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Draw a cross through the box (☒) if you have NOT written in this booklet

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TOP SCHOLAR

Mana Tohu Mātauranga o Aotearoa
New Zealand Qualifications Authority

Scholarship 2023
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

a) Journal Entries

	Debit (NZ$)	Credit (NZ$)
Provision for Doubtful Debts	6 550	
* Doubtful Debt Decrease (Income)		6 550
Record the adjustment of the provision for doubtful debts to ~~25~~ 2% of accounts recievable at 30 June 2023		
* Employee benefits expense	15 900	
Accrued employee benefit expense		15 900
Record accrued ~~empl~~ amount still owed to employees at 30 June 2023		
* Insurance expense	9 000	
Insurance paid in advance	27 000	
Cash		36 000
Record payment of insurance, ~~$~~ which relates to this period and the next.		
* Income tax expense	340 500	
Provisional tax		220 800
Income tax payable		119 700
Record income tax for the previous year, of which the excess over provisional tax remains as an accrued expense		
Retained Earnings	192 200	
Contributed Equity		192 200
Adjust erroneous journal entry to correctly record buy back of shares above par value.		

	Debit (NZ$)	Credit (NZ$)
* Sales	400 000	
Disposal of ~~PPE~~ Plant & Equipment		400 000
Adjust erroneous journal entry to correctly transfer funds received on disposal to a disposal account.		
* Depreciation Expense – Plant & Equipment	28 320	
Accumulated Depreciation – Plant & Equipment		28 320
Record depreciation expense for single item of Plant & Equipment, valued at cost at $424,800.		
Accumulated Depreciation – Plant & Equipment	74 340	
Disposal of Plant & Equipment		74 340
Record transfer of accumulated depreciation on single item of ~~property~~ plant & equipment to the disposal account.		
Disposal of Plant & Equipment	424 800	
Plant & Equipment – at cost		424 800
Record transfer of cost of single item of plant & Equipment to disposal account.		
Disposal of Plant & Equipment	49 540	
* Gain on sale of plant & equipment		49 540
Record transfer of balance of disposal account to the income statement as a gain on sale		
* Depreciation Expense – Plant & Equipment	320 000	
Accumulated Depreciation – Plant & Equipment		320 000
Record annual depreciation expense on all other items of Plant & Equipment		

	Debit (NZ$)	Credit (NZ$)
* Depreciation Expense - Buildings	40 400	
Accumulated Depreciation - Buildings		40 400
Record depreciation expense on buildings up to 1 November 2022 (before revaluation)		
Buildings - at cost	300 000	
Accumulated Depreciation - Buildings	1 150 100	
* Gain on revaluation - buildings (OCI)		1 450 100
Record revaluation of buildings by J. Cricket MIV at 1 November 2022.		
* Depreciation Expense - Buildings	84 800	
Accumulated Depreciation - Buildings		84 800
Record depreciation expense on buildings after 1 November 2022 (after revaluation)		
Land	660 000	
* Gain on revaluation - land (OCI)		660 000
Record revaluation of ~~t~~ land by J. Cricket MIV at 1 November 2022		

b) Statement of Changes in Equity for Jeef Fire Limited for the period ending 30 June 2023

	Contributed Equity (NZ$)	Revaluation Surplus-Land (NZ$)	Revaluation Surplus-Buildings (NZ$)	Retained Earnings (NZ$)	Total (NZ$)
Opening balance at 1 July 2022	8 096 000	3 808 000	—	2 549 200	14 453 200
Add: Annual Profit		660 000	1 450 100	542 570	2 652 670
Less: Distributions					
Share buyback	(961 000)			(192 200)	(1 153 200)
~~Pre~~ Dividends				(180 000)	(180 000)
Closing balance at 30 June 2023	7 135 000	4 468 000	1 450 100	2 719 570	$15,772,670

Workings:

Unadjusted Profit = $1, 725 400

Unadjusted Profit	1 725 400
Less: Employee expense	(15 900)
Less: Insurance	(9 000)
Add: Decrease in Doubtful Debts	6 550
Less: Income tax	(340 500)
Less: Adjustment to Sales	(400 000)
Less: Depreciation on Plant & Eqpt.	(348 320)
Add: Gain on sale of plant & Eqpt.	49 540
Less: Depreciation on Buildings	(125 200)
Adjusted Net Profit.	$542, 570

