

Assessment Schedule – 2025

Scholarship Accounting (93203)

Question One

Candidates need to look behind the information provided and understand the originating journal entries, and whether they are correct. The first one is implied, while the second is provided. Candidates need to understand what the original entry was and why it is incorrect.

The first is straightforward and no leeway can be considered. The second entry provides candidates with a greater measure of creativity. Whether or not they consider the entry to be correct is less important than whether they can draw on the definition and recognition criteria and critically evaluate the accounting treatment.

Suggested solution

- To be recognised as a liability, and therefore to be included within an entity's financial statements, the transaction or event must satisfy the definition of a liability.
- Do the two items listed meet the definition of a liability?
- A liability is defined as a present obligation of the entity to transfer an economic resource as a result of past events.
- What can we take from the definition?
 - Do the two transactions represent a present obligation?
 - Do they create an obligation to transfer economic resources away from the entity?
 - Have they arisen as a result of a past event?
- Taking this one step further:
 - Is there an obligation owed to another party or parties?
 - Is there an obligation to transfer economic resources away from the entity? Do obligations arise in the two transactions detailed in the draft income statement?
 - Did the liability arise as a result of a past event? Can the past event for the loan and the carbon expense / carbon tax payable be identified?
- Are the three elements of the definition met, and can the entity recognise the two separate liabilities in the 31 August 2025 financial statements?
- However, to recognise the liabilities in the financial statements at 31 August 2025, the disclosure of the liabilities needs to meet the criteria of relevance and faithful representation.
- Two factors to consider in determining whether information disclosed by a liability is relevant are:
 - existence uncertainty
 - probability associated with the expected outflow of economic benefits.
- Based on the available facts, is it reasonably apparent that an obligation to an external party exists? Is there any difference between the two transactions detailed above, i.e. high or low level of existence uncertainty surrounding the probability of future outflows of economic benefits?
- What about faithful representation?
- What about probability and measurability of future cash outflows?
 - Is there a high degree of measurement uncertainty associated with the outflow of economic benefits? If there is a high degree of uncertainty, faithful representation of the liability may not be possible.

Some candidates may focus on definition and recognition of income and expense. Some credit needs to be given for this. However, to be fully credited, they need to appreciate that income and expense definitions are based on those of asset and liability

Income is defined in the Conceptual Framework for Financial Reporting as increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims. The definition and recognition of income is directly linked to the definition and recognition of liabilities.

Judgement

	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 whether the accounting treatment for the loan and carbon taxes payable meet the definition and recognition criteria, and in particular, faithful representation. Critically evaluates the accounting treatment. Outstanding Scholarship candidates may provide amended draft financial statements, even though this is not specifically asked for. AND Clearly uses convincing communication to critically evaluate the accounting treatment detailed in the abbreviated draft income statement. 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 most of the definition and recognition criteria to convincingly argue that the accounting treatment for the loan should be recognised as a liability. May be less certain about the accounting treatment of the carbon taxes payable but provides some evidence of critical evaluation. 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 loan and carbon taxes payable. Could have focused on the income definition criteria in discussing the loan. May have limited understanding of the recognition criteria.
	2	Limited understanding of the material, not at Scholarship level. May have some limited appreciation of income and expense definitions.
	1	Minimal amount of relevant evidence, not at Scholarship level.
	0	Missing answer or irrelevant response.

Question Two

Suggested solution

This question focuses on a single product and a decision on whether it should be produced locally or overseas. By focusing on the USA as the alternative country of production, the question requires candidates to examine issues, such as supply chains and the impact of tariffs in an uncertain trading environment. This is particularly relevant in this question, as the alternatives are not clear cut.

