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TOP SCHOLAR



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 4:

The digital assets and contracts at valuation must meet the characteristics and recognition criteria of an asset as per the 2018 IASB Conceptual Framework to be reported in Earthwormers Limited's statement of financial position as at 30/6/2024.

First it needs to be examined if the digital assets and contracts at valuation meet the characteristics of an asset. Both are a result of a past event. For the digital assets this was when the website and social media accounts were created, and for the contracts at valuation this was when customers approached Earthwormers Limited for their services to then sign the contract to confirm the service to take place. Earthwormers Limited has present control over both the digital assets as they created the website and social media accounts so are the only ones with access to decide what is published, and the contracts at valuation as Earthwormers Limited has control over the value of the contract and other details such as the date the service will take place. No one else can edit these contracts. Both the contracts at valuation and the digital assets have the possibility to provide Earthwormers Limited with future economic benefit. The website makes booking in for the service easier and quicker, attracting customers, and the social media accounts advertise Earthwormers Limited's service to a wide range of stakeholders, which has the potential to

increase sales, hence providing Earthwormers Limited with future economic benefit. The contracts at valuation is the amount expected to be received from them providing their lifestyle services which has the potential to increase Earthwormers Limited's banky, hence providing ^{future} economic benefit.

It appears that the ~~recognition criteria~~ characteristics of an asset have been met by both the digital assets and contracts at valuation. Now the recognition criteria of relevance and faithful representation must be examined. Relevance is made up of two factors existence certainty and probability. ^{for the expected increase of economic benefit} Both the digital assets and contracts at valuation have existence certainty as the website, social media and contracts are of a physical nature and the contracts at valuation have been signed by the customer to confirm that they exist. However as Earthwormers Limited is a new business there is an issue with probability (more than 90% likely). There is no confirmatory value for Earthwormers Limited to base the value of digital assets of \$450,000 and contracts at valuation of \$1,800,000 off, so it is not probable that at these values that the digital assets and contracts at valuation will benefit Earthwormers Limited by. The \$1,800,000 and \$450,000 is not measurable and is just an estimate, therefore it is not probable. This impacts the ability of the digital assets and contracts at valuation to be faithfully represented. They are both complete due to the website

and social media accounts being published, and the contracts of valuation being signed by the customers. And they have both been prepared by an independent third party such as the website publishing company and the external auditor. However as there is no confirmatory value to value the \$1800 000 for contracts of valuation and \$450 000 for digital assets, these values were decided by Earthworms Limited and so aren't free from bias and aren't based on fact rather than opinion. Therefore the digital assets and contracts of valuation don't meet the recognition criteria of assets.

As the recognition criteria hasn't been met, the digital assets of \$450 000 and the contracts of valuation of \$1800 000 can't be reported in Earthworms Limited's statement of financial position as at 30/6/2024 and instead should be reported as a note to the financial statements. This decreases Earthworms Limited's net assets by \$2250 000 (total) and equity by \$2250 000 through a decreasing capital in the statement of financial position as at 30/6/2024. As the digital assets ~~can't~~ ~~be~~ and contracts of valuation can't be reported as assets, this decreases Earthworms Limited's financial position. Therefore the bank may choose to not lend Earthworms Limited the \$500 000 loan to purchase the compact tractors.

Question One :

Date	Particulars	Debit	Credit
30/6/24	Bad debts	26 800	
	Accounts Receivable		26 800
	To record additional bad debts due to bankruptcy.		
30/6/24	Doubtful debts	28 400	
	Allowance For doubtful debts		28 400
	To create an allowance for doubtful debts account of \$28 400.		
30/6/24	Prepayment	18 900	
	Insurance		18 900
	To record prepaid insurance of 5 months		
30/6/24	Staff salaries	48 000	
	Accrued expense		48 000
	To record staff salaries due on balance day		
30/6/24	Interest	33 600	
	Accrued expense		33 600
	To record interest on loan due on balance day		
30/6/24	Change in inventory	260 800	
	Inventory		260 800
	To write off inventory on hand as at 1/7/2023		
30/6/24	Inventory	212 400	
	Change in inventory		212 400
	To record inventory on hand as at 30/6/2024		
23/1/24	Loss on revaluation of land	140 000	
	Land		140 000
	To record the revaluation of land to \$760 000.		

