

No part of the candidate's evidence in this exemplar material may be presented in an external assessment for the purpose of gaining an NZQA qualification or award.

SUPERVISOR'S USE ONLY

S

93203A



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

☐

+

OUTSTANDING SCHOLARSHIP EXEMPLAR



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 (XXXXXX). 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.

1) Journals

Dr Allowance for Doubtful debts	6550	
Cr Doubtful debts		6550

To record the adjustment of allowance for doubtful debts to 2%.

Dr Wages	15900	
Cr Accrued expenses wages		15900

To record accrued wages

Dr Prepaid insurance	36000	
Cr Insurance		36000

To record insurance prepaid for next year

Dr Income tax expense	340,500	
Cr Exp Provisional tax paid		220800
Cr Income tax payable		119700

To record income tax expense

Dr Retained earnings	216225	
Cr Contributed equity		216225
To correct the incorrect entry made for the share repurchase		

Dr Depreciation expense plant	28320	
Cr Accumulated depreciation-plant		28320

To record depreciation on plant & equipment sold for this year

Dr Accumulated depreciation-plant	74 340	
Cr Disposal account		74,340

To ^{write off} ~~transfer~~ accumulated depreciation to disposal account

Dr Loss on sale of plant and equipment	24,800	
Cr Disposal account		24,800

To record loss on sale of plant and equipment

Dr ^{Sales} Disposal account	400,000	
Cr Disposal account		400,000

To transfer proceeds on sale of item of plant and equipment to disposal account (reversing incorrect entry)

Dr Depreciation - plant and equipment		651,800
Cr Accumulated depreciation-plant and equipment		651,800

To record depreciation on remaining plant and equipment

Dr Land	660,000	
Cr Land revaluation surplus		660,000

To record ~~in~~ gain in revaluation of land.

Dr Depreciation - buildings	40,400	
Cr Accumulated depreciation-buildings		40,400

To record depreciation on buildings until revaluation

Dr Accumulated depreciation-buildings	1150100	
Cr Buildings		1150100

To write off accumulated depreciation on buildings

Dr Buildings | 1450100 |
 Cr Buildings revaluation surplus | 1450100 |
 To record increase gain on revaluation of buildings

Dr Depreciation - buildings | 84800 |
 Cr Accumulated depreciation - buildings | 84800 |
 To record depreciation on buildings for remainder of year.

Ice and Fire limited Statement of Changes of Equity as at 30 June 2023

	Land	Buildings	contributed equity Contrib	retained earnings	Total
	\$NZ	\$NZ	\$NZ	\$NZ	\$NZ
Opening balance 01/07/22	8490000	4909900	8096000	2549200	240 24,045,100
Distributions	0	0	(180,000)	(180,000)	(180,000)
Share issue	0	0	0	0	0
Share repurchase	0	0	(1153200)	(216,225) 0	(1153200)
Comprehensive income	660,000	1450100	0	603,200	2713300
Closing balance 30/06/23	9150000	6360000	6942800	2972400 275,6175 2972400	25,208,975 <u>25,425,200</u>

$$\begin{aligned}
 \text{Profit} &= \text{income summary} - \text{wages} + \text{prepaid insurance} - \\
 &\quad \text{income tax expense} - \text{depreciation} - \text{loss on sale} \\
 &\quad \text{of plant and equipment} \\
 &= 1725400 - 15900 + 36,000 - 340,500 - (84800 + \\
 &\quad 651800 + 40,400) - 24800 \\
 &= \$603200
 \end{aligned}$$

2) Plan

1) In the past, accounting was mostly "numbers-based" but now ~~we~~ have a purpose for society - trad. defn no longer fit for purpose

2) Sustainability

3) Challenges - need to upskill

Since the late 19th century, accounting has been known as a technical, number-oriented profession - an almost inhumane practice, with the sole purpose of accountants being to analyse endless figures and charts. However, it's become clear that accounting can no longer remain in the confines of figures and reports. Disasters such as climate change are happening all over the world, ~~for~~ leaving a detrimental impact on communities. Accountants can take a step forward in eliminating these disasters, ~~and~~ but ~~to~~ before that can be done, "Accounting needs to be redefined" (Resource A).

