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OUTSTANDING SCHOLARSHIP EXEMPLAR



Mana Tohu Mātauranga o Aotearoa
New Zealand Qualifications Authority

Scholarship 2024 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 the margins (XXXX). This area will be cut off when the booklet is marked.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

Question One	Debit (\$/r2)	Credit (\$/r2)
Journals		
bad debts	26 800	
Accounts receivable		26 800
Write off bad debts from debtor (bankrupt)		
doubtful debts	28 400	
Allowance for doubtful debts		28 400
Create allowance for doubtful debts		
prepaid insurance	18 900	
Insurance expense		18 900
Account for insurance paid in advance		
staff salaries	48 000	
Accrued staff salaries		48 000
Staff salaries ^{owing} due at balance day		
Interest expense	33 600	
Accrued interest expense		33 600
Interest on loan still owing at balance day		
Changes in inventory	260 800	
Inventory at 1 July 2023	260 800	260 800
Reversal of inventory on hand at start of year		260 800

	Debit (\$/NZ)	Credit (\$/NZ)
Inventory at 30 June 2024	212 400	
Changes in inventory		212 400
Record inventory on hand at end of year		
Land revaluation deficit	140 000	
Land		140 000
Recognize loss on revaluation of land		
Depreciation - plant and equipment	20 550	
Accumulated depreciation - plant and equipment		20 550
Record depreciation on traded plant and equipment		
Accumulated depreciation - plant and equipment	466 050	
Disposal account		466 050
Write off accumulated depreciation on traded plant and equipment		
Disposal account	822 000	
Plant and equipment		822 000
Write off cost of traded plant and equipment		
Loss on disposal of plant and equipment	115 950	
Disposal account		115 950
Plant and equipment	240 000	
Disposal account		240 000
Recognizing trade-in amount received		

	Debit (312)	Credit (312)
Depreciation- plant and equipment	458 790	
Accumulated depreciation- plant and equipment		458 790
Record depreciation on rest of plant and equipment		

Allocation of expenses

	Total	NZ(3) COGS	NZ(3) Distribution	NZ(3) Manufacturing	NZ(3) Finance
Depreciation expense	479 340	265 637	71 901	143 802	
Insurance expense	26 460	13 230	6 615	6 615	
Rent and electricity expense	1057 300	634 380	105 700	317 190	
Staff salaries expense	1084 800	705 120	108 480	271 200	
Advertising expenses	93 400		93 400		
Artists' remuneration	94 500			94 500	
Bad debts expense	48 300			48 300	
General expenses	221 400			221 400	
Interest expense	76 500				76 500
Changes in inventory	48 400			48 400	
Purchases	2 670 000	2 670 000			
Doubtful debts	28 400			28 400	
Loss on disposal of plant and equipment	115 950	115 950			
Loss on revaluation of land	140 000			140 000	
Total	6 184 790	4 402 317	386 126	1 319 807	76 500

Targesta Limited

Statement of comprehensive income for year ended 31 Dec 2024

	Note	N2 (\$)
Revenue	1	6 978 900
less: Cost of sales		<u>(4 402 317)</u>
Gross profit		2 576 583
Other income	2	<u>111 550</u>
		2 688 133
less expenses		
Distribution costs		(386 126)
Administration expenses		(1 319 807)
Finance costs	3	<u>(76 500)</u>
Profit before tax		905 700
Income tax expense		<u>(220 600)</u>
Profit for the year	4 & 5	685 100

Notes to statement of comprehensive income

1) Revenue

Sales	6 978 900
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2) Other income

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

3) Finance costs

Interest expense	76 500
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4) Profit before tax has been calculated after taking into account the following

Auditor's remuneration

- Audit	55 000
- Consulting services	22 500
- Taxation services	17 000
Donations	30 000

5) Classification of expenses by nature

Depreciation expense	474 340
Insurance expense	26 460
Rent and electricity expense	1 057 300
Staff salaries expense	1 084 800
Advertising expenses	93 400
Bad and doubtful debts expense	76 700
General expenses	191 400
Changes in inventory	48 400
purchases	2 670 000
Loss on disposal of plant and equipment	115 950
Loss on revaluation of land	140 000

Question two

Plan

P1) Machine learning advancement and AI's ability to analyze and report on unstructured data

P2) Danger of AI being guided by algorithms only and is able to become self-sufficient.