QUESTION FOUR

Currently:

$$\text{Sale Price} = \frac{\text{Total Sales Revenue}}{\text{Sales Volume}} = \frac{5\ 390\ 000}{24\ 500} = \$220 \text{ per headset}$$

$$\text{Contribution Margin} = \frac{\text{Contribution Margin}}{\text{Sales Volume}} = \frac{3\ 503\ 500}{24\ 500} = \$143 \text{ per headset}$$

$$\text{Variable Manufacturing Cost} = \frac{\text{Variable Manufacturing}}{\text{Sales Volume}} = \frac{1\ 372\ 000}{24\ 500} = \$56 \text{ per headset}$$

$$\text{Break-even point} = \frac{\text{Fixed Costs}}{\text{Contribution Margin}} = \frac{1\ 496\ 000 + 834\ 000 + 440\ 500}{143} = 19,374.12.... = 19,375 \text{ headsets.}$$

$$\text{Variable Selling Cost} = \frac{\text{Variable Selling}}{\text{Sales Volume}} = \frac{514\ 500}{24\ 500} = \$21 \text{ per headset}$$

$$\text{Margin of safety} = \text{Production units} - \text{Break-even units} = 24500 - 19\ 375 = 5,125 \text{ headsets}$$

For the year ended ~~20~~ 30 September 2023, Forge Audio Limited are making reasonable sales with a positive contribution and profit. Nevertheless, the margin of safety is relatively low, indicating that the business is in a risky position and may not be able to survive fluctuations in demand without making a loss. There is also spare, unutilised capacity in the business. In the next period, demand is forecast to increase a significant amount, and there are various other options available for expansion.

Firstly, if Forge Audio Limited continue as they are operating today, merely ~~notely~~ capacity to meet demand, they will be able to increase profitability, and reduce risk by increasing their margin of safety.

Forge Auto Limited - Budgeted Contribution Margin Statement for the year ended 30 September 2024.

	NZ$
Sales (220 × 29 500)	6 490 000
Variable Costs	
Manufacturing (56 × 29 500)	(1 652 000)
Selling (21 × 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

The increase in profit here is significant, and it has almost doubled since the last period. Nevertheless, Forge Auto should be wary. If they do not expand their business, growth may stagnate and demand fall in future years. They should also ensure there are no step-fixed or step-variable costs associated with increasing production. Staff may demand higher wages for more demanding work, or new staff may be required. They should ensure that sufficient raw materials are available for purchase in the upcoming period. They may be able to secure improved trading terms with suppliers or trade discounts due to the increased volume.

For option one:

Forge Audio Limited - Budgeted Contribution Margin Statement for the year ended 30 September 2024

	N2$
Sales (20 000 × 220 + 15 000 × 170)	6 950 000
Variable Costs	
Manufacturing (35 000 × 56)	(1 960 000)
Selling (35 000 × 21)	(735 000)
Contribution Margin	4 255 000
Fixed Costs	
Manufacturing	(1 496 000)
Selling	(834 000)
Administration	(440 500)
Net Profit	$1,484,500

This option produces a profit which is marginally higher than if the company maintains its existing position. The contribution is also marginally higher. However, to meet the demand from the South Africa, they will have to reduce their New Zealand's sales. This may reduce their reputation with NZ customers, and could lead to significant decreases in demand. Large companies who make big orders may cancel the whole order if they are unable to obtain the full amount they expect. The potential for future sales should be fully explored - ideally, a guarantee should be made about units ~~pulled over~~ purchased over the coming years. There are also difficulties in transporting the headsets to South Africa. Freight may be costly, and presents risks of damage. Receiving warranty claims and replacing defective units will also be more difficult for an overseas customers. However, this could provide an opportunity for further expansion into South Africa, should we gain a reputation. This provides the opportunity for international expansion

For Option Two:

Forge Audio Limited - Budgeted Contribution Margin Statement for the year ended 30 September 2024

	NZ$
Sales (220 × 35000)	7 700 000
Variable Costs	
Manufacturing (56 × 35000)	(1 960 000)
Selling (21 × 29500 + 34.8 × 5500)	(810 900)
Contribution Margin	4 929 100
Fixed Costs	
Manufacturing	(1 496 000)
Selling (834000 + 840 000)	(1 674 000)
Administration	(440 500)
Net Profit	$1,318,600

This option produces the lowest profit, even with optimal conditions. Due to uncertainties about demand, this statement has been produced assuming 5500 units are sold in Australia, the maximum amount while fulfilling all NZ demand. If no units are sold, the profit would be even lower, at $608,000, lower even than our 2023 profit. There are likely to be significant issues and costs associated with establishing a distribution network in Australia due to its unfamiliarity, and the limitation in sales means that very little profit is generated. It would be worthwhile to investigate demand for their products in Australia, and should demand be sufficient, expansion to the manufacturing abilities of the company should be carried out before expansion into Australia to ensure that demand is fully utilised to generate a profit. Opening an Australian branch is possible, but would require significant capital outlay.

For Option Three:

Forge Audio Limited - Budgeted Contribution Margin Statement for the year ended 30 September 2024.