Perhaps to the disbelief of many, accounting is "not a technical practice alone, it is beyond a purely instrumental or technical pursuit", as Resource A boldly claims. For years, accounting has always been viewed as separate to "the rest of society" - the numbers that accountants

work with and the work they do only benefits businesses, not "ordinary people". Resource A challenges this, saying that actually, "accounting is a moral practice". It is no longer enough to provide companies with meaningless figures,

accountants must be at the forefront of using these numbers to advise, to create policies, to strategise to help their clients combat disasters in the world such as climate change. Accountants, with their professional knowledge, are ~~a powerful~~ a powerful means of changing society for the better. Their extensive knowledge and skill sets mean that they can address challenges that require "integrated thinking as companies reallocate resources, reorient production, and reimagine their business models for the greater good". Hence, the definition of accounting must be redefined from a technical ~~a~~ pursuit aloof to society's interests to a profession ~~that~~ whose goal is to "act in the public interest" (Resource B) by helping combat problems that society faces.

~~An issue that accountants face is the need to upskill.~~

A major area that accountants can make a difference in is climate and sustainability. Accountants are in a unique position that not many other professions are in: they have access to a wealth of information about businesses: their models, their decisions, values and so much more. Not only do accountants have access to all of this information, they also have the knowledge and skills to analyse this and advocate for change for the better. As Resource C mentions, accountants should encourage businesses to change their

approach, to move from being "less bad" to embracing transformative approaches that help solve global challenges".

Businesses trust accountants, auditors, consultants, etc to guide them to making the correct decisions. Accountants can exercise this influence to ^{encourage} ~~guide~~ businesses to implement policies that promote sustainability, change their products to be more eco-friendly, etc. Sometimes, there may be tensions as the need for sustainability clashes with a business's goal of profit maximising, however accountants also have the technical skills to ensure businesses can be more sustainable ~~while also~~ to benefit wider society while also maximising profit by "providing data and information on progress and future targets". Accounting is a "social practice", as Resource A states and therefore has a duty to serve the public interest.

Now, it has been established that accountants have a role to play in combatting crises such as climate change. However, in order for accountants to be able to ~~fulfil~~ their obligations to society, they must be knowledgeable in these areas. Financial statements and reports alone are not enough to analyse the sustainability performance of a business; "now accountants and CFOs are responsible for more than a balance sheet and a profit loss statement" as Resource E says. There is specialist knowledge associated with these areas, e.g. "understanding what emissions are" (Resource E), how they are categorised and measured" (Resource E). Accountants must upskill in these areas to be able to

advise businesses^{or} how to develop their models and strategies for the better. This doesn't mean that the financial skills become obsolete, rather accounting can now "bring together its ~~challenge~~ century of experience in measurement, disclosure, and assurance and partnering with governments, businesses and civil society to address the climate crisis". (Resource D). By integrating their accounting skills with newfound knowledge in areas like climate change, modern slavery, etc. accountants can pave the way for a better society.

So. The definition of accounting must change. ~~It must reflect the~~ The old definition no longer accurately reflects the role and duty of accountants to better society even if it is at the expense of profits. Accountants have the skills and knowledge to combat problems like climate change. A more accurate definition would be "a profession that uses technical and instrumental knowledge to serve its purpose of benefitting society by influencing businesses to lead the way in constructing a better world for all."

