critical thinking, technical skills, and decision-making not as detailed as above.)
Below Scholarship	**3, 4**	Explains why the margin of safety was important for *Forge Audio Limited*'s management. AND Partially correct calculations but some information misinterpreted. AND Has some understanding of management decision-making but does not calculate the incremental revenue. AND Provides limited evidence of critical thinking. (For 3, has limited understanding of management decision-making and does not calculate the incremental revenue.)
	2	Limited understanding of the material, not at Scholarship level.
	1	Minimal amount of relevant evidence, not at Scholarship level.
	0	Missing answer or irrelevant response.

Cut Scores

Scholarship	Outstanding Scholarship
17 – 24	25 – 32

Appendix

Content that is not required but provided for completeness, as candidates complete these as part of their working.

Question One

Calculation of total comprehensive income for the year

	$
Unadjusted profit before income tax	1 725 400
Allowance for doubtful debts	6 550
Accruals (Wages)	(15 900)
Prepaid insurance	27 000
Depreciation on item of plant sold during year	(28 320)
Sales reallocation	(400 000)
Gain on sale of plant sold during the year	49 540
Depreciation expense on plant	(320 000)
Depreciation expense on building to date of revaluation	(40 400)
Depreciation expense on buildings since revaluation	(84 800)
Income tax expense	(340 500)
Income after tax	578 570

***Ice & Fire* Limited**

Statement of Financial Position

At 30 June 2023

	Notes	NZ$
Non-current assets		
Property plant and equipment	1	16 492 620
Current assets		
Inventory	2	1 354 600
Accounts receivable (592 500 − 18 400 + 6 550)	3	580 650
Prepaid insurance		27 000
Cash		666 200
		2 628 450
Total assets		19 121 070
Non-current liabilities		
Long term loan		2 855 300
Current liabilities		
Accounts payable		321 500
Income tax payable		119 700
Accrued wages		15 900
		457 100
Total liabilities		3 312 400
Net assets		15 808 670
Equity		
Contributed equity		7 135 000
Revaluation surplus land		4 468 000
Revaluation surplus building		1 450 100
Retained earnings		2 755 570
		15 808 670

This is not required but is provided for completeness

1 Property, plant and equipment

	Land	Buildings	Plant and equipment	Total
At 30 June 2022				
Cost or valuation	8 490 000	6 060 000	3 624 800	18 174 800
Accumulated depreciation	–	(1 109 700)	(1 858 600)	(2 968 300)
Net book value	8 490 000	4 950 300	1 766 200	15 206 500
Year ending 30 June 2023				
Opening net book value	8 490 000	4 950 300	1 766 200	15 206 500
Additions	–	–	–	–
Disposals	–	–	(350 460)	(350 460)
Revaluation surplus	660 000	1 450 100	–	2 110 100
Depreciation expense	–	(125 200)	(348 320)	(473 520)
Net book value	9 150 000	6 275 200	1 067 420	16 492 620
At 30 June 2023				
Cost or valuation	9 150 000	6 360 000	3 200 000	18 710 000
Accumulated depreciation	–	(84 800)	(2 132 580)	(2 217 380)
Net book value	9 150 000	6 275 200	1 067 420	16 492 620

J Cricket MIV, an independent valuer, revalued the land on 1 November 2022 to fair market value based on the fair value of surrounding properties. The surplus on revaluation has been credited to the asset revaluation reserve through other comprehensive income.

If land were stated at historical cost the amount would be $4 682 000.

If buildings were stated at historical cost the amount would be $4 829 100.

Land is mortgaged to the value of $2 855 300 (assumption).

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.

2 Contributed equity

	Number of shares	NZ$
Balance at 1 July 2022	4 048 000	8 096 000
Shares issued	–	–
Shares repurchased	(480 500)	(961 000)
Balance at 30 June 2023	3 567 500	7 135 000

3 Distributions

Dividends	180 000
Shares repurchased	192 200
	372 200