	Projected	Surf apparel retailer	Outsource production
		158 000 × 9.60	
Sales (105 000 × \$9.60)	1 008 000	1 516 800	1 516 800
Less Variable costs			
Direct material (105 000 × 3.15)	(330 750)	(497 700)	
Direct labour (105 000 × 1.95)	(204 750)	(308 100)	
Overhead (105 000 × 1.00)	(105 000)	(158 000)	
	(640 500)	(963 800)	(1 271 900)
Contribution margin	(36.4583%) 367 500	(36.4583%) 553 000	(16.1458%) 244 900
Less Fixed costs	(305 000)	(460 000)	(195 000)
Net profit	62 500	93 000	49 900
Contribution margin per unit	\$3.50	\$3.50	\$1.55
Break even number of sales units	87 143	131 429	125 807
Break even sales revenue	\$836 576	\$1 261 715	\$1 207 748
Number of sales units to targeted profit of \$66 500	106 143	150 429	168 710
Margin of safety %	17.0%	16.82%	20.375%
Margin of safety \$ (differences rounding)	\$171 428	\$255 058	\$309 052
Margin of safety units	17 858	26 569	32 193
Original relevant range	Within even to meet expected profit	Outside	Outside

It Atomic lips outsources production to the USA and there is no increase in sales

$$\begin{aligned}
 \text{Margin of safety} &= \text{Current sales} - \text{break-even revenue} \\
 &= (105\,000 \times \$9.60) - \$1\,207\,748 \\
 &= \$ (199\,748) \text{ Not an option} \\
 &\quad \text{Atomic Lips is making a loss}
 \end{aligned}$$

Explaining CVP

- It is a technique used to determine the effects of changes in an organisation's sales volume on its costs, total sales revenue, and profits.
- It is used to determine the number of units needed to reach profitability or achieve a targeted profit.
- Used to determine breakeven for different sales volumes and cost structures.

- Provides useful information, particularly for a business that is commencing operations and / or facing difficult economic conditions.
- Its reliability is based on underlying assumptions, including that sales price and fixed and variable costs per unit are constant.

Break-even

- The number of units that need to be sold or sales revenue needed to cover the costs required to make the product; only after break-even has been reached, will any further contribution result in profit.

Contribution margin

- Shows that portion of sales required to cover fixed costs; any revenue left after covering fixed costs is profit.
- Contribution is defined as total sales revenue minus total variable costs; this represents the amount that is contributed towards covering total fixed costs and generating a profit.

Margin of safety

- It is a measure of financial risk.
- The difference between the current or expected sales volume (or revenue) and break-even sales is the margin of safety. It details by how much current (or expected) sales volume (or revenue) can fall before the organisation starts to make losses.

The report

Candidates could make use of the bullet points above to explain CVP techniques.

The report should also consider and discuss financial and non-financial factors. These could include but are not limited to:

- Financial factors:
 - Current production within or outside relevant range. Discuss whether the sales of an additional 1143 units (well within the relevant range) is perhaps not the easiest option given that the client is looking for the best option for production.
 - Break-even.
 - Margin of Safety and contribution margin.
- Non-financial factors:
 - Tariffs.
 - The tyranny of distance.
 - Quality control.
 - Supply chains.

Volume where profit / losses are the same

Although not specifically asked for, Outstanding Scholarship candidates may incorporate the sales where profits / losses would be the same if *Atomic Lips* continues to produce locally or outsource production to another manufacturer. Should candidates consider this, credit needs to be provided.

Let y = number of tubes

If product is made locally:

$$\text{Total profit} = \text{total contribution} - \text{total fixed costs} = 3.05y - 305\,000$$

If production is outsourced:

$$\text{Total profit} = \text{Sales} - \text{Total fixed costs}$$

$$\text{Profit} = 9.6y - 8.05y - 195\,000 \Rightarrow 1.55y - 195\,000$$

$$3.50y - 305\,000 = 1.55y - 195\,000 \Rightarrow 1.95y = 110\,000 \Rightarrow y = 56\,411$$

