

2015 NCEA Assessment Report

Accounting Level 3 91404, 91406, 91408

Part A: Commentary

Comment on the overall response of candidates to 2015 examinations for all achievement standards covered by this report.

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 91406, candidates were expected to use account names provided for them, particularly those in a trial balance or trial balance (extract).

Part B: Report on standards

1. Assessment Report for 91404: Demonstrate understanding of accounting concepts for a New Zealand reporting entity

Achieved	Candidates who were assessed as Achieved commonly: <ul style="list-style-type: none">• 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• identified the difference between the characteristics and recognition criteria of financial elements• applied the resource material appropriately by quoting key words and /or phrases in their responses• identified that users needed to know the policies or assumptions that have been adopted in the preparation of <i>Air New Zealand Limited</i> 's annual financial statements for understandability or comparability purposes• described a valid reason how the report titled "We're supporting Brand New Zealand" satisfies the information needs of a current shareholder• identified an example of an estimated figure or non-cash item not included in the general purpose financial statements of <i>Air New Zealand Limited</i>'s annual report• described capital expenditure as a one-off purchase that will benefit <i>Air New Zealand Limited</i> for more than one year• described how the Boeing 787-9 Dreamliner aircraft is used to earn income for <i>Air New Zealand Limited</i>• identified that the depreciation expense results in a decrease in assets (aircraft), a decrease in equity, and is not a distribution to shareholders• described that the benefit of preparing any financial report must outweigh the cost of doing so
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	<ul style="list-style-type: none"> described how faithful representation is satisfied by using an independent valuer to revalue <i>Air New Zealand Limited</i> 's investment in <i>Virgin Australia Holdings Limited</i> stated that <i>Air New Zealand Limited</i> has a present obligation to honour the amount owing for the loyalty programme stated that the past event was when <i>Air New Zealand Limited</i> 's Airpoints members earned the Airpoints Dollars identified that there is an outflow of economic benefit from <i>Air New Zealand Limited</i> when members redeem their Airpoints Dollars described a reason why <i>Air New Zealand Limited</i> is a going concern e.g. no intention of liquidation.
<p>Not Achieved</p>	<p>Candidates who were assessed as Not Achieved commonly:</p> <ul style="list-style-type: none"> 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. limiting the description of the going concern assumption to “an entity going to continue its operations into the foreseeable future” with no reference made to liquidation 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 a reason why the report titled “We’re supporting Brand New Zealand” is important for a company without linking their reason to satisfying the information needs of a current shareholder provided an incorrect limitation of the general purpose financial statements of <i>Air New Zealand Limited</i>'s annual report described why depreciation is an expense without linking this description to all components of the definition of an expense described that benefits must outweigh the cost with no reference to the preparation of financial statements described how an independent valuation meets the fundamental qualitative characteristic of relevance as opposed to faithful representation as stated in the question were only able to describe the essential characteristics or the recognition criteria of a liability if an attempt was made to answer the paragraph question with no reference to <i>Air New Zealand Limited</i> or the loyalty programme described the definition of a current liability as being “ paid in the current period” rather than the “next period”.
<p>Achieved with Merit</p>	<p>Candidates who were assessed as Achieved with Merit commonly:</p> <ul style="list-style-type: none"> applied their knowledge of accounting concepts to the context of the question could identify the difference between the characteristics and recognition criteria of financial elements and apply these to the context of the question explained that users needed to know the policies or assumptions that have been adopted in the preparation of <i>Air New Zealand Limited</i> 's annual financial statements for understandability or comparability purposes and linked this explanation to the accompanying notes providing additional detail and disclosures for users to make sound decisions based on <i>Air New Zealand Limited</i>'s annual financial statements described a valid reason how the report titled “We’re supporting Brand New Zealand” satisfies the information needs of a current shareholder, linked to <i>Air New Zealand Limited</i> 's profitability explained that depreciation is an estimated figure in the general purpose financial statements of <i>Air New Zealand Limited</i>'s annual report, linked to the profit of <i>Air New Zealand Limited</i> not being entirely accurate described that the Boeing 787-9 Dreamliner aircraft will provide economic benefit

