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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 (a)

	\$	\$
Bad debts	26800	
Accounts receivable		26800
Doubtful debts	28400	
Allowance for doubtful debts		28400
Prepaid insurance	18900	
Insurance expense		18900
Staff salaries expense	48000	
Staff salaries payable		48000
Interest expense	33600	
Interest payable		33600
Changes in inventory	260800	
Inventory at 1 July 2023		260800
Inventory at 30 June 2024	212400	
Changes in inventory		212400
Revaluation deficit	140000	
Land		140000
Deprecia		

Expenses	\$	\$	\$	\$	\$
	Cost of sales	Distribution	Administration	Finance	Total
Bad debts			26800 ⁴⁸³⁰⁰		
Doubtful debts			28400		
Insurance expense	13230	6615	6615		26460
Interest expense				76500	76500
Depreciation	290763	79299	158598		528660
Loss on disposal	115950				
Advertising expense		93400			
General expense			221400		
Rent and electricity expense	65 380	105730	37190		105730
Staff salaries expense	705120	108480	271200		1084800
Total	1759443	393529	1051703	76500	
Purchases	2670000				
Total	4429443	393524	1051703	76500	
Auditors remuneration			94500		
Total	4429443	38524	1146203	76500	
Revaluation deficit		393524	140000		
Total	4429443	38524	1286203	76500	

	\$	\$
Bad debts	26800	
Accounts receivable		26800
To account for a debtor being declared bankrupt and unable to pay for their debts worth \$26800		
Doubtful debts	28400	
Allowance for doubtful debts		28400
To account for the creation of an allowance for doubtful debts worth \$28400		
Prepaid insurance	18900	
Insurance expense		18900
To account for the prepayment of insurance on 1 December 2023 by \$18900.		
Changes in inventory	260800	
Inventory at 1 July 2023		260800
For the reversal of inventory on 1 July 2023 inventory.		
Inventory at 30 June 2024	212400	
Changes in inventory		212400
for the reversal of inventory on 30 June 2024 inventory		

	\$	\$
Revaluation deficit	140 000	
Land		140 000
For the revaluation of land from \$900 000 to \$760 000		
Depreciation	20 350	
Accumulated depreciation		20 350
For the depreciation expense on the asset sold for 3 months.		
Depreciation	49 320	
Accumulated depreciation		49 320
For the depreciation expense on the newly gained asset for 9 months		
Depreciation	458 790	
Accumulated depreciation		458 790
For the depreciation expense on plant and equipment ignoring the assets related to the disposal on 1 October 2023		
PPE Disposal	82 2000	
Disposal PPE		822 000
For the wiping off of the asset sold for disposal on 1 October 2023		

	\$	\$
Accumulated depreciation	466050	
Disposal		466050
For the wiping off of the accumulated depreciation associated to the asset sold on 1 October 2023.		
PPE	240000 650600	
Disposal		240000 650600
To recognise the asset gained on the trade in on 1 October 2023		
Loss on disposal	115950	
Disposal		115950
To recognise the loss on disposal made on the trade in on 1 October 2023		
Income tax expense payable		
Income tax payable expense		220600

(b)

Tagesta Limited

Statement of Comprehensive income for the year ended 30 June 2024

Revenue 1.	6978900
Less: Cost of sales	(4429443) (4429443)
Gross profit	2549457
Other income 2.	<u>111550</u>
	2661007
Less: Expenses	
Distribution expenses	(393524)
Administration expenses	(1146203)
	(1051763)
Profit before tax 4, 5	1121280
Tax expense	(220600)
Profit after tax	900680

Revenue 1.	6978900
Less: Cost of sales	<u>(4429443)</u>
Gross profit	2549457
Other income 2.	<u>111550</u>
	2661007

Less: Expenses	
Distribution expenses	(393524)
Administration expenses	(1286203)
Finance cost 3.	<u>(76500)</u>
Profit before tax 4, 5	904780
Income tax expense	(220600) (220600)
Profit after tax	684180
Other comprehensive income	<u>0</u>
Comprehensive income	<u>684180</u>

Question Two Notes for the statement of comprehensive income.

1. Revenue:

Sales	6978900	6978900
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2. Other income:

Dividend received	10300
Interest received	19450
Rental income	<u>81800</u>
	111550

3. Finance cost

Interest expense	76500
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4. Profit before tax includes auditors remuneration

Auditors remuneration:

Audit fees	55000
taxation fees	17000
Consultation & service	<u>22500</u>
	94500

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5. List of expenses by nature.

