

National Certificate of Educational Achievement

2013 Assessment Report

Accounting Level 3

- 91404 Demonstrate understanding of accounting concepts for a New Zealand reporting entity**
- 91406 Demonstrate understanding of company financial statement preparation**
- 91408 Demonstrate understanding of management accounting to inform 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 correct account names in both general journal entries and financial statements
- use correct contra entries in general ledger entries.

Candidates should have familiarised themselves with the context before beginning to answer questions. They should not have produced rote-learned answers to generic questions. This particularly relates to both the 91404 and 91408 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 company processing and reporting standard 91406, candidates were expected to use account names provided for them, particularly those in a trial balance (extract).

STANDARD REPORTS

91404 Demonstrate understanding of accounting concepts for a New Zealand reporting entity

ACHIEVEMENT

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

- 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
- could identify the difference between the characteristics, recognition criteria and measurement bases of financial elements
- described a valid reason for the purpose of photographs or linked the photographs in an annual report to making them more intelligible
- described a valid reason how the chairman's statement satisfies the information needs of a current shareholder
- explained that *Briscoe Group Limited* revalued their financial assets to fair value to assist decisions made by users
- defined income in context of *Briscoe Group Limited*
- stated the income recognition criteria of probable future economic benefit with an amount that can be reliably measured
- described how the amount owing for the employee benefits expense will be reported as a current liability in *Briscoe Group Limited's* Balance Sheet on balance day
- described the characteristics of an asset or an expense in context of *Briscoe Group Limited* or property, plant and equipment

- described capital expenditure as a one off payment which benefits *Briscoe Group Limited* for more than one year
- described revenue expenditure as regular payments which benefits *Briscoe Group Limited* for the current year only.

NOT ACHIEVED

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

- did not attempt all the questions
- did not answer in context or misread the question
- could not recall basic accounting concepts using appropriate accounting terminology
- stated definitions of accounting terms / financial elements rather than applying these
- restated the source material without an explanation or link to an accounting concept
- described the purpose of photographs in an annual report
- described the income definition with no context to *Briscoe Group Limited* or naming the income as dividends received
- did not know what a measurement base of a financial element was
- defined historical cost with no reference to *Briscoe Group Limited* or property, plant and equipment
- were only able to describe the essential characteristics of an asset, if an attempt was made to answer the paragraph question, with no reference to *Briscoe Group Limited* or property, plant and equipment.

ACHIEVEMENT WITH MERIT

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

- applied their knowledge of accounting concepts to the context of the question
- could identify the difference between the characteristics, recognition criteria and measurement bases of financial elements and apply these to the context of the question
- explained what NZ GAAP refers to and how it gives a true and fair view of the *Briscoe Group Limited's* financial statements
- linked the photograph of Tammy “The Briscoe’s Lady” with a user’s relationship with *Briscoe Group Limited*
- described a valid reason how the chairman’s statement satisfied the information needs of a current shareholder linked to *Briscoe Group Limited's* profitability
- recognised the increase in economic benefit occurred when the dividend income was received by *Briscoe Group Limited* and linked the dividend received income to an increase in profit which caused an increase in equity
- explained the probable economic benefit of the dividend income for *Briscoe Group Limited* was when the dividend was declared or when the money will be received once the dividend has been paid
- explained that the amount of the dividend received could be reliably measured by a source document
- identified the measurement base for trade receivables as realisable value and fully explained that this is the expected cash to be received from accounts receivable assuming doubtful debts will be written off as bad debts

- fully explained, using relevant figures, either the employee benefits expense reported in *Briscoe Group Limited's* Income Statement or the liability reported in *Briscoe Group Limited's* Balance Sheet
- linked the concepts of an asset to capital expenditure and the concepts of an expense to revenue expenditure
- described *Briscoe Group Limited's* control of an asset by discussing the exclusion of others from benefitting from the asset
- explained the decrease in economic benefit (cash) to an expense incurred by *Briscoe Group Limited*.