deep

- 3) According to the NZ equivalent of the IASB conceptual Framework for Financial Reporting, an asset is
- an economic resource controlled by the entity as a result of a past event, with an economic resource being a right ~~to~~ that has the potential to bring future economic benefit to the entity. To be considered ~~an~~ an asset, the pet formula should meet the
 - above criteria as well as meet the recognition criteria of relevance and faithful representation. The pet formula is from a past event (the contract with the manufacturers) and it is controlled by my friend as she has the sole rights to the formula. The contract means only she is allowed to use that recipe and can prevent others from using it, hence it is a right for her. The
 - cost of the formula can be faithfully represented ~~as~~ and be complete, neutral, and free from ~~error~~ ^{error} as it was costed by the manufacturer (an external source), therefore free from bias and it is most likely complete and free from error as the amount can be verified on the source documents (the contract). ~~The cost for~~
 - ~~the pet~~ There is also no existence uncertainty for the pet formula as a legal contract exists for it. ~~Start~~ The cost for the formula, \$90,000, is relevant as it is a material amount for a start up and will likely have influenced my friend's financial decisions such as whether to get a loan or not. It is also likely that the pet formula will generate economic benefit as she is targeting her products towards the popular pet market, hence the cost for the pet ~~food~~ formula contract should be treated as

an asset. However, my friend appears to have classed it as an expense^{**} along with the design costs and advertising and social media. She also plans to write off the costs of these even though she has paid cash for them in full and no longer owes the manufacturer, designer, or marketing consultant.^{therefore} I disagree with this treatment, and would advise her to allocate the pet formula^{advertising} and design costs^{*} to ~~an~~ assets, ~~and~~ ~~leave advertising as an expense~~^{*} and not carry out the entries for write off.

* Similar to the pet formula, the design costs should be classed as an asset as they fulfil the criteria for recognition of an asset as defined by the NZ equivalent for the IASB Conceptual Framework, i.e. it is from a past event (the contract for designing), my friend controls it (she has the sole right to the designs), it is likely to bring Frolicking Pets Ltd future economic benefit (as ~~they~~ the designs were done by a professional), it is relevant as \$25,000 is a large cost for a start up business, and it can be measured reliably (i.e. complete, neutral, free from error) using the source documents (receipt / contract). This is also true for the advertising cost of \$25,000.

** According to the conceptual framework

An expense is a decrease in asset / increase in liability that reduces equity and is not drawings. Advertising meets the definition for an expense as it ~~as it~~ decreases the asset cash, which reduces equity. The 3 costs above ~~do~~ don't meet the definition of an ~~asse~~ expense as they reduce the ~~liab~~ asset cash but also increase the

assets property, plant, and equipment.

4) CVP statement, 2024				
		Scenario 1	Scenario 2	Scenario 3
Sales	6490000	6450000 6450000		6490000
Variable costs				
Manufacturing	$1372000 \times \frac{29500}{24500}$ (1652000)	(1960000)		(1430750)
Selling	$514500 + \frac{29500}{24500}$ (619500)	(735000)	$619500 + (220 + 1350) \times 2$	(619500)
CM	4218500	4255000		4439750
Fixed costs	(1496000)	(1496000)		
Manufacturing	(834000)	(1496000)		(1265000)
Selling	(140500)	(834000)		(834000)
Admin	(640500)	(640500)	$440500 + 840,000$ 1280500	(640500)
Net profit	1448000	1984500		1900250

2024: CM/unit = $4218500 / 29500 = \$143$

Breakeven = $\frac{FC}{SP-VC} = \frac{2770500}{220 - 143} = 38 \text{ } 19375$

MOJ = 10125

S1: CM/unit = $\$121.6$

Breakeven = $\frac{FC}{SP-VC} = \frac{2770500}{\frac{15}{35} \times 170 + \frac{20}{35} \times 120 - 77} = 22790$

MOJ = 12211.

S2: Costs ↑ don't know sales, not worth it.

