

Assessment Schedule – 2024**Scholarship Accounting (93203)****Question One**

Suggested solution

(a)

Dr		Bad debts	26 800	
	Cr	Accounts receivable		26 800
		<i>Write off of debtor at end of reporting period</i>		
Dr		Bad debts / allowance for doubtful debts	28 400	
	Cr	Allowance for doubtful debts		28 400
		<i>Creation of initial allowance for doubtful debts</i>		
Dr		Prepaid insurance	18 900	
	Cr	Insurance expense		18 900
		<i>Recognising prepaid insurance</i>		
Dr		Staff salaries expense	48 000	
	Cr	Staff salaries payable / Accrued expenses		48 000
		<i>Recognising staff salaries payable at end of the reporting period</i>		
Dr		Interest expense	33 600	
	Cr	Interest payable		33 600
		<i>Recognising outstanding interest at end of reporting period</i>		
Dr		Changes in inventory	260 800	
	Cr	Inventory		260 800
		<i>Reversal of inventory on hand at 1 July 2023</i>		
Dr		Inventory	212 400	
	Cr	Changes in inventory		212 400
		<i>Recognising inventory on hand at 30 June 2024</i>		
Dr		Loss on revaluation of land	140 000	
	Cr	Land		140 000
		<i>Recognising loss on revaluation of land</i>		

Dr		Depreciation	20 550	
	Cr	Accumulated depreciation		20 550
		<i>Depreciation on item of PPE traded in ($\\$822\,000 \times 10\% \times 3/12$)</i>		
Dr		Depreciation	458 790	
	Cr	Accumulated depreciation		458 790
		<i>Depreciation on PPE for year ($\\$5\,827\,500 - \\$822\,000 - \\$417\,600 = \\$4\,587\,900$)</i>		
Dr		Depreciation	49 320	
	Cr	Accumulated depreciation		49 320
		<i>Depreciation on new item of PPE ($\\$657\,600 \times 10\% \times 9/12$)</i>		
Dr		Accumulated depreciation	466 050	
	Cr	Disposal account		466 050
		<i>Writing off accumulated depreciation to disposal account</i>		
Dr		Disposal account	822 000	
	Cr	PPE		822 000
		<i>Writing off cost of asset disposed of</i>		
Dr		Property, plant, and equipment	240 000	
	Cr	Disposal account		240 000
		<i>Accounting for the amount received on trade in of item of property, plant, and equipment</i>		
Dr		Loss on disposal of PPE	115 950	
	Cr	Disposal account		115 950
		<i>Loss on disposal of PPE</i>		

Allocation of expenses

	Total	Cost of sales	Distribution expenses	Administration expenses	Finance
Advertising expenses	93 400		93 400		
Auditors' remuneration	94 500			94 500	
Bad debts expense (\$21 500 + \$26 800 + \$28 400)	76 700			76 700	
Depreciation	528 660	290 763	79 299	158 598	
General expenses	221 400			221 400	
Insurance expense (\$45 360 – \$18 900)	26 460	13 230	6 615	6 615	
Interest expense (\$42 900 + \$33 600)	76 500				76 500
Loss on disposal of PPE	115 950	115 950			
Loss on revaluation of land	140 000			140 000	
Purchases	2 670 000	2 670 000			
Rent and electricity expense	1 057 300	634 380	105 730	317 190	
Changes in inventory	48 400	48 400			
Staff salaries expense (\$1 036 800 + \$48 000)	1 084 800	705 120	108 480	271 200	
	6 234 070	4 477 843	393 524	1 286 203	76 500

(b)

Tagesta Limited
Statement of Comprehensive Income
For the year ended 30 June 2024

	Notes	2024 NZ\$
Revenue	1	6 978 900
Cost of sales		<u>(4 477 843)</u>
Gross profit		2 501 057
Other income	2	<u>111 550</u>
		<u>2 612 607</u>
Less		
Administrative expenses		(1 286 203)
Distribution expenses		(393 524)
Finance expenses	3	<u>(76 500)</u>
Profit before tax	4 & 5	856 380
Income tax expense		<u>(220 600)</u>
Profit for the period		<u>635 780</u>

Notes to the 2024 Statement of Comprehensive Income

1. Revenue

Sales	<u>6 978 900</u>
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2. Other income

Dividends received	10 300
Interest received	19 450
Rental income	<u>81 800</u>
	<u>111 550</u>

