

National Certificate of Educational Achievement

2011 Assessment Report

Accounting Level 3

- 90500 Describe and apply the conceptual basis of accounting in context**
- 90501 Process financial information for partnerships and companies**
- 90502 Process financial information for a manufacturing job cost subsystem**
- 90503 Prepare financial statements for partnerships and companies**
- 90505 Explain and prepare information for management decision making**

COMMENTARY

Candidates who gained Achievement in Level 3 Accounting were able to:

- answer the question set by using the context of the question in their answers, rather than giving a rote-learned response
- complete General Journal entries in terms of providing a stem and with no numbers missing in either the debit or credit column
- use account names in both General Journal entries and financial statements correctly
- use correct contra entries in General Ledger entries.

Candidates should have familiarised themselves with the context before beginning to answer questions. Rote-learned answers to generic questions are not sufficient where answers are required in context to achieve the standard. This particularly relates to the requirements of the standards for both 90500 and 90505. Candidates need to be encouraged to read their written responses to check that the question has actually been answered and that their response is in context.

In the processing and reporting standards (90501, 90502, and 90503), candidates were expected to use account names provided for them, particularly those in a trial balance (extract) or list of account names – these names were in the chart of accounts of the entity in question and should not have been changed by candidates.

STANDARD REPORTS

90500 Describe and apply the conceptual basis of accounting in context

ACHIEVEMENT

Candidates who were awarded Achievement for this standard demonstrated the required skills and knowledge. They typically:

- answered in context
- provided clear responses using appropriate accounting terminology
- demonstrated a familiarity with definitions, concepts, and language of the standard
- demonstrated an understanding of the difference between a company's constitution and a partnership's partnership agreement
- stated that a partnership distributed profits following a partnership agreement/clauses and that companies distributed profits through dividends/based on number of shares
- explained that limited liability for Mike was that he is not personally liable for *B Fit 4 Life Ltd's* debts and that his personal assets will be protected
- stated both assets and turnover boundary numbers for differential reporting and applied these to *B Fit 4 Life Ltd*
- explained, using relevant amounts, how the gym membership fees would be reported in the Income Statement or Balance Sheet and related this to the appropriate accounting period
- explained that the mobile phone was an expense as it was not material/a small amount in comparison to total assets
- described that pictures and graphs showed the company in a positive way or identified that the annual report is easier to understand by including pictures and graphs

- described the characteristics of an asset and stated that there was no past transaction for including goodwill in the financial statements.

NOT ACHIEVED

Candidates who were assessed as Not Achieved for this standard lacked some or all of the skills and knowledge required for the award of Achievement. They typically:

- did not attempt all the questions
- did not answer in context or misread the question e.g. explained about taxation for a partnership and company rather than the distribution of profit
- showed evidence of being unfamiliar with a company constitution or an auditor's report
- stated definitions of accounting terms/financial elements rather than applying these
- did not identify both the correct assets and turnover boundary numbers for a company that qualifies for differential reporting
- did not include all parts of the given expense definition to explain why discount allowed is an expense
- did not explain how the treatment of fees received in advance complied with the accrual basis of accounting. These candidates often omitted relevant numbers and provided only a definition of the accrual basis of accounting with no reference to the Income Statement or Balance Sheet and the link to the correct period was not clear
- incorrectly identified the qualitative characteristic of reliability instead of comparability
- showed no understanding or familiarity with the concept of net realisable value and often their response just repeated the question of needing to sell the inventory quickly as it was getting old or out of date
- were able to describe the essential characteristics of an asset if an attempt was made to answer the paragraph question.

