

Assessment Report

New Zealand Scholarship Accounting 2018

Standard 93203

Part A: Commentary

The majority of candidates appeared to be familiar with the assessment specifications. A major change this year was that for the first time the current issues topic was not signposted in the assessment specifications.

Answers to the written questions tended on the whole to be more succinct this year. There was more evidence of candidates carefully planning their answers. This resulted in fewer unstructured answers that rambled over five, six and seven pages. Some of the best answers from outstanding and successful scholarship candidates amounted to just over a page and sometimes not longer than two pages.

Part B: Report on performance standard

Candidates who were awarded Outstanding Scholarship commonly:

- In question one, candidates who achieved outstanding scholarship were able to explain why a product's contribution margin was important for management decision-making, calculate the annual break-even point in sales units and dollars, calculate and explain why the margin of safety is important for Rally-O Limited's management. Candidates who achieved outstanding scholarship had the technical ability to make the correct supporting calculation and use it to explain why Rally-O Limited's management should accept the special order. They were also able to use critical thinking to provide reasons whether Rally-O Limited should accept the Nigerian order if the company was operating at full capacity.
- In question two, candidates who achieved outstanding scholarship 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 two, candidates who achieved outstanding scholarship also exhibited the technical skills necessary to correctly adjust the income summary figure for depreciation, doubtful debts, and rent, and correctly follow these through to the statement of financial position and the accompanying financial statement note and statement of changes in equity. 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 three, candidates who achieved outstanding scholarship correctly applied the definition and recognition criteria for revenue from the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010 (NZ Framework) to recognise that although their friend had received \$24 000, the whole amount could not be recognised as income. These candidates demonstrated that they had the technical ability to correctly calculate the amount of revenue to be recognised in the current year. Candidates who achieved outstanding scholarship were able to provide the definition and recognition criteria for a liability. These candidates demonstrated innovation in drawing on the scenario from the question to provide appropriate illustrations to support each of the three key characteristics of the liability, "revenue received in advance". These candidates also recognised that if it were likely that the vouchers were to be redeemed in the following reporting period, the "revenue received in advance" would be recognised as a currently liability. Those vouchers unlikely to be redeemed in the following reporting period a portion would be allocated to non-current liabilities.
- Candidates who achieved outstanding scholarship in question four had the ability to use the material provided in the resource booklet to describe the steps the accounting profession should take to remain relevant beyond 2025. The answers provided by candidates who achieved outstanding scholarship showed evidence of planning their answer and used the resources to support their position. These candidates went beyond a descriptive answer and used the resources to demonstrate perception and insight into the possible future of accounting in a broader societal context.

In this question in particular, candidates who were awarded outstanding scholarship used convincing communication to clearly convey their point of view.

Candidates who were awarded Scholarship commonly:

- In question one, candidates who achieved scholarship were able to explain why a product's contribution margin was important for management decision making. Although the candidates usually had the technical skills to be able to calculate the break-even point in sales units and dollars, they often provided a six-month sales and dollar break-even point. However these candidates were able to explain why the margin of safety is important for Rally-O Limited's management. Candidates who achieved scholarship had the technical ability to make the correct supporting calculation and use their calculation to explain why Rally-O Limited's management should accept the special order. However, these candidates were not able to explain whether Rally-O Limited should accept the Nigerian order if the company was operating at full capacity.
- The importance of candidates re-reading their answer to ensure internal consistency was also apparent in the latter part of this question. While a number of candidates provided a calculation to explain why the company should not accept the special order at the reduced sales price (which would take production capacity to 100 per cent), they were nevertheless happy to recommend that management accept the special order if the company were already operating at full capacity.
- In question two, candidates who achieved scholarship exhibited the technical skills necessary to correctly prepare the statement of financial position including accompanying property, plant and equipment note, and statement of changes in equity in a format suitable for external reporting purposes. These candidates had the technical ability to make some of the adjustments necessary to revalue the assets, calculate for depreciation and make sure that some of the adjustments to profit arising from depreciation, doubtful debts and rent for the year 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 disclosed the information asked for as well as the majority of the information required in the accompanying note.
- In question three, candidates who achieved scholarship correctly applied the definition and recognition criteria for revenue from the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010 (NZ Framework) to recognise that although their friend had received \$24 000, the whole amount could not be recognised as income. These candidates however frequently lacked the technical ability to correctly calculate the amount of revenue to be recognised in the current year. However, candidates who achieved scholarship were able to provide the definition and recognition criteria for a liability, including the three key characteristics to recognise the existence of the liability, "revenue received in advance".
- Candidates who achieved scholarship in question four had the ability to use the material provided in the resource booklet to describe the steps the accounting profession should take to remain relevant beyond 2025. 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 usually went beyond a descriptive answer but did not show the same depth of analysis as the candidates who achieved outstanding scholarship. In addition candidates awarded scholarship did not demonstrate the same level of convincing communication to clearly convey their point of view as those awarded outstanding scholarship.