Date	Particular	Debit	Credit
1/10/23	Depreciation	20 550	
	Accumulated depreciation		20 550
	To record the depreciation for 3 months of the PPE disposed		
30/6/24	Depreciation	51 570	
	Accumulated depreciation		51 570
	To record the depreciation for 4 months of the PPE bought		
30/6/24	Depreciation	458 790	
	Accumulated depreciation		458 790
	To record the depreciation for the year of new sold/bought PPE.		
1/10/23	Accumulated depreciation	466 050	
	Disposal account		466 050
	To write off the accumulated depreciation of PPE disposed		
1/10/23	Disposal account	822 000	
	PPE		822 000
	To write off the historical cost of the asset disposed		
1/10/23	PPE	240 000	
	Disposal account		240 000
	To recognise the amount received for the trade in of PPE		
1/10/23	Loss on disposal of PPE	115 950	
	Disposal		115 950
	To record the loss on disposal of PPE		

Allocation of expenses

Expense	Total	CO S	DC	AE	FC
Advertising	93 400		93 400		
Auditors remuneration	94 500			94 500	
Bad debts	76 700			76 700	
General expenses	221 400			221 400	
Insurance	26 460	13 230	6615	6615	
Interest	76 500				76 500
Change in inventory	48 400	48 400			
Purchases	2 670 000	2 670 000			
Rent and electricity	1 057 300	634 380	105 730	317 190	
Staff salaries	1 084 800	705 120	108 480	271 200	
Depreciation	530 910	292 000.5	79 636.5	159 273	
Loss on disposal	115 950	115 950			
Loss on revaluation of land	140 000			140 000	
Total		4 479 080.5	393 861.50	1,286,878	76 500

Tagesta Limited

Statement of comprehensive Income
for the year ended 30 June 2024

Revenue	1.	6 978 900
Cost of sales		4 479 080.50
Gross Profit		2 499 819.50
Other income	2.	115 500
Less: Expenses		2 611 369.50
Distribution costs		393 861.5
Administration expenses		1 286 878
Finance costs	3.	76 500
Total expenses	5.	1 757 239.50
Profit before tax	4.	742 580
Income tax expense		220 600
Profit for the year		\$521 980

Notes to Targeta Limited's Statement of Comprehensive Income for the year ended 30 June 2024.

1. Revenue
Sales 6 978 900

2. Other Income
Dividends received 10 300
Interest received 19 450
Rental income 81 800

Total other income 111 550

3. Finance costs
Interest on loan 76 500

4. Profit before tax

Profit before tax has been calculated taking into account the following:

Auditors remuneration

— Audit fee 55 000
— Consulting service 22 500
— Taxation fee 17 000

94 500

Donations 30 000

5. Classification of expenses by nature

Advertising 93 400
Bad debts 48 300
Doubtful debts 28 400
General expenses 191 400
Depreciation 572 670
Insurance 26 460
Changes in inventory 48 400
Purchases 2 670 000

Rent and electricity expense	1 057 300
staff salaries	1 084 800
loss on disposal of PPE	115 950
loss on revaluation of land	140 000

Question 3 :

CVP	Before modification	with modification
Sales	29 250 000	33 800 000
less: Direct labour	8 550 000	11 362 000
Direct material	9 405 000	12 116 000
Variable overheads	<u>1 552 500</u>	<u>1 794 000</u>
Contribution margin	9 742 500	8 528 000
less: Fixed costs	<u>6 900 000</u>	<u>7 350 000</u>
Profit	<u>\$2 842 500</u>	<u>\$1 178 000</u>

Break even =	$\frac{6900000}{2165} = 3187 \text{ water tanks}$	$\frac{7350000}{1640} = 4482 \text{ water tanks}$
FC/CM		

Contribution margin =	$6500 - 4335 = \$2165$	$6500 - 4860 = \$1640$
SP - VC	33.3%	25.2%
margin of safety		
= estimated sales - BE sales	29250 $4500 - 3187$ $> 1313 \text{ water tanks}$ 29.2%	4482 $5200 - 4482$ $= 718 \text{ water tanks}$ 13.8%

Non financial

- ↳ extra training to use the new manufacturing system
- ↳ extra costs to advertise and attract new customers
- ↳ competitors may already have this modification
- ↳ quality may decrease.

