

National Certificate of Educational Achievement

2012 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

This was the final year for examinations to assess these achievement standards.

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. They should not produce rote-learned answers to generic questions. This particularly relates to both the 90500 and 90505 standards, where candidates must answer in context to gain Achievement. 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)

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 and The NZ Framework
- stated both assets and turnover boundary numbers for a large company and applied these to *Ezi Fly Ltd*
- identified that the benefits of preparing financial statements outweighed the cost of preparing those financial statements
- explained that *Ezi Fly Ltd's* general purpose financial statements could be compared over time or with other businesses
- identified that a limitation of general purpose financial statements was that they included estimates or non-financial items
- explained, using relevant amounts how the marketing expenses would be shown in the Statement of Comprehensive Income or Statement of Financial Position and related this to the appropriate accounting period
- explained that a company could expand by issuing shares

- explained how the aircraft fleet provided future economic benefit by earning income through flying passengers to different destinations
- explained why depreciation was an expense by mentioning that the asset (aircraft) decreased and referred to a decrease in equity and a decrease in profit /or not distributions to equity participants
- explained that the amount owing for the aircraft maintenance expense could be measured reliably by referring to an invoice
- described the characteristics of a liability and related the qualitative characteristic of relevance to decision making for *Ezi Fly Ltd*.

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 limited liability as an advantage of a company instead of identifying that *Ezi Fly Ltd* could issue shares to expand its aircraft fleet
- stated definitions of accounting terms/financial elements rather than applying these
- were unable to identify both the correct assets and turnover boundary numbers for a company that does not qualify for differential reporting
- were unable to explain how the treatment of prepaid marketing expenses 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 Statement of Comprehensive Income or Statement of Financial Position and the link to the correct period was not clear.
- did not include all parts of the given expense definition to explain why depreciation is an expense
- did not show an understanding that a source document could reliably measure an expense or identified the incorrect source document of a receipt when the expense was owing
- were only able to describe the essential characteristics of a liability 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:

- stated both the correct asset and turnover boundary numbers for a company that does not qualify for differential reporting and their relationship to *Ezi Fly Ltd*
- explained that the benefits outweighed the costs of preparing general purpose financial statements
- explained consistency in terms of the NZGAAP guidelines rather than in terms of the format of presentation of the financial statements
- explained the purpose of a Statement of Cash Flows and why shareholders would be interested in this statement
- explained, using amounts, how the marketing expenses would be shown in the Statement of Comprehensive Income and Statement of Financial Position and related

this to the appropriate accounting period or explained either the marketing expense or asset fully

- explained that a current liability must be paid within the next year/period
- explained why it was probable that the amount owing for aircraft maintenance would be paid either by giving a reason or explaining there was an outflow of money when it was paid
- described the essential characteristic of a liability and then explained that there was no present obligation in relation to the contingent liability (pending law suit) and therefore it would not be recorded as a liability.

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
- comprehensively answered all questions applying their knowledge of content to the context of each question
- explained how many users would benefit from the preparation of *Ezi Fly Ltd's* general purpose financial statements
- fully explained, using amounts, how the marketing expenses would be shown in the Statement of Comprehensive Income and Statement of Financial Position and related this to the appropriate accounting period
- explained how depreciation was a decrease in economic benefit, as when the aircraft was used it would provide less future economic benefit
- explained how an invoice could measure the aircraft maintenance expense reliably as it faithfully represented the amount owing
- followed the instructions outlined in Question Three and used the scaffolding given in the question to construct their answer
- described the qualitative characteristic of relevance and then explained how users would be affected by the disclosure of the pending law suit on the Notes to the Financial Statements.

OTHER COMMENTS

An airline company is a familiar context for candidates to apply their knowledge of accounting concepts. Despite this, there was an increase in the number of candidates who did not attempt to answer this standard.

Many candidates did not attempt the paragraph question or provided a Level One Accounting definition of a liability only.

Candidates are 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:

- attempted both questions in the assessment and provided evidence of understanding in both the partnership and company sections
- were able to process a majority of the entries using correct account names
- were able to follow on correctly having made an error in a previous question
- understood how to process in the journals and ledgers, but made errors when using account names and calculating figures
- processed entries in the current account correctly
- were not able to answer the theory questions correctly.

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:

- processed debits and credits incorrectly
- used incorrect accounts and account names
- were unable to complete the journal entry
- demonstrated knowledge of either partnerships or companies but not both
- did not read the question carefully so context was not applied correctly
- made no or little attempt to answer the theory questions
- confused Retained Earning with Income Summary account
- did not attach partners name to the Current and Drawings accounts
- did not process entries in the current account correctly.

ACHIEVEMENT WITH MERIT

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

- were able to process a majority of the entries using the correct account names and figures
- fully understood the solvency test
- understood that there were no salaries in the Partnership Agreement and that interest was changed to discourage excessive drawings
- processed all entries in the current account correctly
- applied partners names to the account names in the journal entries and processed them 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:

- demonstrated a depth of knowledge in both the processing for companies and partnerships

- were able to process entries in journals and ledgers almost error free, including dates
- understood the concept of allowing for doubtful debts and were able to correctly describe the way each account was processed
- read the question carefully so as to take in the detail required to calculate figures correctly
- processed all entries in the current account correctly
- used the correct terminology to answer the theory questions correctly
- integrated references appropriately into their responses.

OTHER COMMENTS

Generally, candidates who were awarded Achievement or higher understood how to process entries in journals and ledgers, and were familiar with the accounts names associated with Partnerships and Companies.

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:

- could calculate the number of direct labour hours
- could calculate the overhead cost to be allocated to a particular job
- could correctly prepare general journal entries using the correct stems
- could calculate GST correctly
- could use the correct particulars in the general ledger account, using the correct debit or credit column
- demonstrated a basic knowledge of processing.