Workings**Locally produced (no surf shop or outsourcing)**

	\$
Selling price	9.60
Less variable costs (\$3.15 + \$1.95 + \$1.00)	6.10
Contribution per tube	<u>3.50</u>

$$\begin{aligned}
 \text{Break-even units} &= \frac{\text{Total fixed costs}}{\text{Contribution per tube}} \\
 &= \frac{\$305\,000}{3.50} \\
 &= 87\,143
 \end{aligned}$$

Alternative calculation 1

$$\begin{aligned}
 \text{Break-even revenue} &= \frac{\text{Total fixed costs}}{\text{Contribution margin ratio}} \\
 &= \frac{3.50}{9.60} \\
 &= 0.3645833
 \end{aligned}$$

Alternative calculation 2

$$\begin{aligned}
 &\text{Break-even} \times \text{SP} \\
 &87\,143 \times 9.60 \\
 &= 836\,576 \\
 &\text{(differences due to rounding)}
 \end{aligned}$$

$$\begin{aligned}
 \text{Break-even revenue} &= \frac{\$305\,000}{0.3645833} \\
 &= \$836\,572
 \end{aligned}$$

$$\begin{aligned}
 \text{Targeted profit (units)} &= \frac{\text{Total fixed costs} + \text{target profits}}{\text{Contribution per tube}} \\
 &= \frac{\$305\,000 + \$66\,500}{3.50} \\
 &= 106\,143
 \end{aligned}$$

$$\begin{aligned}\text{Margin of safety} &= \text{Current sales} - \text{break-even revenue} \\ &= (105\,000 \times \$9.60) - \$836\,572 \\ &= \$171\,428\end{aligned}$$

Atomic Lips' sales revenue could fall by \$171 428 (or 17 857 units @ \$9.60) before it starts to make losses.

Additional sales to surf apparel shop

$$\begin{aligned}\text{Break-even units} &= \frac{\text{Total fixed costs}}{\text{Contribution per tube}} \\ &= \frac{\$460\,000}{3.50} \\ &= 131\,429\end{aligned}$$

Alternative calculation 1

$$\begin{aligned}\text{Break-even revenue} &= \frac{\text{Total fixed costs}}{\text{Contribution margin ratio}} \\ \text{Contribution margin ratio} &= \frac{\text{Contribution}}{\text{Sales}} \\ &= \frac{3.50}{9.60} \\ &= 0.3645833 \\ \text{Break-even revenue} &= \frac{\$460\,000}{0.3645833} \\ &= \$1\,261\,715 \\ \text{Targeted profit (units)} &= \frac{\text{Total fixed costs} + \text{target profits}}{\text{Contribution per tube}} \\ &= \frac{\$460\,000 + \$66\,500}{3.50} \\ &= 150\,429\end{aligned}$$

Alternative calculation 2

$$\begin{aligned}\text{Break-even} \times \text{SP} \\ 131\,429 \times 9.60 \\ = \$1\,261\,719\end{aligned}$$

$$\begin{aligned}
 \text{Margin of safety} &= \text{Current sales} - \text{break-even revenue} \\
 &= (158\,000 \times \$9.60) - \$1\,261\,715 \\
 &= \$255\,058
 \end{aligned}$$

Atomic Lips' sales revenue could fall by \$255 058 (or 26 572 units @ 9.60) before it starts to make losses.

If production is outsourced to the US

	\$
Selling price	9.60
Less variable costs	<u>8.05</u>
Contribution per tube	<u>1.55</u>

$$\begin{aligned}
 \text{Break-even units} &= \frac{\text{Total fixed costs}}{\text{Contribution per tube}} \\
 &= \frac{\$195\,000}{1.55} \\
 &= 125\,807
 \end{aligned}$$

Alternative calculation 1

$$\begin{aligned}
 \text{Break-even revenue} &= \frac{\text{Total fixed costs}}{\text{Contribution margin ratio}} \\
 \text{Contribution margin ratio} &= \frac{\text{Contribution}}{\text{Sales}} \\
 &= \frac{1.55}{9.60} \\
 &= 0.1614583 \\
 \text{Break-even revenue} &= \frac{\$460\,000}{0.1614583} \\
 &= \$1\,207\,742
 \end{aligned}$$