3. Finance costs

Interest paid	76 500
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4. Profit before tax

Profit before tax has been calculated after taking into account the following items

Auditor's remuneration

- Audit fee	55 000
- Taxation services	17 000
- Consulting fees	<u>22 500</u>
	<u>94 500</u>
Donations	<u>30 000</u>

5. Classification of expenses by nature

Advertising expenses	93 400
Bad and doubtful debts	76 700
Changes in inventories	48 400
Depreciation	528 660
General expenses	191 400
Insurance expense	26 460
Loss on disposal of administration property, plant, and equipment	115 950
Loss on revaluation of land	140 000
Purchases	2 670 000
Rent and electricity expense	1 057 300
Staff salaries expense	1 084 800

Judgment

	Score	
Outstanding Scholarship	7, 8	Exhibits the technical ability to correctly prepare all the adjusting journal entries from the scenario provided and ensures that they correctly flow through to the final statement of comprehensive income. AND Exhibits the technical skills necessary to correctly prepare the statement of comprehensive income, including accompanying notes. AND Provides evidence of convincing communication in that the statement of comprehensive income and accompanying notes are correctly and neatly prepared, are correct in all respects, and in a format suitable for external reporting purposes.
Scholarship	5, 6	Exhibits the technical ability to make the majority of the adjusting journal entries from the scenario provided and ensures that the ones made flow through to the statement of comprehensive income. AND Exhibits the technical skills necessary to correctly prepare the statement of comprehensive income, including notes. AND Provides evidence of convincing communication in that the statement of comprehensive income and accompanying notes are prepared in a format suitable for external reporting purposes.
Below Scholarship	3, 4	Exhibits the technical ability to correctly prepare some of the adjusting journal entries from the scenario and ensures that the ones made flow through to the statement of comprehensive income. AND Exhibits some of the technical skills necessary to correctly prepare the statement of comprehensive income, including notes, in a format suitable for external reporting purposes. OR Has the technical ability to calculate the adjustments but not adjust the statement of comprehensive income, set out their answer clearly or neatly, or show any workings. AND Does not provide evidence of convincing communication in that they do not set out the statement of comprehensive income clearly or neatly or use the correct terminology. Accompanying notes 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 the discussion is how the accounting profession's fundamental ethical standards of integrity, professionalism, duty of care, confidentiality, and competency should evolve in an AI-enabled world. The question requires candidates to examine the potential impacts of AI on society, business, regulators, and individuals.

Judgment

	Score	
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 discussion of how the accounting profession's fundamental ethical standards of integrity, professionalism, duty of care, confidentiality, and competency should evolve in an AI-enabled world. Each of society, business, regulators, and individuals should be considered. AND Demonstrates sophisticated abstraction and integration of the resource material. AND Demonstrates a high degree of critical thinking and analysis, carefully articulating how the accounting profession's fundamental ethical standards could evolve to assuage the concerns of society, business, regulators, and individuals in the face of an AI-enabled world. 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 and sophisticated analysis that demonstrates a high level of perception and insight in their discussion of how the accounting profession's fundamental ethical standards of integrity, professionalism, duty of care, confidentiality, and competency should evolve in an AI-enabled world. At least THREE of society, business, regulators, and individuals should be considered for a 6 to be awarded. 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.

Below Scholarship	3, 4	Produces a sound discussion of how the accounting profession's fundamental ethical standards of integrity, professionalism, duty of care, confidentiality, and competency should evolve in an AI-enabled world. At least TWO of society, business, regulators, and individuals should be considered for a 4 to be awarded. 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, very descriptive, and may merely regurgitate the material provided in the resources. AND Critical thinking is limited or not evident.
	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 Three

Suggested solution

The contribution margin ratio assists the managers of *Mighty Tanks Limited* to calculate and set sales targets for water tanks. If *Mighty Tanks Limited* only produced and sold one water tank for \$6 500, fixed costs of \$6 900 000 would still need to be paid. Variable costs (direct labour, material, and variable overheads), amount to \$19 507 500 (\$8 550 000 + \$9 405 000 + \$1 552 500), giving a unit contribution margin of \$2 165. This provides a contribution margin ratio of $\$2\,165 \div \$6\,500 = 33.308\%$. This means that 33.31% from the sale of each water tank is available to contribute towards the \$6 900 000 fixed costs *Mighty Tanks Limited* needs to cover annually and to help achieve the profit target.