Candidates who were not awarded Scholarship commonly:

- In question one, candidates who did not achieve scholarship were able to explain why a product's contribution margin was important for management decision making. Although the candidates were usually able to calculate the break-even point in sales units and dollars, they often misinterpreted some information and so provided a six-month sales and dollar break-even point. However these candidates were able to explain why the margin of safety is important for Rally-O Limited's management. Candidates who did not achieve scholarship lacked the technical ability to make the correct supporting calculation and use their answer to explain whether Rally-O Limited's management should accept the special order. These candidates also lacked the knowledge to explain whether Rally-O Limited should accept the special order at the reduced sales price if the company were already operating at full capacity.
- In question two, candidates who did not achieve scholarship did not exhibit the technical skills necessary to correctly prepare the statement of financial position including accompanying property, plant and equipment note, and statement of changes in equity in a format suitable for external reporting purposes. These candidates lacked the technical ability to correctly revalue the assets or calculate depreciation. These candidates did not illustrate the technical ability to adjust the income summary for the depreciation, doubtful debts or rent, set out their answer clearly, neatly or show any workings. Evidence of convincing communication was missing, and these candidates did not set out the statements clearly, neatly or use the correct terminology.
- In question three, candidates who did not achieve scholarship incorrectly applied the revenue definition and recognition criteria from the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010 (NZ Framework). As a result, these candidates argued that the whole of the \$24 000 arising from the sale of the

dog grooming vouchers could be recognised as income. These candidates supported their position by arguing that the \$24 000 received by their friend could be recognised as an asset. These candidates missed the point that as only 24 individual vouchers had been redeemed, the remaining \$22800 worth of vouchers redeemable in the future met the liability definition and recognition criteria from the NZ Framework.

- Although a number of candidates who did not achieve scholarship scored well on question four, those who did not achieve scholarship in question four did not use the resources provided in sufficient depth. As a result, they were unable to discuss the steps the accounting profession could take to remain relevant beyond 2025. These answers usually showed little evidence of planning, were very descriptive, and often merely a regurgitation of the material provided in the resources.

Standard specific comments

Question one was a management decision-making question and focused on whether a company, Rally-O Limited, which was currently operating at 75 per cent capacity, should accept a special order from Nigeria at a price lower than is currently charged. The majority of candidates found this question to be relatively straightforward and this question was answered particularly well.

Question two was a technical question and candidates were asked to prepare:

- an asset and liability section of a statement of financial position
- an accompanying property, plant and equipment note
- a statement of changes in equity.

Although this question was relatively straightforward, it was not answered as well as perhaps it might have been. This was in part due to candidates not completing basic workings, in particular those relating to depreciation and the share buyback. This meant that they did not correctly adjust for depreciation for the asset revalued part way through the year or calculate the opening contributed equity figure. They also misread question where it stated that depreciation and revaluation adjustment have yet to be made for the current reporting period, which meant that they did not adjust the profit for the year figure.

Question three was a concepts question that required careful reading and critical thinking. This question asked candidates to use the financial statement elements definition and recognition criteria contained in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting (NZ Framework) to explain how transactions should be recognised in financial statement. There were a number of issues to consider. First, whether the \$24 000 received for the sale of the book of vouchers could be considered income. This required candidates to consider the income definition and recognition criteria. Second, if the whole amount could not be considered income, given that their friend had an asset in an amount of \$24 000 cash, how much of this should be recognised as income for the current reporting period. Third, how the amount not shown as income in the current reporting period, should be recognised in the statement of financial position, using the definition and recognition criteria contained in the NZ Framework. It was pleasing to see an overall improvement in how the concepts question was answered. Often the difference between candidates awarded outstanding scholarship and those awarded scholarship in this question came down to the level of effective communication. Candidates awarded outstanding scholarships were able to clearly convey their point of view.

Question four was a current issues question. This question required candidates to first read a number of unfamiliar resources then describe the steps the accounting profession can take to remain relevant beyond 2025. Given the extensive resources available and the relatively open-ended nature of this question, candidates generally answered this question well. The answers were varied and imaginative. Candidates appeared to take considerable time to get familiar with the resources and spent time planning their answers. A number of candidates who did not achieve scholarship overall still managed to score between 6 and 8 on this question. As with question three the difference between candidates awarded outstanding scholarship and those awarded scholarship in this question often came down to the level of communication.

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