

## Assessment Report

# New Zealand Scholarship Accounting 2017

### Standard 93203

#### Part A: Commentary

It was pleasing to note that a greater number of candidates seemed aware of the contents of the assessment specifications this year. However, a number of candidates were not as familiar with the material on integrated reporting as perhaps they might have. Given that this year the number of questions was reduced from five to four, some candidates took this as a challenge to write as much as possible. It was not unusual for an answer to a single question to exceed nine pages in length, with another from the same candidate exceeding five pages. Candidates are advised that quantity does not equate with quality. As in previous years a number of the best answers from outstanding and successful scholarship candidates amounted to just over a page. A number of candidates were able to achieve scholarship even though they completed and left the examination before the allotted time was up, as they wrote well planned, succinct responses.

#### Part B: Report on performance standard

Candidates who were awarded **Outstanding Scholarship** commonly:

- in question one, recognised materiality was entity specific and so it is up to how the company reports it. That is, there are no formal accounting standards, guidelines or rules that determine materiality. These candidates recognised that for Sanford Limited, materiality relates to issues that create value for the business, stakeholders, as well as the wider community in the short, medium and long term. These candidates were able to use Sanford Limited's view of materiality and explain how it differed, or was similar to, that contained in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010
- in question two, recognised that their friend had incorrectly determined the value of the asset Cosmetic 1. They were able to correctly use the definition and recognition criteria for an asset and expense contained in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010 to support their position. In particular, these candidates recognised that by registering the patent, their friend had exclusive rights to the asset that had been developed. These candidates recognised that the research costs and business plan costs constituted expenses. Candidates who obtained outstanding scholarship also recognised that the \$150 000 value ascribed to Cosmetic 1 was problematic, particularly the issue of a past event and the value that could be measured with reliability. The depth of the answers of a number of these candidates provided evidence of deep thinking. A number of outstanding scholarship candidates also recognised that as an internally generated asset, a value could not be placed on Cosmetic 1 until it had been sold to a party outside the company. A number of these candidates recognised that although a patent is

generally recognised as an asset, its value needs to be able to be measured with reliability. Where this is not the case, the item should be expensed

- in question three, exhibited the technical skills necessary to correctly prepare the statement of financial position using the correct terminology, including the accompanying note. These candidates had the technical ability to make the correct calculations and adjustments, set out their answer clearly, neatly and show all the required accompanying notes to the financial statements. In question three, candidates who achieved outstanding scholarship also exhibited the technical skills necessary to correctly prepare the adjusting journal entries and narrations including the correct calculation for depreciation and correctly follow these through to the statement of financial position and the accompanying financial statement note and statement of changes in equity. This included making the appropriate adjustments to profit for the year. These candidates set out their answer clearly and neatly. The candidates who achieved outstanding scholarship illustrated evidence of convincing communication in that they provided complete and technically correct accompanying note
- in question four, had the ability to discuss how they would use the material provided by the various media forms contained in the resource booklet when deciding to make a \$10 000 investment in Restaurant Brands New Zealand Limited and/or Sanford Limited. The answers provided by candidates who achieved outstanding scholarship showed evidence of careful planning, included an introduction to contextualise their answer, provided a conclusion and used the resources to support their position.

Candidates who were awarded **Scholarship** commonly:

- in question one, were able to use the two figures to explain what Sanford Limited meant by materiality in the context of their Annual Report. These candidates recognised that for Sanford Limited, materiality relates to issues that create value for the business, stakeholders, as well as the wider community in the short, medium and long term. While these candidates were able to use Sanford Limited's view of materiality and explain how it differed, or was similar to, that contained in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010, the answers were more descriptive than those provided by candidates who obtained outstanding scholarship
- in question two, recognised that their friend had incorrectly determined the value of the asset Cosmetic 1. They were able to correctly use the definition and recognition criteria for an asset and expense contained in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010 to support their position. In particular these candidates recognised that by registering the patent, their friend had exclusive rights to the asset that had been developed. While the candidates who obtained scholarship also recognised that the \$150 000 value ascribed to Cosmetic 1 may not have met the definition and recognition criteria of an asset, they were unable to, or failed to, apply the asset or expense definition and recognition criteria to the other items namely, the patent, research and business plan costs
- in question three, exhibited the technical skills necessary to correctly prepare the statement of financial position and statement of changes in equity. These candidates were able to prepare the majority of the adjusting journal entries required and ensured that the adjustments flowed through to the final statement of financial position and statement of changes in equity. These candidates provided some evidence of convincing communication in that they set out their answer clearly and correctly disclosing the information asked for as well as the majority of the information required in the accompanying note
- in question four, had the ability to discuss how they would use the material provided by the various media forms contained in the resource booklet when deciding to make a \$10 000 investment in Restaurant Brands New Zealand Limited and/or Sanford Limited. The answers provided by candidates who achieved scholarship showed some evidence of planning their answer and used the resources to support their position. These candidates went beyond a descriptive answer but were not as contextualised when compared to those provided by candidates who achieved outstanding scholarship.