Bad debts	48300
Doubtful debts	28400
Insurance expense	26460
Depreciation	528660
Loss on disposal	413
Advertising expense	93200
General expense	221400
Rent and electricity expense	1057300
Staff salaries expense	1084600
Revaluation deficit	140000

4. Profit before tax

4. Profit before tax

General expenses included a donation of 30000

Question Two

Artificial intelligence is often viewed as a dichotomy. The future ~~technology~~ technology which will greatly enhance the world with its increased efficiency, power and versatility, a "fourth revolution" as resource B labels it. Or a morally lacking power which will exploit and manipulate the community. ~~It~~ It is undeniable for AI to impact the accounting profession. However it will be our job as an accountant to act as the bridge between worlds. Similar to complex financial information accountants should use their already developed communication abilities to convey the information AI can effectively give but with the ethical standards of the profession and human virtues. That is to avoid exploitation with the fundamental ethical standards of integrity, professionalism, duty of care, confidentiality and competency.

Individually AI has a plethora of issues. As stated in resource D there are ~~risks~~ such as ~~personal~~ 'risks to personal privacy, data security, and the potential for social re-engineering.' This would make the usage of AI without caution fundamentally immoral. This is expanded in resource E as specific scenarios are given. There is a rise of fake news... and manipulation of data with political election.' Furthermore experiments have shown that ~~people~~ AI has become so realistic people cannot discern between Man and AI. This leads to ethical considerations of 'manipulation, respecting the innate dignity of human beings with disclosure obligations, and the individual's inability to make an informed choice about the kind of interactions they would like.' Therein AI has been shown to be requiring of great care and

fact in its ability to be used ethically.

Accountants are the perfect profession to counteract these downsides not only because of or basic human virtues of courage, generosity, empathy and compassion but in our direct speciality in being informants. That is accountants should be able to evaluate and construct ethical frameworks and effectively communicate this to customers. Our strength in communication is further emphasised when considering how these guidelines are formed. In resource B the process ~~is~~ is described to "open conversations" which share "different ethical perspectives".

Not only is AI becoming a seemingly unstoppable change without the ethical downsides AI has ~~an~~ is a multitude of benefits. Already AI has improved the detail to which accountants may work identifying "greenwashing" in some organisations. Occuring due to its increased calculating abilities which shines most on the "unstructured" ESG data.

Ultimately with careless use AI has the potential to cause irreparable damage to the profession, ~~however~~ destroying the ethical standards currently present. However ~~with~~ accountants are well suited to be the pioneers in developing an ethical framework to limit these accidents and ~~as~~ prosper greatly from the powerful benefits of AI. As communicators there is a ~~distinct~~ path forward in which AI is guided by and used in tandem with ~~also~~ human accountants to fully inform customers.

Question Three.

Marginal cost statement without changes

Sales	29,250,000
Less: Direct labor	(8,550,000)
Less: Direct material	(9,405,000)
Less: Variable overheads	(1,552,500)
Contribution	9,742,500
Less: Fixed costs	(6,900,000)
Profit for the year	2,842,500

It would be important to recognise that this would not meet performance expectations.

$$\text{Break even} = \frac{\text{Fixed costs}}{\text{Contribution per unit}}$$

$$= \frac{6,900,000}{9,742,500 \div 4,500} = 3,187 \text{ units}$$

Margin of error will be $(4,500 - 3,187) = 1,313 \text{ units} = 8,534,500$

Marginal cost statement with changes

Sales	$(5,200 \times 6,500)$	33,800,000
Less: Direct labor	$8,550,000 \times \frac{5,200}{4,500}$ $(8,550,000 \times 1.15)$	(9,832,500) (9,880,000)
Less: Direct Material	$9,405,000 + \frac{5,200}{4,500} \times (9,405,000 - 8,550,000)$ $(9,405,000 + 970,000)$	(12,116,000)
Less: Variable overheads	$(1,552,500 \div 4,500 \times 5,200)$	(1,794,000)
Contribution		1,001,000
Less: Fixed costs	$(6,900,000 + 450,000)$	(7,350,000)
Profit for the year		266,000

It is important to recognise that after modification the expected profit will decrease and still not meet performance expectations.

$$\text{Break even} = \frac{\cancel{1000000} + 7350000}{10010000 \div 5200} = 3818 \text{ units}$$

$$\text{Margin of error will be } 5200 - 3818 = 1382 = \$8983000$$

With these considerations the modification will decrease profit ~~and fail~~ however in either case they will fail to meet performance expectations. The margin of error will increase by 69 units or \$448500 and the break even will increase by 631 units or \$4101500. While the margin of error ^{change} is not entirely significant the break even will have a significant increase. Despite this the modifications will lead to future expansion as the increase capacity from 5000 to 7000 units will allow the company to meet performance expectations as at max capacity and assuming all units sold there will be an additional 1800 units sold which is \$3465000 additional contribution and thus profit. Giving a total profit of 6125000 well above performance expectations. To match the performance expectation Mighty Tanks Limited would need to sell ~~5296 units~~ $\frac{3806000 + 7350000}{1925} = 5796 \text{ units}$ which is only 596 units more and with the same rate of increase in demand from 2024 to 2025 of 700 units probable to occur in 2026. ~~However were they able~~

Because of the current models failure to meet performance expectations ^{even} with ~~ing~~ improvement as it is capped at 5000 units of output which would give a profit of ~~However in the case of in the old system they managed to bring sales to maximum output of 5000 they would earn profits of~~ $2165 \times 5000 - 6900000 = \3925000 exceeding the performance expectations. To match they would require

$$\frac{3806000 + 690000}{2165} = 4946 \text{ units.}$$

Because of the potential of modifying the water tanks to bring in significant profits I would recommend to do so. This is supported by the acquisition of a manufacturing system which can be used as security later. However this should be done with caution and further market research as without the increase in sales this option would be strictly worse.