Alternative calculation 2

$$\begin{aligned}
 &\text{Break-even} \times \text{SP} \\
 &125\,807 \times 9.60 \\
 &= \$1\,207\,748
 \end{aligned}$$

$$\begin{aligned}
 \text{Targeted profit (units)} &= \frac{\text{Total fixed costs} + \text{target profits}}{\text{Contribution per tube}} \\
 &= \frac{\$195\,000 + \$66\,500}{1.55} \\
 &= 168\,710
 \end{aligned}$$

Judgement

	Score	
Outstanding scholarship	7, 8	Demonstrates thorough and insightful understanding of management decision-making in the context of the company, <i>Atomic Lips</i>. AND Outstanding candidates demonstrate the technical ability to make the correct supporting calculations, including margin of safety and incremental revenue, and use them to explain whether <i>Atomic Lips</i>' management should outsource manufacturing to the US. 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. Candidates should be intimately familiar with the strengths and weaknesses of CVP when coming to a recommendation. These should be integrated into their response. (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>Atomic Lips</i>' management should outsource manufacturing to the US. 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 in their response. Candidates should be familiar with some of the strengths and weaknesses of CVP when coming to a recommendation. (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>Atomic Lips</i>' management. AND Partially correct calculations but some information misinterpreted. AND Some understanding of management decision-making. These candidates could generally not come to a decision on whether the manufacturing should be outsourced to the US. AND Limited evidence of critical thinking. (For 3, had limited understanding of management decision-making.)
	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 Three

This is an open-ended question, with the material from the resources providing the initial point of reference. The question requires candidates to examine the role accountants could play in addressing the knowledge gap in advanced technologies.

Judgement

	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 the role accountants could play in addressing the knowledge gap in advanced technologies. AND Demonstrates sophisticated abstraction and integration of the resource material. AND Demonstrates a high degree of critical thinking and analysis, carefully articulating the role accountants could play in addressing the knowledge gap in advanced technologies. 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 the role accountants could play in addressing the knowledge gap in advanced technologies. 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 the role accountants could play in addressing the knowledge gap in advanced technologies. 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 Four

Suggested solution

Dr		Bad debts	26 850	
	Cr	Accounts receivable		26 850
		<i>Write off bad debt at end of reporting period</i>		
Dr		Bad debts / allowance for doubtful debts	45 000	
	Cr	Allowance for doubtful debts		45 000
		<i>Creation of initial allowance for doubtful debts</i>		
Dr		Prepaid insurance	17 120	
	Cr	Insurance expense		17 120
		<i>Recognising prepaid insurance</i>		
Dr		Interest expense	41 510	
	Cr	Purchases		29 650
	Cr	Interest payable		11 860
		<i>Recognising and reallocating outstanding interest at end of reporting period</i>		
Dr		Staff salaries expense	46 800	
	Cr	Staff salaries accrued		46 800
		<i>Recognising staff salaries payable at end of the reporting period</i>		
Dr		Auditors' remuneration	85 000	
	Cr	Auditors' remuneration accrued		85 000
		<i>Auditors' remuneration for the 2025 reporting period accrued</i>		
Dr		Changes in inventory	226 100	
	Cr	Inventory		226 100
		<i>Reversal of inventory on hand at 1 October 2024</i>		
Dr		Inventory	184 600	
	Cr	Changes in inventory		184 600
		<i>Recognising inventory on hand at 30 September 2025</i>		
		Note alternative entries possible		
Dr		Loss on revaluation of land	75 000	
	Cr	Land		75 000
		<i>Recognising loss on revaluation of land</i>		