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 commonly:

- had been exposed to New Zealand reporting entities annual reports in the classroom and therefore had some familiarity with the “look, feel and content” of a public company’s annual report
- 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 compliance with NZ GAAP and the NZ IFRS is necessary due to *Briscoe Group Limited* having public accountability to ensure its financial statements give a true and fair view
- explained how the information needs of a current shareholder is linked to *Briscoe Group Limited's* profitability and its ability to pay future dividends which may convince a current shareholder to buy more shares in *Briscoe Group Limited*
- explained how the accompanying notes provide additional detail on the accounting policies adopted to prepare the Balance Sheet for users to make sound decisions
- linked the fair value of financial assets to their future economic benefit which may lead to decisions about the holding or selling of these financial assets
- recognised the increase in economic benefit is because *Briscoe Group Limited* will receive money when the dividend income is received and linked this to an increase in both profit and equity
- explained the amount of the dividend could be reliably measured by a source document which was from an independent third party
- identified the measurement base for trade receivables as realisable value and fully explained that this is the expected cash to be received from accounts receivable assuming doubtful debts will be written off as bad debts based on past experience
- fully explained, using relevant figures, both the employee benefits expense reported in *Briscoe Group Limited's* Income Statement and the liability reported in *Briscoe Group Limited's* Balance Sheet
- fully explained the difference between capital and revenue expenditure associated with *Briscoe Group Limited's* property, plant and equipment
- included the costs of getting the asset into location and condition to use when fully explaining historical cost, an asset’s past transaction and the concept of capital expenditure.

OTHER COMMENTS

Briscoe Group Limited is a familiar New Zealand reporting entity 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 an asset and / or historical cost.

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.

91406 Demonstrate understanding of company financial statement preparation

ACHIEVEMENT

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

- attempted all questions
- were able to follow on correctly having made an error in a previous question
- understood how to process in the general journal and general ledgers, but made errors when using account names and calculating figures
- processed some entries in the retained earnings ledger correctly
- answered the theory questions incorrectly
- demonstrated understanding of the format for each financial statement and accompanying notes
- calculated and correctly reported some balance day adjustments
- identified some current liabilities
- could calculate some of the correctly classified figures in the cash flow statement with the correct stem used
- completed parts of the financial assets and contributed equity notes
- attempted the property, plant and equipment note with reasonable knowledge.

NOT ACHIEVED

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

- did not attempt all sections of the paper
- processed debits and credits incorrectly
- used incorrect accounts and account names
- were unable to complete the general journal entries
- did not read the question carefully so context was not applied correctly
- made no attempt to answer the theory questions
- did not use correct stems for the Cash Flow Statement
- unable to distinguish between cash and non-cash transactions

- did not understand the difference between operating, investing, and financing activities
- did not provide working for the Cash Flow Statement
- did not understand what affected the retained earnings ledger account
- included foreign items in the Statement of Financial Position extract
- did not include non-current liabilities and equity headings
- included a significant number of foreign items in the financial statements
- were unable to calculate the correct increase in revaluation on land and buildings in the Statement of Financial Position using incorrect stems (there was confusion between the addition and revaluation for land)
- used incorrect terminology in the notes to financial statements.

ACHIEVEMENT WITH MERIT

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

- were able to process a majority of the entries using the correct account names and figures
- completed the retained earnings account with the majority of entries being correct
- calculated the majority of balance day adjustments correctly
- calculated most cash flow calculations and labelled stems correctly
- clearly showed working for the Cash Flow Statement
- understood the components of a Statement of Financial Position and were able to calculate the balance day adjustment figures correctly and used appropriate stems
- demonstrated a good understanding of Gains on Revaluation in terms of their inclusion in a Statement of Financial Position
- understood that loss on sale is a non-cash transaction
- were able to explain that allowance for doubtful debts were subtracted from accounts receivable
- understood that the profit would increase when the fair value of financial assets increased
- calculated the majority of current liability figures correctly
- calculated correct figures in the contributed equity note
- calculated correct figures in the financial assets note
- understood the process required for completing a property, plant and equipment note
- calculated and used a majority of correct terminology in the property, plant and equipment note.

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 commonly:

- read the question carefully enabling them to take in the detail required to calculate figures correctly
- were able to process entries in the general journal and general ledgers error free
- clearly understood how a share repurchase affects the dividends paid in the Cash Flow statement
- used the correct terminology and context to answer the theory questions appropriately

- clearly understood a loss on sale was processed as a book entry and that loss on sale was calculated from the difference between the carrying amount and the sale amount
- clearly understood that an allowance for doubtful debts was disclosed by way of an accounts receivable note to the Statement of Financial Position
- clearly understood that an increase in the fair value of financial assets was an other income and disclosed in the other income note
- calculated nearly all the balance adjustments correctly
- comprehensively completed the Statement of Financial Position classifying correctly all three aspects of the extract, being: Current Liabilities, Non-Current Liabilities, and Equity
- read the question and were able to complete the equity section of the extract with correct stems and figures
- comprehensively understood how to complete the notes to the financial statements, being: financial assets, contributed equity, and property, plant and equipment notes
- showed balancing and correct terminology for the property, plant and equipment note
- calculated numbers correctly in property, plant and equipment note, especially the opening balances.