Risks of data security, personal privacy and

P3) Accountants work alongside to test and make sure information created by AI is correct.

Question two starts here:

"Artificial Intelligence (AI) will become so ubiquitous that people will no longer refer to its presence, only its absence" - ^{Professor} Resnick A. In an ever-evolving and ever changing world, AI is at the ~~forefront~~ ^{forefront} of ~~our~~ ^{our} technological advancement that enables us to grow and understand more of the world around us. But with this rapid advancement, we need to rethink our ethical standards especially in the field of accounting in "addressing the concerns of society, business, regulators, and individuals" (Question).

AI has fantastic potential especially in the field of 'Machine Learning'. "Machine learning has been referred to as the fourth industrial revolution" - Resnick B, and indeed it is a great revolution. AI is able to do what humans have been finding difficult

in the past. This is especially in the "environmental, social, and governance (ESG) spectrum" - Resource C. Accountants and other finance professions have found these particular fields to be extremely difficult in structuring and reporting on data. AI is the solution. "Accountants and finance professions should consider new AI solutions as part of their toolkit to challenge 'greenwashing' when organizations make claims ~~about~~ operating sustainably without this being borne out in data". - Resource C. Accountants can work alongside of AI to inform society and make well rounded and well grounded analyses of information especially relating to ESG. Society is concerned about our current environment and AI can assist accountants in alleviating these very valid concerns.

However, AI is also very scary. There are so many risks involved in it as it becomes increasingly more intelligent. ^{re} "The rapid progress being achieved in AI rears that super intelligent machines are now seen as the next development stage, where machines will learn to work code for themselves and possibly become independent of programmers" - Resource D. This thought is truly terrifying as ~~it means~~ AI has no compassion, it is just simply a set of algorithms. ~~As for~~ The public (individuals, consumers, and employees) have rights to personal privacy. Businesses have rights to data privacy. There is much concern around the unethical being of AI in the ~~sense~~ ^{sense} that it is not guided by human compassion. Accountants must therefore help control AI and impose limitations upon it so as to protect the public.

AI is also not always correct "Mistakes can happen and on a vast scale". - Resource B. It is ~~up~~ up to accountants to ensure that any publications of data by AI is ~~thoroughly~~ thoroughly tested and analyzed by themselves to ensure that misinformation is not being spread. There is also the possibility of AI going rogue and creating "fake news" - Resource E. The implications of this are very serious and as such, to maintain an ethical environment, there is much ^{control} ~~control~~ needed around AI.

It is true that AI is a great addition to businesses and it is unparalleled in its ability to report and analyze data, however in our growing and changing world, privacy is very important and to protect this and retain an ethical environment, accountants and other professions must work alongside of it and help it, ~~but~~ ^{but} ~~also~~ also control it. "Failing to build an ethical dimension into each stage of our AI journey, could bring serious consequences that prove difficult to reverse" - Resource D.

~~A~~
All things stated, AI is there for our enhancement and Accountants should work alongside it to retain their ethical standards and help make our world a better, safer, and more understood place.

Question four:

According to the NZ equivalent of the IASB, an asset is a present economic resource controlled by the entity as a result of past events, with an economic resource being a right that has potential to produce economic benefits.

My friend hires out contractors to owners of lifestyle blocks, when they enter into contract with Earthwarmers Limited rights have been established by the business to the contractors working, Earthwarmers they have control over it. The contract and income is a result of past events and with the contracts, there is the potential to produce economic benefits through the sales. The contracts of valuation can therefore be seen as assets (meets definition of asset).

The digital assets are an online website, Earthwarmers Limited have the right to this website and have control over it which would have been established when they created the website (or had a contract for someone else to do it for them). The digital assets are a result of past events which was at least the creation of the website. There is potential to produce economic benefits as customers can book online and form contracts therefore bringing sales into Earthwarmers. Digital assets therefore also can be defined as assets.

As both 'contracts of valuation' and 'digital assets' have been defined as assets, they must go through the recognition process. To be recognized as an asset, it must be at

relevant to the users of financial information and also provide faithful representation to the bank.