Question Four

The definition of an asset can be considered as:
An economic ~~result~~ resource that ~~arises~~ arises from a past event and is presently controlled by the business entity which will ~~be~~ cause an inflow of economic benefit.

With regard to this definition contracts as valuation can be considered an asset. This is because it originated from a past event that is the signing of the contract. It is presently controlled as the contract is to his business and only he can get the economic benefit from it. Lastly the inflow of economic benefit will be the cash paid.

Similarly the digital assets may be considered as an asset as they have originated from a past event which is the adding of contacts and or follows that he has gotten, from the sophisticated digital presence that my friend has developed. It is presently controlled as he owns the account and can restrict others from using it as only he knows the password. The digital assets will bring in future economic benefit as they will increase sales due to the advertising it brings this will lead to cash flowing into the business.

However for the assets to be used in the statement of financial position and be useful to the bank it must meet the recognition criteria. That is it must be relevant and representationally faithful.

To be relevant the assets must have no existence uncertainty. Both assets do not as the contracts clearly exist due to the invoice sent. ~~which~~ The digital assets also exist as the accounts my friend uses will clearly exist. Both would be free from error, neutral and objective.

~~For the assets to be representationally faithful it must~~
To be relevant, it also must be probable that the future economic benefit will flow into the business.

It is highly likely that the contract will cause cash to flow in as the customers are legally obligated to do so. ^{less certain}

However it is ~~certain~~ whether the digital presence will bring in future economic benefit as the scale of his digital presence is not given. Though it is sophisticated and with a valuation of \$450,000 it is more likely to bring in future economic benefit than not and thus probable.

For the asset to be representationally faithful ~~it~~
~~must be~~ ^{the} the amount of economic benefit must be measurable. The contracts will have a predetermined figure to be paid and so their inflow will be measurable. However it is completely unknown the amount of economic benefit digital assets will bring in. Due to its measurement uncertainty it cannot be included in the statement of financial position and is not useful to the bank. It should be wiped off in the Income statement. However the contracts at valuation does meet the recognition criteria and

therefore will be included in the statement of financial position and will be useful to the bank.

Scholarship

Subject: Accounting

Standard: 93203

Total score: 21

Q	Score	Marker commentary
1	07	This is a technical question that required candidates to use the information contained in the question to prepare the statement of comprehensive income classified by function. The candidate's answer and how the workings have been set out, provide evidence of logical development, precision, and clarity of ideas. Highly developed knowledge, skills, and understanding were displayed through the processing of the additional information. The candidate provided evidence of convincing communication of accounting information. The format of the statement was suitable for external reporting purposes and appropriate terminology was used. Reporting currency was not disclosed. Evidence of sophisticated integration and critical thinking was shown though the completion of adjustments required from the additional information. The candidate did not consider the necessary adjustments to interest and staff salaries. These omissions flowed through to the allocation of expenses and the profit for the year.
2	05	The candidate used the resources to provide evidence of independent reflection and extrapolation to critically evaluate the role the accountant can play in addressing concerns about the advances in artificial intelligence. (AI) The candidate demonstrated critical thinking when considering how advances in AI enhance and challenge the profession's ethical standards. The candidate did not fully address the concerns of society, business, regulators, and individuals. The structure of the answer provides 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 scholarship. The succinct answer demonstrates evidence of convincing communication.
3	04	The candidate demonstrated a range of technical skills. The expected net profit, break even and margin of safety (although labelled as margin of error) were calculated correctly for the budgeted 2025 figures. They also calculated the number of units to be sold to meet profit performance expectations using the 2025 budgeted figures. The candidate provided limited evidence of critical thinking when recognising some financial factors that <i>Mighty Tanks Limited</i> should consider when evaluating the two options. They did not accurately calculate the expected net profit should <i>Mighty Tanks Limited</i> sell 5,200

		modified tanks. This is information that could have been used to provide a more perceptive recommendation.
4	05	The candidate applied the three individual components of the asset definition required by the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2018 (NZ Framework). They provided some evidence of understanding the recognition criteria for an asset, particularly around the inflow of economic benefits. The candidate correctly used elements of the definition of an asset in their answer. They also identified the recognition criteria. The candidate demonstrated some perception and insight in that they recognise existence uncertainty. However, the answer required more focus and discussion about the recognition criteria, particularly the measurement uncertainty associated with the inflow of economic benefits (attributing a value that faithfully represents the value of the asset). This answer meets the scholarship criteria.