OTHER COMMENTS

Candidates need to have an understanding about WHY transactions occur and HOW they are processed and reported in the financial statements. This would then enable candidates to answer the theory questions at the level required. Use of context (i.e. name of company, specific accounts, figures etc.) is required for 2014.

Candidates who understood the calculations for financial statements were generally able to answer the theory questions.

91408 Demonstrate understanding of management accounting to inform decision-making

ACHIEVEMENT

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

- described fixed and variable costs in context
- recognised an example of a strategic decision
- described relevant range as that level of output where fixed costs remained constant without linking this to a description of 300 trees and other resources held by the entity
- could provide some correct calculations for breakeven analysis with the correct formula and some correct working
- could provide some correct calculations profit for the year (e.g. Total sales, deduction of variable costs or fixed costs)
- could recognise that SOO was above breakeven with some description or figures to confirm this
- completed most calculations required for the cash budget, recording data in an appropriate format
- included depreciation as a cash expense incorrectly

- correctly recorded the closing bank balance and rolled it forward for the following month
- described the need to manage unexpected events but did not appreciate that avoiding a cash deficit or contacting the bank first if this was likely to occur was essential management
- described the management of cash without reference to the prepared cash budget
- could describe a recommendation to purchase or not to purchase an oil pressing machine
- could state ideas relating to the recommendation with one example relevant relating to financial and non-financial information.

NOT ACHIEVED

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

- described fixed costs as being unchanging because the interest rate was fixed or because the time scale for repayment of the loan was fixed or because the amount was fixed by contract
- described fixed and variable costs in relation to sales of olive oil instead of production
- linked the production budget to the cash budget or the sales budget, not recognising that the production budget describes costs of producing expected output
- recognised an example of a strategic decision but could not describe or explain the nature of strategic decisions
- recognised that the relevant range was what SOO could produce but could not link this to capacity created by the current level of resources of SOO
- reproduced material from the case study to describe a variance in a production budget
- could provide some correct calculations for total fixed costs, or total variable costs or production of bottles for the year
- margin of safety was attempted but not in context
- could prepare some of the financial information in the cash budget
- no response provided to a number of questions
- lacked any understanding of a cash budget and confused it with a bank account or a cash flow statement
- could state ideas relating to the recommendation but these were not in context or relevant.

ACHIEVEMENT WITH MERIT

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

- could apply two out of three management elements like relevant range, fixed and variable costs in context to the entity
- could explain a strategic decision and provide an example of a strategic decision relating to the entity (SOO)
- could apply olives/olive oil to the production budget for SOO and link specific costs in the production or output of olive oil to the production budget
- could provide correct calculations for breakeven analysis
- could provide correct calculations for profit for the year

- could explain the margin of safety to show that SOO was above breakeven with some description or figures to confirm this when profit was \$36000
- could prepare most of the financial information in the cash budget
- could explain the purpose of the budget directly or implied relating to cash inflows and outflows/ deficits and surpluses
- provide one to two links to figures/items in the budget
- could explain a recommendation to purchase or not to purchase an oil pressing machine
- could link ideas relating to the recommendation with one or two examples explained with supporting evidence relating to Financial or Non-financial information.

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 commonly:

- could apply all three management elements like relevant range, fixed and variable costs in context to the entity
- could explain a strategic decision and provide an example of a strategic decision relating to the entity (SOO) with an explained link to future accounting periods
- could relate the production budget to the concept of long term planning and the concept of budgeted and actual with a variance occurring although not many could do this well
- understood what a Production budget is and linked the frost event to items in the Production budget such as bottles and labels or transport costs, suggesting how a reduced harvest would affect these items and therefore create a budget variance
- demonstrated a good understanding of the concepts involved with regard to production of the business
- calculated correctly total cost, variable cost, break even, and margin of safety
- demonstrated an understanding of the question in (c) and recognised that they had to justify the calculations that they had made to demonstrate that they knew what margin of safety actually meant and how it applied to the context
- could prepare almost all of the financial information in the cash budget with no foreign items
- could explain the purpose of the budget directly or implied relating to cash inflows and outflows/ deficits and surpluses
- provide one to two links to figures/items in the budget and how the business owner can use the budget to make effective decisions to cope with unexpected events (e.g. bank overdraft or reduce drawings)
- could explain a recommendation to purchase or not to purchase an oil pressing machine
- could link ideas relating to the recommendation with three examples explained with supporting evidence relating to at least one financial and non-financial information.