$$\begin{aligned}
 \text{Break-even units} &= \frac{\text{Fixed costs}}{\text{Unit contribution margin}} \\
 &= \frac{6\,900\,000}{\$2\,165 [\$6\,500 - \$4\,335 ((\$26\,407\,500 - \$6\,900\,000) / 4\,500)]} \\
 &= \frac{3\,187}{1} \\
 \text{Break-even \$} &= 3\,187 \times \$6\,500 \\
 &= \$20\,715\,500
 \end{aligned}$$

A margin of safety may be calculated. This reflects the amount of sales over a company's break-even point, i.e. the amount sales can decrease before a company starts to lose money or stops making a profit. The margin of safety is used to establish the risk of loss a business may be subjected to by changes in sales.

$$\begin{aligned}
 \text{Margin of safety} &= \frac{\text{Sales units} - \text{break-even units} \times 100}{\text{Sales units}} \\
 &= \frac{4\,500 - 3\,187 \times 100}{4\,500} \\
 &= 29.18\%
 \end{aligned}$$

The managers of *Mighty Tanks Limited* are particularly interested in calculating the number of water tanks that would need to be sold to achieve performance expectations. From the comparative income statement, the budgeted operating profit amounted to \$2 842 500. The calculation for the number of sales units to meet performance expectations of \$3 806 000 is as follows.

$$\begin{aligned}
 \text{Sales volume} &= \frac{\text{Fixed costs} + \text{profit}}{\text{Unit contribution margin}} \\
 &= \frac{6\,900\,000 + 3\,806\,000}{2\,165} \\
 &= 4\,945 \text{ (4 945.03)}
 \end{aligned}$$

Mighty Tanks Limited would need to sell 4 945 units of the unmodified water tanks to meet the performance expectations. This is 445 additional tanks. However, it is questionable whether this is achievable with the new tanks. Candidates to examine factors here.

If *Mighty Tanks Limited* modifies the manufacturing of the water tanks but does not increase the selling price, the position is as follows:

Increase in material cost (variable) $(\$920 - \$680) = \$240$ $[\$9405\ 000 \div 4500] = (\$2090 + \$240) = \$2\ 330$

Increase in fixed cost wages $(\$8\ 550\ 000 \div 4500) = \$1\ 900 \times 1.15 = \$2\ 185$

Variable costs $1\ 552\ 500 \div 4500 = \345

Total variable costs per unit $(\$2330 + \$2\ 185 + \$345) = \4860

Increase in fixed cost – depreciation $(\$4\ 500\ 000 \div 10) = \$450\ 000$

The new break-even point can be calculated as follows:

$$\begin{aligned}
 \text{Break-even units} &= \frac{\text{Fixed costs}}{\text{Unit contribution margin}} \\
 &= \frac{\$7\ 350\ 000 (\$6\ 900\ 000 + \$450\ 000)}{\$1\ 640 [\$6\ 500 - \$4\ 860]} \\
 &= \frac{4\ 482 (4\ 481.7)}{1} \\
 \text{Break-even \$} &= 4\ 482 \times \$6\ 500 \\
 &= \$29\ 133\ 000
 \end{aligned}$$

If sales price does not increase, the break-even in units increases from 3 187 to 4 482, an increase of 1 295 units. This may require a great effort on the part of the managers. If the managers of *Mighty Tanks Limited* wished to achieve the performance profit, they would need to sell without an increase in price the following number of improved tanks:

$$\begin{aligned}
 \text{Sales volume units} &= \frac{\text{Fixed costs} + \text{profit}}{\text{Unit contribution margin}} \\
 &= \frac{7\ 350\ 000 + 3\ 806\ 000}{1\ 640} \\
 &= \frac{6\ 803 (6802.44) \$44\ 219\ 500}{1}
 \end{aligned}$$

This appears unlikely given that the expected number of sales is 5 200 units. To achieve this increased target of 6 803 tanks, the managers of *Mighty Tanks Limited* would need to spend on an advertising campaign or hire additional sales representatives, which would increase fixed and perhaps variable costs if sales commission is paid.

Assuming the managers of *Mighty Tanks Limited* look to adjust the selling price on sales of 5 200 tanks, to achieve performance sales of \$44 219 500, a selling price of \$7 006 would need to be set.