ACHIEVEMENT WITH MERIT

In addition to the skills and knowledge required for the award of Achievement, candidates who were awarded Achievement with Merit typically:

- explained why discount allowed is an expense by identifying that accounts receivable decreased and referred to a decrease in equity and a decrease in profit/or not a distribution
- explained, using relevant amounts, how the gym membership fees would be reported in the Income Statement and Balance Sheet and related this to the appropriate accounting period
- stated that the net realisable value was the amount of money the protein drinks could be sold for
- explained the going concern concept by mentioning that *B Fit 4 Life Ltd* has no intention of liquidating or to cease trading
- described a reason for the auditor's report as either complying with NZ GAAP or showing a true and fair view of the financial position of *B Fit 4 Life Ltd*
- identified that the inclusion of pictures and graphs in an annual report aided understandability with a valid reason described
- described the characteristics and the recognition criteria of an asset and applied one of these as to why goodwill should not be reported as an asset.

ACHIEVEMENT WITH EXCELLENCE

In addition to the skills and knowledge required for the award of Achievement with Merit, candidates who were awarded Achievement with Excellence typically:

- provided clear and in-depth written responses using appropriate accounting terminology and language in context
- explained that all profit in a partnership is distributed while some profit can be retained in a company
- explained how discount allowed would result in a decrease in economic benefit as this is the amount of money that would not be collected from credit customers
- explained, using relevant amounts, how the gym membership fees would be reported in the Income Statement and Balance Sheet and related this to the appropriate accounting period as well as explaining the future outflow of economic benefit
- explained the going concern concept by mentioning that *B Fit 4 Life Ltd* has no intention of liquidating or to cease trading and that *B Fit 4 Life Ltd* have not identified any circumstances to cease trading
- explained the net realisable value of the expiring drinks in terms of the probable future economic benefit to be recovered
- identified that the auditor's report was independent
- applied both the characteristics and recognition criteria of assets to goodwill not being reported as an asset.

OTHER COMMENTS

Many candidates did not attempt the paragraph question or provided a Level 1 Accounting definition of an asset only. Candidates should be encouraged to answer each bullet point in the paragraph question in sequence to ensure that all the requirements of the question are included in their explanation.

90501 Process financial information for partnerships and companies

ACHIEVEMENT

Candidates who were awarded Achievement for this standard demonstrated the required skills and knowledge. They typically:

- processed entries in the current account
- processed entries in the opening partnership journal
- processed part of the share repurchase General Journal entry
- closed the final dividend account
- processed the majority of the building revaluation entries
- correctly entered ledger account stems and entries
- attempted both questions in the paper and provided evidence of understanding in both the partnership and company sections.

NOT ACHIEVED

Candidates who were assessed as Not Achieved for this standard lacked some or all of the skills and knowledge required for the award of Achievement. They typically:

- demonstrated knowledge of either partnerships or companies but not both
- did not complete their journals or ledgers or used incorrect names in ledgers or journals e.g. debt to suppliers
- used incorrect debit or credit entries
- did not complete the balancing process of ledger or journals
- incorrectly posted General Journal entries by not ensuring that their debit entry amount was the same as their credit entry amount
- did not attach partners' names to their capital account General Journal entries
- recognised a partner's capital contribution to the partnership as vendor, not capital.

ACHIEVEMENT WITH MERIT

In addition to the skills and knowledge required for the award of Achievement, candidates who were awarded Achievement with Merit typically:

- processed the building revaluation entries correctly
- processed the share repurchase or the final dividend ledger correctly
- processed some of the retained earnings ledger correctly
- processed the opening partnership journal correctly
- processed the current account correctly
- processed some of the closing journal entries and/or capital ledger entries.

ACHIEVEMENT WITH EXCELLENCE

In addition to the skills and knowledge required for the award of Achievement with Merit, candidates who were awarded Achievement with Excellence typically:

- demonstrated a depth of knowledge in both the processing for companies and partnerships
- processed the share repurchase and the final dividend ledger correctly
- processed the tax entries correctly
- processed the retained earnings ledger correctly
- explained the transaction as a share issue by *Sparkle Ltd* for the purchase of gems or to settle a debt to gems
- explained the opening balance of retained earnings as representing equity and/or profit
- processed partnership journal and ledger entries correctly
- explained the carrying amount as historical cost less accumulated depreciation and the agreed value as the acquisition cost to the new partnership
- explained that the debit balance represented an overdrawn current account
- completed nearly all journals and ledgers accurately, including calculations, dates, balancing process, and correct ledger names
- were able to explain specific detailed reasons for processing actions

- described a reason for the transaction in context by explaining how the transaction related to the example given.