Dr		Disposal account	709 800	
	Cr	PPE		709 800
		<i>Writing off cost of asset disposed of</i>		
Dr		Depreciation	47 320	
	Cr	Accumulated depreciation		47 320
		<i>Depreciation on item of PPE traded in ($\\$709\,800 \times 10\% \times 8/12$)</i>		
Dr		Accumulated depreciation	429 720	
	Cr	Disposal account		429 720
		<i>Writing off accumulated depreciation to disposal account ($(\\$709\,800 - \\$327\,400) + \\$47\,320$)</i>		
Dr		Property, plant and equipment	221 900	
	Cr	Disposal account		221 900
		<i>Accounting for the amount received on trade in of item of property, plant, and equipment [Cost of machine purchased \$615 000 – cash paid \$393 100 = trade in amount]</i>		
Dr		Loss on disposal of PPE	58 180	
	Cr	Disposal account		58 180
		<i>Loss on disposal of PPE</i>		
Dr		Depreciation	394 760	
	Cr	Accumulated depreciation		394 760
		<i>Depreciation on PPE for year ($\\$5\,050\,500 - \\$393\,100 - \\$709\,800$) = \$3 947 600 [reduce PPE by the amount of the journal entry 1 June]</i>		
Dr		Depreciation	20 500	
	Cr	Accumulated depreciation		20 500
		<i>Depreciation on new item of PPE $\\$615\,000 \times 10\% \times 4/12$</i>		

Allocation of expenses

	Total	Cost of sales	Distribution expenses	Administration expenses	Finance costs
Advertising expenses	80 990	0	80 990	0	
Auditors' remuneration	85 000	0	0	85 000	
Bad debts expense (\$23 900 + \$26 850 + \$45 000)	95 750	0	0	95 750	
Depreciation (\$394 760 + \$47 320 + \$20 550)	462 580	277 548	46 258	138 774	
General expenses	191 800	0	0	191 800	
Insurance expense (\$51 360 – \$17 120)	34 240	23 968	6 848	3 424	
Interest expense (\$17 790 + \$41 510)	59 300	0	0	0	59 300
Loss on disposal of PPE	58 180	58 180	0	0	
Loss on revaluation of land	75 000	0	0	75 000	
Purchases (\$2 581 000 – \$29 650)	2 551 350	2 551 350	0	0	
Rent and electricity expense	896 400	448 200	179 280	268 920	
Staff salaries expense (\$916 300 + \$46 800)	963 100	626 015	96 310	240 775	
Changes in inventory	41 500	41 500	0	0	
	5 595 190	4 026 761	409 686	1 099 443	59 300

Ripsnorter Limited
Statement of Comprehensive Income
For the year ended 30 September 2025

	Notes	2025 NZ\$
Revenue	1	6 513 710
Cost of sales		<u>(4 026 761)</u>
Gross profit		2 486 949
Other income	2	<u>116 090</u>
		<u>2 603 039</u>
Less		
Administrative expenses		(1 099 443)
Distribution expenses		(409 686)
Finance costs	3	<u>(59 300)</u>
Profit before tax	4 & 5	1 034 610
Income tax expense		<u>(244 900)</u>
Profit for the period		<u>789 710</u>

Notes to the 2025 Statement of Comprehensive Income

1. Revenue

Sales	6 513 710
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2. Other income

Dividends received	8 950
Interest received	19 940
Rental income	<u>87 200</u>
	<u>116 090</u>

3. Finance costs

Interest paid	59 300
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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	52 000
- Taxation services	20 000
- Consulting fees	<u>13 000</u>
	<u>85 000</u>

Donations	<u>32 000</u>
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5. Classification of expenses by nature

Advertising expenses	80 990
Bad and doubtful debts	95 750
Changes in inventories	41 500
Depreciation	462 580
General expenses (\$191 800 – \$32 000)	159 800
Insurance expense	34 240
Loss on disposal of property, plant, and equipment	58 180
Loss on revaluation of land	75 000
Purchases	2 551 350
Rent and electricity expense	896 400
Salaries expense	963 100

Judgement

	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. Profit for the period to be correctly calculated. 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 most 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.

Cut Scores

Scholarship	Outstanding Scholarship
19–28	29–32