S3: CM/unit = $4439750 / 29500 = \$150.5$

Breakeven = $\frac{FC}{SP-VC} = \frac{2539500}{220 - 69.5} = 16874$

MOJ = 12626

To Forge Audio Ltd,

First, I would strongly advise against expanding sales into Australia. The fixed costs increase by a large \$834,000 per year if this is implemented and variable costs increase as well due to the sales commission. You haven't provided an estimated sales figure so it is impossible to determine if there would be a great enough increase in sales to offset this increase cost or even if you would reach breakeven sales. In addition, we don't know ~~if the~~ what the market is like in Australia, whether luxury ~~ide~~ headsets are in demand or not, what ~~the~~ other competition exists, etc. This lack of uncertainty makes it highly risky to expand into Australia and I would recommend against it.

~~Second~~ The ~~an~~ option of shifting production to Vietnam appears to be a good decision financially, with the breakeven (the number of headsets needed to be sold to pay all costs and leave no profit) is 2501 headsets lower than if you don't shift production (16874 compared to 19375). This means you need to sell fewer headsets to cover all costs. In addition, the margin of safety (difference between sales and breakeven) is ~~also~~ 2501 ~~higher~~ ^{than not shifting production} headsets higher, meaning even if sales declined due to ~~order~~ ^{would} ~~be~~ luxury headsets becoming less trendy or valuable, you ~~will still~~ be more likely to continue making a profit, as sales can decrease by another 2501 headsets. ~~This~~ This margin of sales is 42.8%, ~~so you can be assured that you w~~ sales can decrease by 42.8% (12626 headsets) before you start + profit increases from \$1448000 to \$1900250

losing making a loss. However, moving to Vietnam could cause some ethical problems. The low labour cost and lack of laws and legislations around vulnerable workers could mean that some workers could be exploited in your factories, especially children. You would not be able to monitor this easily from New Zealand, increasing the risk all the more. In addition, ~~it would~~ this would mean that workers could steal items from the factory without you knowing ^{and sold at a high price} it, in which case the losses in inventory ~~is~~ could be significant. The increases in profit would not be worth going through this risk and potentially exploiting vulnerable workers, so I would advise against this option as well.

This leaves only the first option. Although the headsets are being sold at a price \$50 lower to the South African customers than regular customers (\$170 compared to \$220), the overall profit for the year increases from \$1468000 to \$1984500, an increase of \$536,500. Even though the contribution margin per unit (the amount left of selling price after deducting fixed costs to pay for variable costs and leave profit) decreases from \$143 to \$121.60, the ~~breakeven~~ and breakeven increases from 19375 to 22790 headsets, the margin of safety increases from 10125 to 12211, indicating you can lose more in sales before making a loss. This happens because sales has increased from 29,500 to 35000 headsets.

- Although you may lose some existing ~~the~~ customers (since you can't sell the full 29500 in NZ due to the relevant range being 35000 and the South African

taking 15000), this ~~an~~ new customer will likely purchase from you again provided you maintain ~~the~~ the good quality of your headsets, so you shouldn't worry about losing future sales. Hence I would recommend you implement option 1.

Outstanding Scholarship

Subject: Accounting

Standard: 93203

Total score: 25

Q	Score	Marker commentary
1	05	<p>This is a technical question that required candidates to use the information contained in the question to prepare the statement of changes in equity for the year ended 30 June 2023. Correct preparation of the statement of changes in equity is necessary to provide evidence of convincing communication to users of the financial statements.</p> <p>The candidate's answer and the layout of their workings provided evidence of logical development, precision, and clarity of ideas. Furthermore, the answer provided evidence of highly developed knowledge, skills, and understanding in that the candidate was aware that they needed to make a number of adjustments in order to prepare a correct statement of changes in equity for the year ended 30 June 2023.</p> <p>The candidate provided evidence of convincing communication of accounting information in the format of a statement of changes in equity. Appropriate terminology was used other than referring to the statement at a point in time. Reporting currency used.</p> <p>The candidate showed evidence of sophisticated integration and abstraction or evidence of critical thinking in that they prepared a statement of changes in equity after considering the some of the adjustments required by the additional information provided.</p> <p>There was evidence of planning in that workings were clearly set out.</p> <p>The candidate made a number of technical errors in the calculation of the retained earnings portion of total comprehensive income for the year ended 30 June 2023. However, the candidate recognised that they needed to fully consider the additional information provided. Overall, the candidate has provided a clear answer to a technical question that meets the scholarship criteria.</p>
2	08	<p>This was a current issues question that required candidates to discuss some of the current issues facing accountants, critically evaluate whether the traditional definition of accounting continues to be fit for purpose and then suggest how it may be amended to more accurately reflect its modern purpose, influence and contribution to society.</p> <p>The answer gave some evidence of planning, logical development, precision, and clarity of ideas.</p>