90502 Process financial information for a manufacturing job cost subsystem

ACHIEVEMENT

Candidates who were awarded Achievement for this standard demonstrated the required skills and knowledge. They typically:

- calculated the cost of a job and the overhead allocation rate accurately
- prepared General Journal entries for job costing accurately
- completed most parts of the materials requisition slip correctly, although showed some evidence of confusion about the GST calculation on this particular source document
- completed some aspects of the General Ledger entries correctly e.g. two entries with stems and correct figures transferred, such as “Opening balance” and “Work In Progress” entries
- showed a basic understanding of job costing that enabled them to answer theory questions in general but not necessarily answer the question in context.

NOT ACHIEVED

Candidates who were assessed as Not Achieved for this standard lacked some or all of the skills and knowledge required for the award of Achievement. They typically:

- did not answer or attempt all of the questions
- prepared General Journal entries incorrectly, using incorrect stems or confusing the debit and credit entries
- did not complete most of the General Ledger entries
- lacked an understanding of factory overhead allocation and the means to calculate the overhead allocation rate
- did not complete a materials requisition slip accurately
- did not explain theory answers in relation to the question asked.

ACHIEVEMENT WITH MERIT

In addition to the skills and knowledge required for the award of Achievement, candidates who were awarded Achievement with Merit typically:

- completed most of the General Ledger entries correctly
- showed an understanding of job costing that enabled candidates to answer theory questions in general, explaining some aspects with the answer sometimes being in context.

ACHIEVEMENT WITH EXCELLENCE

In addition to the skills and knowledge required for the award of Achievement with Merit, candidates who were awarded Achievement with Excellence typically:

- showed comprehensive understanding of all aspects of job costing

- completed nearly all of the General Ledger entries correctly, possibly omitting the closing entry for “Income Summary”
- showed understanding of the theory of job costing and could explain clearly using key words from the question in detail
- showed comprehension of the importance of understanding the theory behind job costing, enabling them to answer all questions requiring an explanation including interpreting and explaining why a journal entry/ledger entry was performed.

90503 Prepare financial statements for partnerships and companies

ACHIEVEMENT

Candidates who were awarded Achievement for this standard demonstrated the required skills and knowledge. They typically:

- attempted all questions
- demonstrated some knowledge of the contents of a Profit Distribution Statement
- distributed some of the profit accurately for a partnership
- calculated some of balance day adjustments
- identified some current assets
- showed understanding of the basic links between a Statement of Comprehensive Income and a Statement of Changes in Equity
- identified the missing titles in the Statement of Changes in Equity and entered some balances correctly
- calculated some of the correctly classified figures in the cash flow statement with the correct stem used.

NOT ACHIEVED

Candidates who were assessed as Not Achieved for this standard lacked some or all of the skills and knowledge required for the award of Achievement. They typically:

- did not attempt all sections of the paper
- included foreign items in the financial statements
- did not attempt enough in each question to ensure they showed enough evidence of appropriate stems, correct figures, and correct treatment
- provided incorrect treatment for items in the Profit Distribution Statement
- did not calculate the share of profit or loss or show the process of how to apply it in a Profit Distribution Statement
- did not calculate balance day adjustments
- used a mixture of brackets and non-brackets for expenses in the Statement of Comprehensive Income
- did not calculate the correct increase in revaluation on land and buildings in the Statement of Comprehensive Income
- did not use correct terminology in the stem for increase/gain in the land and building revaluation
- did not show the correct process for Statement of Changes in Equity

- did not calculate other expenses, cash paid to suppliers, and cash received from customers in the Statement of Cash Flows
- classified interest on loan incorrectly in the Cash Flow Statement as investing activities instead of operating activities
- calculated figures required for the Cash Flow incorrectly
- used incorrect stems in the Cash Flow Statement, for example Accrued Expenses, Cash Received from Suppliers.