	NZ$
Sales (29500 x 220)	6 490 000
Variable Costs	
Manufacturing (48.5 x 29500)	(1 430 750)
Selling (21 x 29500)	(619 500)
Contribution Margin	4 439 750
Fixed Costs	
Manufacturing	(1 265 000)
Selling	(834 000)
Administration	(440 500)
Net Profit.	$1,900,250

This option produces a significantly higher profit, and somewhat large contribution margin. The break even point has also decrease significantly to 16,874 units, also increasing the margin of safety. Difficulties in establishing this new production line should be considered, and additional unforeseen costs expected. The quality of the new headsets should also be considered. A significant drop in quality could reduce the reputation of the company, and lead to reduction in ~~the~~ demand, hurting profits. There may also be difficulties in shipping the units back to NZ, or additional costs to consider. Laying off the old manufacturing workforce is also a consideration. There is again the potential for reputational considerations, but there are also significant costs with both layoffs like compensation and back pay. The company should ensure they are aware of all these possible implications. The reliability of the manufacturing should also be ascertained - temporary unavailability of the product could led to a loss in sales, or damage to the company's reputation. The capacity for increased production output should also be considered. If the Vietnam factory is able to produce more than 35 000 Ledworks annually, then the company may be able to undertake another offer simultaneously - eg. the South Africa order - without affecting the NZ supply. The possibility of additional costs associated with increased supply should be considered. This also provides a greater ability to expand in the future.

Overall, option three would be most desirable for the business. Option Two presents obvious difficulties in the low profit and high costs, and is hindered by the unavailability of spare manufacturing capacity. If demand could be accurately determined, and a more committed expansion made, it could be possible in future. Option one provides a marginally higher profit than otherwise anticipated, but risks the permanent loss of local demand. The difficulties in shipping to South Africa also make it a less desirable ~~option~~ option. Therefore, the company would be best to ~~a~~ shift manufacturing to Vietnam. While there may be difficulties in establishing the offshore manufacturing capabilities, they are outweighed by the potential for significantly reduced costs. A slow transition, and gradual reduction in local manufacturing will allow options if there are ~~option~~ issues along the way, and allow for a smooth reduction in staff numbers. Once this ~~has~~ transition has occurred, expansion in to Australia or the South Africa order may still be possible, if they are prepared to wait.

QUESTION THREE

An asset can be defined as a present economic resource controlled by the entity as a result of a past transaction. An economic resource is itself defined as a right with the potential to produce economic benefits. ~~However, my friend~~ The recognition criteria include the need for relevance, where there must be a high degree of certainty that the right exists, and a ~~[illegible]~~ significant chance of economic benefit. It must also be a faithful representation of the value of the asset, so that the value is reasonably accurate.

Firstly, the pet formula. ~~The for~~ My friend has recorded this as an asset, ~~implying firstly~~. The first condition satisfied by an asset is that there exists a right associated with it. In this case, my friend has a right to manufacture and then sell the frozen pet food. However, the legal basis of this right is relatively weak. Due to the lack of a patent, my friend has no ability/right to prevent other companies from manufacturing a similar formula, and outcompeting her business. There must also be a potential to produce economic benefits, which in this case is clear. My friend is able to sell this frozen pet food in order to make a profit, which is a clear economic benefit to her business. Finally, the reason must be with the current control of the entity due to a past transaction. The past transaction is clear, with the existence of some documents (bank statements of invoices) showing the transfer of cash, and the existence of the contract. Therefore, there does exist some right to produce & sell the pet formula, a potential for economic benefit, and a present control due to a past transaction. Nevertheless, to be recognised certain further criteria must be met. There must be a high certainty

of existence of the right. In this case, there does exist the contract for the development of the formula, however the legal enforceability of the right would be dubious. There does exist a value for the contract which provides a reasonably accurate estimate of the value, allowing a faithful representation. ~~Nevertheless, due to the uncertainty about the existence of an exclusive right to obtain economic benefit from the asset, it cannot be recognised. It should instead be immediately written off as an expense. Overall, the past forms should be recognised as an asset due to the right of the entity to protect it, the future econ benefit with a likely to result from it, and the past transaction.~~
Nevertheless, due to the ~~the~~ uncertainty about the existence of an exclusive right to obtain economic benefit from the asset, it cannot be recognised. It should be immediately written off as an expense.
The treatment of design costs should be similar. Again, there is a reasonable chance of inflow of economic benefit, fulfills both the criteria to be an asset and the recognition ~~criteria~~ criteria, there has been a past transaction – although the number of different transactions which have likely been made have reduced the degree of certainty about the value even dubious. However, there again exist only a weak right to market and sell these accessories, meaning it is difficult to define them as an asset. The value is also not very largely linked with the possibility of economic benefit, therefore it would be difficult to faithfully represent this at a value which represents the possibility of ~~econ~~ future economic benefit.