To be relevant, the asset must have no existence uncertainty and there must be a good probability to produce future economic benefits. There is no existence uncertainty around the contracts at valuation, they are contracts between the business and their customers providing the certainty of its existence. There is also a high probability of potential economic benefits. The contracts at valuation relate to the amounts that will be invoiced over the remaining life of the contracts. The invoices being sent ~~means~~ ^{means} money will be coming into the business and there is thus a high probability of potential economic benefits. The contracts at valuation also provide faithful representation to the bank as they are unbiased, neutral, and free from error. There is no uncertainty around their value as well. Because contracts at valuation meet the recognition standards, it can be expressed as an asset.

The digital assets must also be of relevance to financial users and provide faithful representation to the bank. There is no existence uncertainty around it as the website and their other social media presence is there, it is alive. There is also a good probability to produce economic benefits as this is seen in the contracts. It is very likely that ~~many~~ ^{many} of their contracts were created through the online booking forms so there is definitely the potential to produce economic benefits. The digital assets also provide faithful representation to the ~~bank~~ ^{bank} as they ~~are~~ ^{are} free from error.

and are unbiased, neutral information. The bank can ~~find~~^{trust} the integrity of the information and trust that it ~~is~~^{is} valued correctly. Digital assets therefore also pass the recognition process.

Because both the 'Contracts of valuation' and the 'digital assets' can both be defined and recognized as assets, this information is indeed useful to the bank when making their decision about lending ~~for~~ my friend's business \$500,000 to purchase compact tractors

Question three:

Without modifications

$$\text{Direct labor} = \frac{8550000}{4500} = \$1900$$

$$\text{Direct material} = \frac{9405000}{4500} = \$2090 \quad \left. \vphantom{\frac{9405000}{4500}} \right\} \text{per unit}$$

$$\text{Variable overheads} = \frac{1552500}{4500} = \$345$$

$$\text{Fixed overheads} = \$6900000$$

$$\begin{aligned} \text{Profit} &= (6500 \times 4500) - \begin{aligned} &(\$8550000) \\ &(\$9405000) \\ &(\$1552500) \\ &(\underline{\$6900000}) \end{aligned} \\ &= \$2842500 \end{aligned}$$

$$\begin{aligned} \text{Contribution margin} &= \text{Selling price} - \text{variable costs} \\ &= 6500 - 1900 - 2090 - 345 \\ &= \$2165 \end{aligned}$$

$$\frac{2165}{6500} = 0.333\%$$

$$\begin{aligned} \text{Break-even} &= \frac{\text{fixed costs}}{\text{contribution margin}} \\ &= \frac{6900000}{2165} = 3187 \text{ units} \end{aligned}$$

$$\begin{aligned} \text{Required for profit} &= \frac{\text{fixed costs} + \text{profit}}{\text{contribution margin}} \\ &= \frac{6900000 + 3806000}{2165} = 4945 \text{ units} \end{aligned}$$

with modifications

$$\text{Direct labour} = \$1900 \times 1.15 = \$2185$$

$$\text{Direct material} = \$2040 + (920 - 680) = \$2330$$

$$\text{Variable overheads} = \$345$$

$$\text{Fixed overheads} = 6900000 + \left(\frac{4500000}{10} \right) = 7350000$$

Profit =	(6500 × 5200)	\$33800000
	(2185 × 5200)	(\$11362000)
	(5200 × 2330)	(\$12116000)
	(345 × 5200)	(\$1794000)
		<u>(\$7350000)</u>
		= \$1178000

$$\text{Contribution margin} = 6500 - 2185 - 2330 - 345$$

$$= \$1640$$

$$\frac{1640}{6500} = 0.2523\%$$

$$\text{Break-even} = \frac{7350000}{1640} = 4482 \text{ units}$$

$$\text{Required for profit} = \frac{7350000 + 3806000}{1640}$$

$$= 6803 \text{ units}$$

Increase in costs from \$26047500 to \$32622000 a ~~25%~~ ^{25.24%} increase

Non-financial information

The managers at Mighty Tents Limited are looking to modify their water tanks, I would advise against this change for a number of reasons. For a start, modifying the tanks will make them more acceptable to a wider range of users, however the increase in sales that they will gain does not warrant this change. The costs increase by ~~more~~ ^a greater amount but more on that later. A very important factor to note is that this ~~modification will require a new manufacturing system~~ ^{modification will require a new} manufacturing system to be able to mould these new tanks. A new system means that their current staff will be unfamiliar with it and as such, they are likely to be a bit less efficient ~~and~~ at their jobs and it is possible that quality may decrease also (due to unfamiliarity). The direct labour costs are predicted to increase by 15% which indicates that more skilled staff are being required. Mighty Tents Limited may have to lay off some existing staff and hire new ones which is not good for them laid off.