Candidates to consider whether either of the above is feasible.

Calculating budgeted operating profit	NZ\$	NZ\$
Sales units	4 500	5 200
Sales	29 250 000	33 800 000
Direct costs		
Labour	(8 550 000)	(11 362 000)
Materials	(9 405 000)	(12 116 000)
Indirect costs		
Variable overhead	(1 552 500)	(1 794 000)
Fixed overhead	(6 900 000)	(7 350 000)
	<u>(26 407 500)</u>	<u>(32 622 000)</u>
Operating profit	<u>2 842 500</u>	<u>1 178 000</u>

$$[\$8\,550\,000 \div 4\,500] \times 1.15 \times 5\,200 = \$11\,362\,000$$

$$([\$9\,405\,000 \div 4\,500] - 680 + 920) \times 5\,200 = \$12\,116\,000$$

$$\$1\,552\,500 \div 4\,500 \times 5\,200 = \$1\,794\,000$$

Judgment

	Score	
Outstanding scholarship	7, 8	Demonstrates thorough and insightful understanding of management decision-making in the context of the company, <i>Mighty Tanks Limited</i>. AND Demonstrates the technical ability to make the correct supporting calculations, including margin of safety and incremental revenue, and uses them to explain whether <i>Mighty Tanks Limited</i>'s management should modify the water tanks to make them more acceptable for use by a wider range of users. AND Shows a high degree of critical thinking, technical ability and analysis, and convincing communication to produce a well-constructed report that clearly communicates their recommendation. (For 7, the level of communication not as developed as above.)
Scholarship	5, 6	Illustrates why a product's contribution margin is important for management decision-making. AND Demonstrates the technical skills necessary to support the answer with correct calculations for margin of safety, attempts to calculate incremental revenue, and uses the calculations to explain whether <i>Mighty Tanks Limited</i>'s management should modify the water tanks to make them more acceptable for use by a wider range of users. AND Thorough understanding of management decision-making in this context. Presents evidence of critical thinking and analysis in their discussion but may have some inconsistencies within their report. (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 is important for <i>Mighty Tanks Limited</i>'s management. AND Partially correct calculations but some information misinterpreted. AND Some understanding of management decision-making. These candidates could generally not calculate the incremental revenue. AND Limited evidence of critical thinking. (For 3, had limited understanding of management decision-making. These candidates could generally not calculate the incremental revenue.)
	2	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 Four

Suggested solution

- Only those items that meet the definition of asset should be included in the statement of financial position.
- Do the two 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?
- *Earthwormers Limited* has a number of economic resources that it controls, which provide it with certain rights. These rights arose through a purchase, or signing of a contract, and *Earthwormers Limited* has the control over the contracts and use of the website.
- The rights arose as a result of past events. The past event was the signing of the contracts and website development.
- *Earthwormers 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 *Earthwormers Limited*.
- The three elements of the definition appear to be met so the entry to recognise the three separate assets on the 30 June 2024 is correct.
- However, to recognise the asset in the statement of financial position at 30 June 2024, 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.
- *Earthwormers Limited* has a clear right to the contracts 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 contracts 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 contracts and website, coupled with the measurement uncertainty that undermines faithful representation, it is not appropriate to recognise these items in the statement of financial position.
 - Excluding the contracts and website from the statement of financial performance is the most appropriate action to take in this case.

Judgment

	Score	
Outstanding Scholarship	7, 8	Thorough understanding of the definition and recognition criteria for financial statement elements contained in the New Zealand Equivalent to the IASB <i>Conceptual Framework for Financial Reporting (2018 NZ Conceptual Framework)</i> . AND Draws on the scenario and correctly applies the definition and recognition criteria to convincingly argue that the amounts paid for the contracts and website do not meet the recognition criteria, in particular, 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 <i>Conceptual Framework for Financial Reporting (2018 NZ Conceptual Framework)</i> . AND Draws on the scenario and correctly applies the majority of the definition and recognition criteria to convincingly argue that the amounts paid for contracts and website do not fully meet the definition and recognition criteria. AND Clearly uses communication 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 <i>Conceptual Framework for Financial Reporting (2018 NZ Conceptual Framework)</i> . AND Draws on the scenario and correctly applies some of the definition criteria to the amounts paid for the contracts and website. May have limited understanding of the recognition criteria.
Below Scholarship	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
17–26	27–32