Other candidates

Candidates who were not awarded Scholarship commonly:

- in question one, only provided a definition of materiality from the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010. Their answers were generally descriptive or took the form of a detailed list of the issues considered material by Sanford Limited without clearly indicating whether they thought Sanford Limited's meaning of materiality was inherently different to that contained in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010. From their answers, a number of candidates did not appear to be familiar with the Sanford Limited annual report
- in question two, incorrectly applied the asset definition and recognition criteria from the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010 to the value of Cosmetic 1. These candidates assumed that because Cosmetic 1 had been valued by an international firm that specialises in valuing products, a past event had occurred; a source document must therefore exist, so the value must be correct! These candidates concluded that the value of Cosmetic 1 was correct at \$150 000 without considering the other three items. Candidates who did not achieve scholarship generally did not consider whether the patent, research or business plan cost met the definition and recognition criteria of an asset or an expense
- in question three, failed to exhibit the technical skills necessary to correctly prepare the statement of financial position including accompanying notes, in a format suitable for external reporting purposes. Although a substantial number of the candidates were able to prepare the adjusting journal entries, these candidates lacked the technical ability to calculate the correct amounts to be included in them. These candidates did not illustrate the technical ability to make the adjustments to profit for the year, set out their answer clearly, neatly or show any workings. These candidates often failed to provide evidence of convincing communication in that they did not set out the statements clearly, neatly or use the correct terminology
- while scoring well on question four, lacked the ability to discuss how they would make use of the various media forms in the resource booklet when deciding whether to invest \$10 000 in Restaurant Brands New Zealand Limited and/or Sanford Limited. These candidates provided descriptive answers and if they provided a comparative answer, did not clearly indicate which company they would invest in.

### **Standard specific comments**

Question one was based on integrated reporting and asked candidates to use two figures taken from Sanford Limited's 2016 annual report to explain what the company means by materiality in the context of their Annual Reports. Candidates were also asked to indicate whether the meaning of materiality is inherently different to that contained in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting. The majority of candidates used the figures provided to write extensively on issues material to Sanford Limited, but this did not answer the question.

Question two was a concepts question that required careful reading and some critical thinking. This question asked candidates to use the definition and recognition criteria in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting to explain whether the value of an asset has been correctly determined. Four elements required consideration, namely, patent costs, research costs, the development of a business plan and the value of Cosmetic 1. The majority of candidates were happy to discuss whether the value of Cosmetic 1 met the definition of an asset but failed to consider the three other elements. What was particularly concerning was the number of candidates who assumed that the patent, research and business plan costs comprised the value of Cosmetic 1. A detailed exposition of the benefits of no artificial colourings, that the ingredients for the product were sourced from renewable sources and that the product was not tested on animals was not required.

Question three was a technical question and candidates had to prepare: (a) adjusting journal entries; (b) an asset and equity section of a statement of financial position; (c) an accompanying property, plant and equipment note; and (d) a statement of changes in equity. This was a straight-forward question which was generally well answered. However, in their journal entries a number of candidates did not correctly adjust for depreciation for the asset revalued part way through the year. They also misinterpreted the

question where it stated that depreciation and revaluation adjustment have yet to be made for the current reporting period. This meant that they did not adjust the profit for the year figure.

Question four was relatively straight-forward as it was clearly signposted in the assessment specifications. This question required candidates to discuss how they would use the information provided by the various media forms in the resource booklet when deciding whether to invest \$10 000 in Restaurant Brands New Zealand Limited and/or Sanford Limited. Given the extensive resources available and the relatively open-ended nature of this question, candidates generally answered this question well. A number of candidates who did not achieve scholarship were able to score full marks on this question. It should be noted that candidates did not need to make a comparison of the two companies although the majority did take this route.

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**Subject page**

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