

National Certificate of Educational Achievement

2014 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 Interpret accounting information for sole proprietors**

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. They should not have produced rote-learned responses 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 of 91406, candidates were expected to use account names provided for them, particularly those in a trial balance or 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
- applied the resource material appropriately by quoting key words and/or phrases in their responses
- made reference to *Hallenstein Glasson Holdings Limited's* shareholders being not personally liable for the company debts or that *Hallenstein Glasson Holdings Limited's* shareholders' personal assets are protected with limited liability
- identified that the benefits of preparing financial statements outweighed the cost of preparing those financial statements
- described that an auditor's report states that *Hallenstein Glasson Holdings Limited's* financial statements show a true and fair view
- explained that *Hallenstein Glasson Holdings Limited's* general purpose financial statements could be compared over time or with other similar reporting entities

- explained the three essential characteristics of a liability as being a present obligation resulting from a past transaction or event which results in an outflow of economic benefit
- described that the obsolescent inventory is valued at the amount that *Hallenstein Glasson Holdings Limited* expects the inventory will be sold for
- explained, using relevant amounts how the supplier expenses would be reported in the Statement of Comprehensive Income or Statement of Financial Position and related this to the appropriate accounting period
- described the resource controlled characteristic of an asset as only *Hallenstein Glasson Holdings Limited* can use the land and building
- identified that *Hallenstein Glasson Holdings Limited* will benefit in the future by describing how the land and buildings are used to earn income for the company
- identified that the land and buildings have been purchased in the past by *Hallenstein Glasson Holdings Limited* but did not recognise that the past event/transaction in this question was the land and buildings being revalued to their fair value
- described the recognition criteria of an asset in context of *Hallenstein Glasson Holdings Limited's* land and building
- described how either reference to *Hallenstein Glasson Holdings Limited's* cash reserves or the group remaining debt free in the chairman's statement will influence a bank manager's decision to approve a loan.

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 commonly:

- did not attempt all the questions
- did not answer in context or misread the question
- did not use appropriate accounting terminology suitable for Level 3 – often these responses included the use of Level 1 language e.g. a company going “bankrupt” as opposed to a company experiencing financial difficulties
- 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 benefits must outweigh the cost with no reference to the preparation of financial statements
- described the purpose of a Statement of Cash Flows with no reference made to an accounting period/during the year
- did not know the definition of a current liability which was often described as “to be paid in the current period” rather than the “next period”
- showed little understanding or familiarity with the concept of net realisable value and often their response just repeated the question of needing to sell the inventory (clothing) quickly as it was getting old, out of date or is no longer in fashion
- were unable to explain how the treatment of prepaid supplier 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

- 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 *Hallenstein Glasson Holdings Limited* or land and buildings.

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
- described the extent of *Hallenstein Glasson Holdings Limited's* shareholders' liability is limited to any amounts outstanding on their shares
- explained that the benefits outweighed the costs of preparing general purpose financial statements/financial statements that must fully comply with NZGAAP
- described a valid reason how suppliers would use the information in *Hallenstein Glasson Holdings Limited's* Statement of Cash Flows
- explained consistency in terms of the preparation of *Hallenstein Glasson Holdings Limited's* general purpose financial statements rather than in terms of the format of presentation of the financial statements
- described a valid reason why taxation payable results in a present obligation for *Hallenstein Glasson Holdings Limited*
- fully explained, using relevant figures, either the supplier expense reported in *Hallenstein Glasson Holdings Limited's* Statement of Comprehensive Income or the asset reported in *Hallenstein Glasson Holdings Limited's* Statement of Financial Position
- described *Hallenstein Glasson Holdings Limited's* resource control characteristic of an asset by discussing the exclusion of others from benefitting from the land and buildings
- explained that *Hallenstein Glasson Holdings Limited* will benefit in the future by describing how the land and buildings are used to earn income for the company, which ultimately brings cash into *Hallenstein Glasson Holdings Limited*
- explained the recognition criteria of probability of future economic benefit as the land and buildings are used to inventory which ultimately brings cash into *Hallenstein Glasson Holdings Limited*
- explained the recognition criteria of reliable measure by using third party independent experts to re-value the land and buildings is free from bias/faithfully represents the fair value of the land and buildings
- described how both references to *Hallenstein Glasson Holdings Limited's* cash reserves and the group remaining debt free in the chairman's statement will influence a bank manager's decision to approve a loan.