ACHIEVEMENT WITH MERIT

In addition to the skills and knowledge required for the award of Achievement, candidates who were awarded Achievement with Merit typically:

- demonstrated sound knowledge of a Profit Distribution Statement including the treatment of the components that affect the profit to be distributed
- calculated the majority of balance day adjustments correctly
- showed understanding of the process required for a profit/loss share in the profit distribution statement
- showed understanding of how to treat interest on current accounts correctly (both add/less)
- showed understanding of the components of a comprehensive income statement, calculated figures correctly, and used appropriate stems
- read and followed the instructions about the use of brackets for expenses in the Statement of Comprehensive Income
- demonstrated sound knowledge of Gains on Revaluation in terms of their inclusion in a Statement of Comprehensive Income
- illustrated sound knowledge of the links between a Statement of Comprehensive Income and a Statement of Changes in Equity
- showed the correct process in Statement of Changes in Equity
- calculated most cash flow calculations and labelled stems correctly.

ACHIEVEMENT WITH EXCELLENCE

In addition to the skills and knowledge required for the award of Achievement with Merit, candidates who were awarded Achievement with Excellence typically:

- correctly calculated figures and showed the correct process in the Profit Distribution Statement
- showed understanding of and clearly showed the correct treatment of the Residual Profit in the Profit Distribution Statement
- comprehensively classified and calculated current assets and also correctly completed the note to Accounts Receivable
- comprehensively completed a Comprehensive Income Statement using correct treatment with brackets, stems, and figures, including the words gain or increase in land/building revaluation
- worked backwards in the Changes in Equity Statement to calculate figures, transferred figures correctly into this statement and show the correct process for balancing (especially the opening balance for retained earnings)
- calculated the distribution figures correctly in the Statement of Changes in Equity

- illustrated clear understanding of a Statement of Cash Flows, including labelling calculations providing appropriate stems.

OTHER COMMENTS

Candidates are strongly encouraged to show and label their workings where a working box has been provided, especially in the Cash Flow Statement. Candidates must ensure that they attempt enough in each question to show that they can apply the skills required by the standard.

90505 Explain and prepare information for management decision making

ACHIEVEMENT

Candidates who were awarded Achievement for this standard demonstrated the required skills and knowledge. They typically:

- explained two key ideas associated with management accounting
- calculated some financial information in a budget and/or break-even analysis.

NOT ACHIEVED

Candidates who were assessed as Not Achieved for this standard lacked some or all of the skills and knowledge required for the award of Achievement. They typically:

- did not explain key ideas related to management decision making/accounting
- did not know how to calculate some figures for a budget and/or break-even analysis
- did not apply context or misinterpreted the context of questions.

ACHIEVEMENT WITH MERIT

In addition to the skills and knowledge required for the award of Achievement, candidates who were awarded Achievement with Merit typically:

- defined and explained most key ideas related to management accounting/decision making
- determined most budget and break-even calculations correctly.

ACHIEVEMENT WITH EXCELLENCE

In addition to the skills and knowledge required for the award of Achievement with Merit, candidates who were awarded Achievement with Excellence typically:

- determined almost all calculations correctly
- defined and explained nearly all key ideas in management accounting/decision making
- provided nearly all financial and non-financial ideas to support two decisions.

OTHER COMMENTS

When candidates are providing financial information/reasons for justifying a recommendation, it is essential that reference is made to both the budget and CVP information provided in the resource material and answers calculated. The standard

requires cross-referencing across all questions for answering the Excellence decision-making questions.