Targeted profit = \$3 806 000	Before mod.	After
Profit = $\frac{FC + \text{profit}}{CM}$	$= \frac{6900\ 000 + 3\ 806\ 000}{2165}$	$\frac{7350\ 000 + 3\ 806\ 000}{1640}$
	= 4945 water tanks	= 6802 water tanks
Recommendation:		

By considering both the financial and non financial factors of modifying the water tanks, I do not recommend that Mighty Tanks Limited ~~go~~ makes this modification.

Firstly, the financial factors have been considered. Without this modification, Mighty Tanks Limited's contribution margin is \$2165 while after modifications it is \$1640. The contribution margin is the difference between the selling price of the water tanks and the variable costs, so it's the amount that can then go to covering fixed costs and contributing to a profit for Mighty Tanks Limited. With modifications Mighty Tanks Limited's contribution margin decreases by 24%. So per water tank sold Mighty Tanks Limited will have \$525 less to cover fixed costs. This is very negative, especially as fixed costs have increased from \$6900 000 to \$7350 000 due to the required purchase of the new manufacturing system. So there will be a much smaller margin to contribute to Mighty Tanks Limited's profit if the modification of the water tanks is made. Another financial factor is the break even. This is the point where total costs equals total revenue of Mighty Tanks Limited so they are making neither a profit or a loss. Without modifications this point is when 3,817 water tanks are sold, and with modifications this is when

are sold per year.

4482 water tanks[^]. Both of these values are not negative for Mighty Tanks Limited as the 3817 water tanks before modifications is ^{within} the expected sales of 4500 water tanks per year and the 4482 water tanks is within the expected 5200 water tank sales per year after modifications. However as the break even point has increased ~~between~~ by 17.4%, Mighty Tanks Limited is required to sell more water tanks in order to make a profit, which puts more pressure on them to ensure that their sales can increase to 5200 ~~irrigation~~ water tanks per year. ~~these break even factors~~ Thirdly, the margin of safety should be examined. This is the difference between Mighty Tanks Limited's estimated sales and sales required to break even, so it's the amount of sales that can be dropped before a loss is made. Before modifications this is 1313 water tanks which is 29% of expected sales and after modifications this is 718 water tanks which is 13.8% of expected sales. This is quite a large decrease showing that before modifications Mighty Tanks Limited can drop more sales, as possible with market fluctuations, than with modifications. This will put less stress on Mighty Tanks Limited to meet the sales requirement. Therefore the financial information shows that Mighty Tanks Limited is in a better expected financial position before modifications than after.

~~There~~ Non Financial factors have also been considered. This includes potential additional costs that Mighty Tanks Limited may not have considered when they estimated

their costs to do with making the modification to the water tanks. An example of an additional cost is advertising on TV commercials, social media, etc. to let stakeholders/potential customers know about the advancement in the water tanks. Otherwise if customers are unaware of the modifications, the amount of sales may not increase to the expected 5200 water tanks per year. ~~Another~~ This would increase Mighty Tanks Limited's fixed costs and decrease profit. There may also need to be additional staff training to learn and properly understand how to use the new manufacturing system, otherwise the system may be broken and not last 10 years, resulting in another system needing to be purchased within 10 years which is another additional fixed cost. If employees don't get proper training of how to use the new manufacturing system, the quality of the water tanks may decrease. This would decrease sales as customers would be disappointed and go to competitors instead. Both these non-financial factors are negative towards the modification.

Another piece of financial information is looking at the cost-volume-profit statement. Before modifications Mighty Tanks Limited has an expected profit of \$2842500 per year and after modifications they have an expected profit of \$1178000 per year. So Mighty Tanks Limited's profit decreases despite the increased level of

sales and the extra costs otherwise are increased sales. This shows that Mighty Tanks Limited should not modify their water tanks. To meet performance expectations, Mighty Tanks Limited must make a profit of \$3 805 000. Before modifications this would require Mighty Tanks Limited to sell 4 945 water tanks and after modifications they would need to sell 6 802 water tanks per year. Either way this is not realistic as both values are above the expected sales. However without modifications Mighty Tanks Limited would only need to increase sales by 450 water tanks per year whereas with modifications they would need to sell an additional 1 602 water tanks per year. Therefore it is more realistic for Mighty Tanks Limited to not modify the water tanks and advertise more to increase sales by 450 water tanks per year rather than 1 602 water tanks per year. Another piece of non-financial information to confirm my decision is that competitors may already have the modifications so Mighty Tanks Limited ~~make~~ water tanks may not look as attractive and increase sales by as much as they've estimated to (by 700 water tanks per year) as potential customers have already been receiving the modified water tanks from customers.