The website is somewhat different. In this case there is a clear right – ~~she will be~~ only she will have the passwords and ownership of the website, which may not be used by other entities. There is also a past transaction, the payment for the services of the marketing consultant, which is accompanied by source documents (invoices, bank statements). There also exists some possibility of ~~incre~~ future economic benefit due to an increase in sales due to this advertising. Therefore, it can be considered an asset. ~~However, the probability of economic~~ For recognition criteria, there is little doubt about the existence of the asset due to a likely contract with the consultant. However, with the probability of economic benefit and its value would be difficult to determine, to the degree that faithful representation would be impossible. Therefore, Advertising of Social Media cannot be recognised as an asset. Indeed, none of these three items can be recognised as assets.

Expenses are caused by decrease in assets (or increase in liability) which result in the decrease of equity, and are not distributions to shareholders. ~~To this case,~~ The outflow of cash to pay these various entities should be recognised as a decrease in assets, and the expense should be recognised immediately, as the outflow occurs. These amounts can also be measured to high certainty due to the existence of invoices and bank statements — the amounts paid are clear.

QUESTION TWO

In a changing world, it is clear that accounting must keep up. The position of accountants at the centre of the data of companies mean that the accountants are uniquely positioned to redefine their own careers to continue to provide value in the future. Undoubtedly, the key tenets of accounting must remain. Information must still be "measured, recorded, classified, and summarised" for use in decision-making. However, the redefinition of accounting allows for a much wider range of capabilities and responsibilities to be included, so that the profession can remain at the forefront of innovation.

~~Firstly~~ Accounting is still first and foremost a profession which ~~a~~ records and reports data and information. This is a key feature of accounting which must not be lost in its redefinition. Indeed, Resource D states that accounting has "brought trust, transparency, and confidence to capital markets the world over." Accountants break down the complicated and obtuse workings of companies into straightforward information, presented so that it is accessible to the everyday investor, manager or employee. It is in this role that the profession has historically thrived. This role is also critical in the future development of the profession. Indeed, resource C states that, "accountants' unique skills, insights and deep knowledge of business practices, as well as their role as trusted advisers, create the opportunity ... to engage with these issues." The issues here refer to the challenge of climate change, loss of natural ecosystems, and social inequities. Accountants as a profession have developed over a century's worth of experience in the running of business, and therefore are well poised to be, "at the heart of the action as the money flows to sustainable activities;" as resource E puts it. Therefore, these traditional definitions of "information brokers" (Resource C) remain critical in the ~~profess~~ definition of accounting.

~~Nevertheless, changes must of course be made. One way in which the profession can be reflected is in its transparency. Historically~~

This new definition should also consider how the impacts that accountants do have on others within organisations. The actions of accountants can inspire managers and executives to comply with and strive toward sustainability goals, or subvert them. Indeed, Resource A states that, "accounting impacts human behaviour, shapes organisational and societal culture ... and organisational and social functioning and development." However, this great amount of influence provides an opportunity. ~~So~~ Resource A also describes the role of the accounting profession as, "to act in the public interest, which includes the interests of the natural environment." The definition should therefore consider the possibility for positive impacts, such as the ability to help their organisations to, "protect, restore, and promote the sustainable use of all resources." (Resource B). The definition must leverage this influence over businesses for good, and can specifically define the role of the accountant as, "advising, connecting, determining impact, reporting and assurance, and embedding sustainability," as suggested by resource C. It is again through the profession capabilities of accountants which have been developed in a traditional setting that these new roles are possible. Accountants are experts at advising, and due to their experience with data, can more competently "determine impact," and "report." There are a multitude of new environmental reporting frameworks which can become difficult to develop without for someone who focuses on the daily running and profits of the business. Accountants have the ability to take a longer-term, more holistic view, and truly identify how that all business are opened towards the ideals of sustainability. Therefore, the role of accounting can be amended to include the roles of advising, consulting, determining impact, reporting, and eventually of sustainability in the organisations.

Nevertheless, such as shift to the definition may result in difficulties for some accountants. The addition of new roles and responsibilities can introduce excess stress and difficulty to the tasks perform in accounting. It may be beneficial to consider the emerge of a new field of sustainability accounting, where exposure and expertise can be developed, while allowing better outcomes for both social, financial accounting, which will really retain some detail, and a new form of sustainability accounting. While the roles may be similar, the increased benefits of delegating duties could allow both roles to be performed better.

Overall, the redefinition of accounting provides an excellent opportunity for the field as a whole to revolution itself. While retaining its core set of ~~competencies~~ competencies and values, accountants can influence businesses for the better, to be part of a new world of sustainability, to the benefit of all of society