		<p>In the introduction, the candidate highlighted the key issues facing accountants and the contribution they can make in addressing some of the issues facing society.</p> <p>The candidate drew on the resources to provide evidence of independent reflection and extrapolation to critically evaluate whether the traditional definition of accounting continues to be fit for purpose before suggesting how it may be amended to more accurately reflect its modern purpose, influence, and contribution to society.</p> <p>The candidate provided a definition that they suggest reflects the accounting's modern purpose, influence, and contribution to society.</p> <p>Given that this current issue was not signposted in the assessment specifications there is no opportunity for candidates to demonstrate or provide evidence of independent research. In addition to some evidence of planning in the introduction, the candidate demonstrated some elements of critical thinking when evaluating whether the traditional definition of accounting continues to be fit for purpose, before suggesting how it may be amended to more accurately reflects it modern purpose, influence, and contribution to society. The set out of the answer provided evidence of logical development, precision, and clarity of ideas. In framing their answer, this candidate provided a sufficiently sophisticated analysis to reach the level of outstanding scholarship. The answer demonstrates evidence of convincing communication.</p>
3	06	<p>This is a concepts question that required candidates to use the definition and recognition criteria contained in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2018 (NZ Framework) to discuss whether they agree with a friend's accounting treatment for the costs of setting up her pet business detailed in the journal entries provided.</p> <p>The candidate provided some evidence of an understanding of the individual elements of the definition of an asset and their application in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2018 (NZ Framework).</p> <p>The candidate provided some evidence of an understanding of the recognition criteria for an asset contained in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2018 (NZ Framework) particularly around the inflow of economic benefits.</p> <p>The candidate is demonstrated some perception and insight in that they recognised existence uncertainty.</p> <p>Although incorrect, the candidate does discuss whether they agree with the treatment.</p> <p>There is clear evidence that the candidate understands the definition and recognition criteria for an asset contained in the</p>

		<p>New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2018 (NZ Framework). The candidate attempted to use elements of the definition of an asset in their answer. They also identified the recognition criteria. However, the answer required more focus, and particularly a more in-depth discussion of the high degree of measurement uncertainty associated with the inflow of economic benefits (attributing a value that faithfully represents the value of the asset) would have rounded out the answer. Although the quality of the answer tailed off towards the end, it is a reasonably succinct answer which meets the scholarship criteria.</p>
4	06	<p>Question four was a management decision question. The question required candidates to establish the break-even and net profit for 2024 before evaluating three independent scenarios. As part of their answer, candidates were required to apply critical thinking and consider both financial and non-financial information when coming to their decision.</p> <p>The candidate demonstrated the technical skills in calculating the expected net profit for 2024 as well as the profit based on contracted to South Africa (unfortunate addition error) as well as shifting the production process to Vietnam. This provides a basis for their answer.</p> <p>The candidate provided evidence of critical thinking in that they recognised and took into account financial as well as non-financial factors when evaluating the three independent scenarios.</p> <p>They provided evidence of independent reflection and extrapolation when recommending an option that <i>Forge Audio Limited</i> should implement in 2024.</p> <p>This was a relatively straight forward question. The answer could have been improved had they calculated the break-even points (scenario two) and incorporated the correctly calculated break-even point in their answer. Nevertheless, in framing their answer, the analysis and critical thinking provided by the candidate is sufficiently sophisticated to reach the level of scholarship.</p>