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 complete or attempt enough questions in the assessment to gain Achievement
- could not use correct stems in general journals
- could not prepare the Work In Progress general ledger account, using incorrect particulars
- made no attempt to answer the explanation 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:

- could correctly calculate the selling price of a job, using the mark up percentage correctly
- could correctly calculate the total cost of a particular job

- could correctly calculate the amount for Overhead Control and Finished Goods in the Work In Progress general ledger account
- could explain the closing balance of the Work In Progress general ledger account without putting their answer in context
- could explain the effect of under applied overhead on profit without putting the amount into 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:

- could explain in context that the Work In Progress general ledger account balance represented the costs to date of Job Dave 5
- could explain in context that under applied overhead means that overhead costs were not fully allocated to the costs of jobs, so would not have been included when calculating the mark up to be added to jobs so that customers were undercharged by \$24,000 so that profit is less than it could have been by \$16,000.

OTHER COMMENTS

Many candidates did not read questions carefully, for example, preparing the general journal entry for the sale of Job Rafa 2 rather than the cost of sale of Job Rafa 2.

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 understanding of the format for each financial statement
- demonstrated some knowledge of the contents of a Profit Distribution Statement
- distributed some of the profit accurately for a partnership
- calculated and correctly reported some balance day adjustments
- identified some current liabilities
- understood the basic links between a Statement of Comprehensive Income and a Statement of Changes in Equity
- could identify the missing titles in the Statement of Changes in Equity and enter 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

- provided incorrect treatment for items in the Profit Distribution Statement
- were unable to calculate the share of loss and show the process of how to apply it in a Profit Distribution Statement
- were unable to show the correct process in the Property, plant and equipment note extract
- were unable to calculate balance day adjustments
- did not use correct stems for the Cash Flow Statement
- did not provide working for the Cash Flow Statement
- were unable to classify Issue of shares and repurchase of shares with the correct stem in the Cash Flow statement under financing activities
- used a mixture of brackets and non-brackets for expenses in the Statement of Comprehensive Income
- were unable to 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 land and building revaluation in the Statement of Comprehensive Income
- did not use correct terminology in the stem for increase/gain in the land and building
- were unable to show the correct process for Statement of Changes in Equity.

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
- understood how to work out the average of interest on capital
- understood how to treat interest on current accounts correctly (both add/less)
- understood the process required for a share of loss in the profit distribution statement
- clearly stated that it was a share of loss in the profit distribution statement
- calculated the majority of balance day adjustments correctly
- understood the process required for completing a Property, plant and equipment note
- calculated most cash flow calculations and labelled stems correctly
- clearly showed working for the cash flow statement
- understood the components of a comprehensive income statement and were able to calculate 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 a good understanding 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.

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

- could comprehensively classify and calculate current liabilities with the note to property plant and equipment being correctly completed
- clearly understood how a share repurchase affects the dividends paid in the Cash flow statement
- 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, able to transfer figures correctly into this statement and show the correct process for balancing (especially the opening balance for Contributed Equity)
- calculated the distribution figures correctly in the Statement of Changes in Equity
- comprehensively understood how to complete the distributions note for the Statement of Changes in Equity including the use of correct stems
- calculated correctly the cents per share for final and interim dividends and used the correct currency treatment.

OTHER COMMENTS

Candidates must be careful to read all the instructions given. For example, many candidates did not show the correct treatment using brackets or used a mixture of brackets or used no brackets in the Comprehensive Income Statement, even though the instruction clearly stated to use brackets for any expense in this statement.

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:

- calculated contribution margin, break even units (when a dollar sales value was required)
- calculated straightforward dollar values for cash-budget, particularly the cash receipts schedule
- explained the importance of common break-even terminology, for example that contribution margin is used to cover fixed cost
- explained items that should be contained in a production budget
- explained non-financial items that could be researched in order to make a decision about providing a K9 menu.

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:

- only partially completed the cash budget – e.g. did not complete final four lines
- identified information for a Production budget that belonged in other budget areas – e.g. sales budget, capital expenditure budget items, and personnel items

- included financial items in response to a non-financial information question
- did not use appropriate terminology, for example did not identify that semi-variable cost has a fixed and a variable component
- incorrectly interpreted the meaning of a negative margin of safety, stating the meaning of a +25% margin of safety
- repeated the information given in explanation 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:

- calculated associated sales dollar value with break- even quantity
- explained that a negative margin of safety means that business actual sales is lower than break-even level
- evaluated information in context from information given, for example relating financial and non-financial issues to the K9 menu and not solely the café upgrade information
- identified that a negative margin of safety means the café sales are less than the break-even sales
- explained that semi-variable costs have a fixed and a variable component and explained how either fixed or variable changed with output.

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:

- included data from calculations in explanations (e.g. included variable cost, selling price and contribution margin values when explaining contribution margin)
- explained that the business is making a loss if the margin of safety is negative
- calculated almost all amounts for break-even analysis and cash budget correctly, particularly the interest calculation requiring the monthly amount and recognising the loan amount has changed between months
- explained cost concepts such as semi-variable costs in context, explaining both the variable and fixed components and how they change with a change in output/meals cooked/customers
- applied relevant information from cash budget and break-even calculations in order to evaluate whether to proceed with the café upgrade or K9 menu
- identified that the \$100,000 loan was still due after the two months of the cash budget, even though the loan was interest only for the next year
- recognised that the upgrade was not the cause of the deficit as the café was operating in a period of having a cash shortfall even if the loan and upgrade did not occur
- stated the implications in the evaluation of the cash deficit on future aspects for the business e.g. interest costs.