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

- fully explained limited liability that included one circumstance in which limited liability may not protect a director (who is a shareholder) of *Hallenstein Glasson Holdings Limited*
- fully explained the cost constraint on useful reporting by linking *Hallenstein Glasson Holdings Limited* being an issuer/ public accountability and having many users of their general purpose financial statements
- explained the purpose of the Statement of Cash Flows by linking how suppliers would use the information in *Hallenstein Glasson Holdings Limited's* Statement of Cash Flows
- explained a valid reason why an auditor's report is a statutory requirement that included the identification that an auditor's report was an independent opinion
- explained that the past event for the taxation payable account incurred at the end of the period when the amount of provisional taxation paid by *Hallenstein Glasson Holdings Limited* during the year was offset against the actual taxation expense once net profit has been calculated
- explained why taxation payable is a current liability by linking the outflow of resources embodying economic benefits as the cash given up by *Hallenstein Glasson Holdings Limited* in the next year
- explained that inventory adjustments at year end results in obsolescent stock being valued at net realisable value as this is the probable future economic benefit to flow to *Hallenstein Glasson Holdings Limited* when sold to customers
- fully explained, using relevant figures, both the supplier expense reported in *Hallenstein Glasson Holdings Limited's* Statement of Comprehensive Income or the asset reported in *Hallenstein Glasson Holdings Limited's* Statement of Financial Position
- described that the land and buildings have been purchased in the past by *Hallenstein Glasson Holdings Limited* and then fully explained the past event as the land and buildings being revalued to its fair value on the basis of recent market transactions on arm's-length terms of surrounding properties.

OTHER COMMENTS

Hallenstein Glasson Holdings Limited is a familiar New Zealand reporting entity for candidates to apply their knowledge of accounting concepts. Despite this a number of candidates did not attempt to answer this standard.

Candidates need to be confident in attempting all questions in the assessment in order to improve their opportunity of gaining an Achievement in this standard.

Many candidates did not attempt the paragraph question or missed the context of this question being about the land and buildings being revalued to their fair value as opposed to being recently purchased.

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 most questions
- understood how to complete journal entries and ledger accounts
- classified and understood where most items needed to go
- could distinguish between investing and financing activities in the Statement of Cash Flows
- understood the format of the Statement of Cash Flows
- could process the straight forward transactions. E.g. Mortgage, loan, share issue
- calculated some balance day adjustments in the Income Statement
- made an attempt to complete the distribution notes.

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 commonly:

- were unable to complete general journal entries or general ledger accounts with correct processes
- were unable to complete the comprehensive income extract correctly
- could not distinguish between cash and non cash items in the Statement of Cash Flows
- could not distinguish between investing and financing activities in the Statement of Cash Flows
- did not use correct stems in the Statement of Cash Flows
- did not provide working for the calculations in the Statement of Cash Flows
- did not understand the format and process of a Statement of Cash Flows
- used an incorrect format for the Income statement and often presented information in this statement by using the format taught in Level 1 and 2 Accounting
- were unable to calculate balance day adjustments sufficiently
- were unable to attempt the distribution notes.

ACHIEVEMENT WITH MERIT

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

- understood how to complete general journal entries and general ledger accounts with correct stems and figures
- calculated most figures correctly and labelled stems correctly in the Statement of Comprehensive Income
- understood the meaning of term accounting treatment in the written question
- calculated most cash flow calculations correctly and labelled stems correctly
- showed in-depth understanding of the different types of transactions relating to shares
- understood that depreciation was a non-cash expense

- understood the components of an Income Statement and were able to calculate figures correctly and used appropriate stems
- classified the correct groups of expense accounts together in the Income Statement
- understood what a temporary liability was
- understood the distribution notes and its contents.