Based on the financial and non financial information listed above, I don't recommend that Mighty Tanks Limited modifies their water

tasks.

PLAN:

Intro

P/g 2 : business ✓

2 : individuals ✓

3 : society ✓

4 : regulators

Conclusion.

Question two:

Ethics as a simple definition is "essentially around notions of fairness and transparency" although when examined in depth there are a lot more factors to do with being ethical as seen in Resource E from the Chartered Accountants Australia and New Zealand. Artificial intelligence challenges these ethical standards as "to date there are no commonly agreed policies or accounting framework" as seen in Resource B by McWilliams. This shows that the ethical standards around AI are still being examined and "accountancy and financial professionals have a key role to ensure this happens in an ethical manner" as seen in Resource C by Chartered Accountants Australia and New Zealand, ~~therefore~~ ^{so the} advances in artificial intelligence challenges accounting's ethical standards in addressing businesses, society, regulators and individuals.

Firstly the impact of AI on businesses is extreme. Artificial intelligence helps businesses

design products, make business plans, understand the financial side of the business and the list goes on. There are "tremendous benefits and exciting opportunities AI can deliver for how we live" (Resource B). However, in business there are also major consequences as a result of AI including "fairness and privacy" as stated in Resource B. Artificial intelligence is an online data base that is at risk of being hacked. This could change the financial information of a business, negatively impacting their decisions. Though another positive impact of artificial intelligence on businesses is that AI can be used "as part of their toolkit to challenge 'green washing' when organisations make claims about operating sustainability without this being borne out in the data" (Resource C). This is stating that accountants can use AI to ~~prove~~ confirm a businesses claims to ensure that they are operating fairly and honestly. As there are benefits and harms to business as a result of AI, accountants are creating an ethical standard to ensure AI is competent and professional.

Artificial intelligence also has a very large impact on individuals. "Most people accept AI because it makes our lives easier... there are risks to personal privacy, data security and the potential for social re-engineering regarding how we relate to each other" (Resource D). This statement outlines ^{some} ~~the~~ benefits and harms to individuals from the advancement in artificial intelligence. AI makes each individuals life easier as it speeds up

every day tasks, like banking. However, all this information that is online is at risk to being hacked into with the individual's privacy being breached, resulting in private information being published such as an individual's bank balance. ~~So~~ But ethical standards around this have already been set such as using a password and 2-factor authentication. Another negative impact on individuals is that "it will become increasingly harder to distinguish AI interactions from ~~real~~ human relationships" (resource E) as AI develop and learn to mimic humans. Human connections are what make individuals unique so accountants are developing the ethical standards to keep artificial intelligence separate from human interactions.

Society has, and will continue, to be impacted greatly by the advancement of artificial intelligence. AI benefits society as said above it "makes our lives easier and our business more productive" (resource D). In the context of society, information about the community is able to be stored to live in a more positive environment, and day to day tasks of the society as a whole are easier and quicker. However there are many downsides to AI in the society. This is seen as AI is developing at such a fast rate it could be possible that the "machines will learn to write code for themselves and possibly become

Independent of programmers" (Resource D). AI currently is beneficial as humans have control over what it's used for, but if AI in theory can act independently of its programmer, humans don't have control over the information AI holds. It may get published, deleted, edited, etc. This does not meet ethical standards. Therefore accountants are challenged but are developing an ethical standard so AI can be used effectively in society.

Lastly, AI is impacting regulators both positively and negatively. A negative impact is that there is "concerns about the possibility of 'forum shopping', with some Japanese companies already offshoring activities to the USA, where standards around data privacy are lower" (Resource D). This shows that standards across different countries are different to do with AI, and some countries like Japan are taking advantage of this. However this doesn't follow the ethical standards of integrity, professionalism and duty of care. ~~More~~ Instead it challenges accounting's ethical standards in relation to AI. There are also, of course, benefits to the regulators just like with businesses, individuals and society. "AI makes our lives easier and business more productive" (Resource D).

Overall, AI is developing at a rapid rate and is being utilised in all aspects of life

including businesses, individuals, society and regulators. However in all these aspects accounting's ethical standards are being challenged and every day accountants are developing up to date ethical standards as artificial ~~intelligence~~ intelligence is developing. These ethical standards include integrity, professionalism, duty of care, confidentiality and competency.