~~Another issue to point out is that this new system only has a useful life of 10 years~~

Financial information

The first things to note should be the change in profit levels from the old system to the new system. The old system makes a profit of \$2842500 (based on 4500 sales) while the new system brings in an estimated profit of \$1178000. This is ~~an~~ 41.44% of the profit they could be making. This is due to sales only increasing by 16.56% while total costs increased by 25.24%. With the old system, we have a contribution margin of \$2105 (0.333%) which leads us to a break-even at ~~4482~~ 3187 units. To meet the required \$3806000

profit, they will need to produce 4945 units which is within their relevant range. On the other hand, modifying the system will decrease the contribution margin to \$1640 which makes their break-even point 4482 units and to meet the required profit level, 6803 units. This is also within the relevant range as with the new system, the relevant range increases to 7000 units.

Both the old and new water tanks are ~~both~~ on the limits of their relevant range so there is no advantage there. However, to meet the \$3806 000 profit, the new system will have to see an increase in sales of 51.78%, on the other hand, with the old system sales only need to increase by 9.89% to ~~reach~~ meet performance expectations. Because of this, the old option is far more feasible as the modified water tanks increase a sales just wait happen in the next few years.

Based off this financial and non-financial information above, I would advise Mighty Pinks Limited to stay with their current unmodified water tanks as this way, they are most likely to meet their performance expectations and continue to grow as a business.

Outstanding Scholarship

Subject: Accounting

Standard: 93203

Total score: 28

Q	Score	Marker commentary
1	07	The candidate's answer and how the workings are set out provide evidence of logical development, precision, and clarity of ideas. Furthermore, the candidate's answer provides evidence of highly developed knowledge, skills, and understanding in that they used the additional information to prepare a statement of comprehensive income in a format suitable for external reporting purposes. The candidate provided evidence of convincing communication of accounting information in the format of a statement of comprehensive income. Appropriate terminology was used and the reporting currency used clearly stated. There is evidence of sophisticated integration and critical thinking, in that the candidate was able to prepare a statement of comprehensive income after considering some of the adjustments required by the additional information provided. The candidate made an error in the calculation of the depreciation. This flowed through to the allocation of expenses and through to the profit for the year. Other than the error with depreciation, the candidate considered the additional information provided. Overall, the candidate has provided a clear answer to a technical question that meets the outstanding scholarship criteria.
2	07	The candidate used the resources to provide evidence of independent reflection and extrapolation to critically evaluate the role the accountant can play addressing the concerns over the advances in artificial intelligence (AI). They demonstrated some elements of critical thinking when addressing how advances in AI enhance and challenge the profession's ethical standards in addressing the concerns of society, business, regulators, and individuals. The structure of the answer provides evidence of logical development, precision and clarity of ideas. Supported by the planning that framed their answer, this candidate provided a sufficiently sophisticated analysis to reach the level of outstanding scholarship. The reasonably succinct answer demonstrates evidence of convincing communication.
3	07	The candidate demonstrated the required technical skills in calculating the expected net profit for 2025 as well as the profit based on the potential to sell 5 200 tanks at the current selling price. The candidate also calculated the break even and margin of safety for both scenarios. They also demonstrated the technical skills necessary to calculate the number of units to be sold under each scenario to meet

		profit performance expectations. This provided a basis for the remainder of the answer. The candidate provided evidence of critical thinking in that they recognised and considered financial as well as non-financial factors when evaluating the two options. They provided evidence of independent reflection and extrapolation when recommending an option that <i>Mighty Tanks Limited</i> should consider. To be awarded an 8, the candidate could have calculated the price that <i>Mighty Tanks Limited</i> would have needed to sell their modified tanks for to meet the profit performance expectations on 5 200 sales. Nevertheless, the analysis and critical thinking provide by the candidate is sufficiently sophisticated to reach the level of outstanding scholarship.
4	07	The three elements that make up the definition of an asset are applied as required by the NZ Framework. The candidate provided evidence of understanding the recognition criteria for an asset, particularly around the inflow of economic benefits. The candidate demonstrated some perception and insight in that they recognised existence uncertainty. The candidate draws on the material and justifies their conclusion on whether the information provided is useful to the bank when making a lending decision. This succinct answer meets the outstanding scholarship criteria.