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:

- completed the extract of Statement of Comprehensive Income using correct treatment with stems and figures
- explained the accounting treatment of how the revaluation of land impacted on the company
- read the question carefully
- comprehensively completed the Statement of Cash Flows with nearly all transactions correct
- clearly understood how a share repurchase and dividends paid were calculated
- understood that depreciation is non-cash expense and the reason why it is non-cash in context
- showed correct process of the Statement of Cash Flow by reconciling the opening bank balance with the closing bank balance
- completed the Income Statement using correct treatment with classifications, brackets, stems and figures
- demonstrated the correct calculations of profit before and profit after tax
- understood balance day adjustments and why rent received was a temporary liability.

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 written questions at the level required. Use of “because” as a connector and figures are vital for a candidate to show comprehensive understanding.

The term “Accounting treatment” means explaining the transaction in detail.

Candidates who understood the calculations for financial statements were generally able to answer the written 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:

- defined relevant range and/or fixed costs rather than explaining these terms using the context of cars, workshop and parking spaces, or hours available for chargeable output
- confused the margin of safety with break-even

- calculated the contribution margin effectively
- knew the equation for break-even but were unable to apply the data to the equation
- recognised an example of a strategic decision
- could apply only some of the criteria for a strategic decisions (e.g. commonly talked about economic benefits in future periods but were unable to link this to the real context by saying that the diagnostic scanner would improve efficiency and therefore profitability in future periods)
- discussed about the effect of a strategic decision without saying what the effect was
- could prepare some of the financial information in the cash budget
- lacked any understanding of the purpose of a cash budget and often referred to profit/loss
- could state ideas relating to the recommendation but these were not in context or relevant
- provided no response to a number of questions.

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 commonly:

- had difficulty recognising the point where a fixed cost line could be accurately drawn on the graph
- incorrectly used management accounting terms, such as using sales instead of output
- defined fixed costs but could not apply this understanding in a real context
- had difficulty applying terms such as relevant range, margin of safety, breakeven and strategic decision making
- made simple calculation errors (e.g. $\$60 - \$6 = \$56$)
- produced some written answers but did not link accurately to the case study (eg talked about Board approval for a strategic decision when the case study was clear that Mack operated his company alone)
- could prepare some of the information in the cash budget but had difficulty stating a purpose/strategy linked the cash budget
- could describe a recommendation to hire or not hire an apprentice by using an example but showed little understanding of the nature or context of the business
- provided no response to a number 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 commonly:

- successfully drew the fixed costs curve on the graph provided
- completed calculations for contribution margin and break-even accurately
- related calculated data for break-even to an explanation of the concept in context of hours required to be worked where no profit or loss would be made
- indicated an appropriate margin of safety on the graph but then linked this to profitability rather than the gap between break-even output and X (a point above break-even output)
- referred to revenue and profit rather than output

- recognised a strategic decision but missed some of the components of what makes a strategic decision strategic
- used imprecise and incomplete language when explaining components of a strategic decision (eg talked about effects on *MMM Ltd* without ever saying what the effect was or linking future impact in terms of borrowing required to purchase the diagnostic scanner instead of linking the purchase to future economics benefits in terms of efficient use leading to higher potential profit for *MMM Ltd*)
- could prepare the cash budget using most of the given information
- stated a purpose for preparing the cash budget and identified a strategy to improve the cash position
- could explain a recommendation to hire or not hire an apprentice
- 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:

- understood, and could apply management accounting terms in context including fixed costs, relevant range, break-even, and margin of safety
- completed accurate calculations using appropriate data from the case study
- recognised a strategic decision and were able to justify their choice with clear and complete discussion of all components relating to strategic decision making using realistic examples from the case study
- could prepare the cash budget using nearly all the given information
- stated a purpose for preparing the cash budget; identified a strategy and linked this to how it would improve the cash/overdraft position
- understood that the overdraft must be carefully managed with the bank
- could explain a recommendation to hire or not hire an apprentice
- could link ideas relating to the recommendation with three examples explained with supporting evidence relating to Financial and Non-financial information
- used appropriate management accounting language throughout their evidence, constructing explanations in clear and well-planned paragraphs.

OTHER COMMENTS

Candidates need to understand that for Level Three Accounting a definition/explanation **MUST** be in context. Rote learning of definitions and then adding in the name of the business is not acceptable.

The use of specific examples from the resource material is absolutely necessary.