	<p>for <i>Air New Zealand Limited</i> beyond the current accounting period</p> <ul style="list-style-type: none"> • described that depreciation on the existing fleet results in a decrease in assets (aircraft), a decrease in equity by less profit, and is not a distribution to shareholders • described that the benefit exceeds the cost of preparing annual financial statements prepared in accordance with NZ GAAP / annual financial statements with full compliance to NZ IFRS • explained how faithful representation is satisfied by using an independent valuer to revalue <i>Air New Zealand Limited</i> 's investment in <i>Virgin Australia Holdings Limited</i> • described <i>Air New Zealand Limited</i> as having a contractual obligation to honour the loyalty programme until such time the Airpoints Dollars are redeemed • described the past event (e.g. buying a passenger ticket) earning Airpoints Dollars for members of <i>Air New Zealand Limited</i> 's loyalty programme • described the reliable measure based upon historical experience is free from bias / faithfully represents the fair value of the loyalty programme liability • linked the description why <i>Air New Zealand Limited</i> is a going concern to the classification of liabilities as current and non-current.
<p>Achieved with Excellence</p>	<p>Candidates who were assessed as Achieved with Excellence commonly:</p> <ul style="list-style-type: none"> • 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 by applying their knowledge of content to the context of each question • explained a valid reason how the report titled "We're supporting Brand New Zealand" satisfies the information needs of a current shareholder, linked to <i>Air New Zealand Limited</i>'s profitability and its ability to pay future dividends • explained that the total cost of purchasing the Boeing 787-9 Dreamliner aircraft includes the costs incurred to get the aircraft into a position and condition to use for airline services which will provide economic benefit for <i>Air New Zealand Limited</i> beyond the current accounting period • explained how the Boeing 787-9 Dreamliner aircraft is used to earn income and ultimately the future economic benefit is cash received for <i>Air New Zealand Limited</i> • explained how the benefit exceeds the cost of preparing annual financial statements prepared in accordance with NZ GAAP, linked to <i>Air New Zealand Limited</i> being an issuer / public accountability and having many users • explained how faithful representation is satisfied by using an independent valuer, and identified that <i>Air New Zealand Limited</i>'s investment in <i>Virgin Australia Holdings Limited</i> cannot be determined until this investment is sold OR that \$422 million is now the current value of these shares • described the outflow of economic benefit occurs when members redeem their Airpoints Dollars, which results in less actual cash from passenger revenue into <i>Air New Zealand Limited</i> • described the probability of an outflow of economic benefit, as members are more than likely to use the Airpoints Dollars before the date of expiry, resulting in less actual cash from passenger revenue into <i>Air New Zealand Limited</i> OR the cash <i>Air New Zealand Limited</i> has to pay for expenses when providing flights for customers who use Airpoints for this service.
<p>Standard specific comments</p>	<p><i>Air New Zealand Limited</i> 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.</p> <p>Candidates need to be confident in attempting all questions in the assessment in order to improve their opportunity of gaining Achievement in this standard.</p> <p>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.</p>

2. Assessment Report for 91406: Demonstrate understanding of company financial statement preparation

<p>Achieved</p>	<p>Candidates who were assessed as Achieved commonly:</p> <ul style="list-style-type: none"> • attempted to complete most questions • could process the straightforward equity transactions such as the dividend payment and the share issue • understood which transactions affected the equity general ledger accounts • understood the format of the Statement of Cash Flows • could distinguish between operating and financing activities in the Statement of Cash Flows • understood how to calculate the Other Expenses figure in the Statement of Cash Flows • used the correct format for the completion of the Statement of Comprehensive Income • correctly transferred figures from the Trial Balance • demonstrated knowledge of either the balance sheet test or the liquidity test as both parts of the solvency test • calculated some balance day adjustments in the Income Statement.
<p>Not Achieved</p>	<p>Candidates who were assessed as Not Achieved commonly:</p> <ul style="list-style-type: none"> • were unable to complete general journal entries or general ledger accounts with correct processes • did not understand the format of the shareholders equity section in the Statement of Financial Position and often confused this extract of the statement with the Contributed Equity note • did not understand the requirements of how to answer the written questions, as well as not providing context in their answers • could not distinguish between cash and non cash items in the Statement of Cash Flows • could not distinguish between operating 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 Statement of Comprehensive Income and often presented information in this statement by using the format taught in Level 1 and 2 Accounting, especially for Revenue and Other Income • were unable to calculate balance day adjustments sufficiently • did not understand the solvency test.
<p>Achieved with Merit</p>	<p>Candidates who were assessed as Achieved with Merit commonly:</p> <ul style="list-style-type: none"> • understood how to complete general journal entries and general ledger accounts with correct stems and figures • had in-depth understanding of the equity general ledger accounts and the transactions that affected these accounts • calculated most figures correctly and labelled stems correctly in the Shareholders Equity extract of Statement of Financial Position • understood the impact of the share repurchase transaction on the Equity general ledger accounts rather than reciting what was already given to candidates in the question • calculated most cash flow calculations correctly and labelled stems correctly • showed in-depth understanding of the different types of transactions that impact on both the operating and financing activities of the Statement of Cash Flows • could distinguish between cash and non-cash items • could explain how the Other Expenses figure was calculated in the Statement of Cash Flows • understood the components of the Statement of Comprehensive Income, were able to calculate figures correctly and used appropriate stems • had an in-depth understanding of how to incorporate balance day adjustments in the Statement of Comprehensive Income • could explain either the balance sheet test or the liquidity test as both parts of the solvency test and could link their explanation to the totals provided in the question.

Achieved with Excellence	<p>Candidates who were assessed as Achieved with Excellence commonly:</p> <ul style="list-style-type: none"> • had comprehensive understanding of the equity transactions and their impact on both the equity general ledger accounts and the Statement of Financial Position • could fully explain the impact of the share repurchase on the Contributed Equity and Retained Earnings general ledger accounts and how the figures were calculated in detail • could correctly calculate the closing balance of the Contributed Equity general ledger account • comprehensively completed the Statement of Cash Flows with nearly all transactions correctly recorded • could fully explain how and why the Other Expenses figure was \$115,175 by linking it to the fact that the \$800 opening balance for prepayments was paid last year and the \$400 closing balance for prepayments was paid this year • comprehensively completed the Statement of Comprehensive Income using correct treatment with correct classifications, use of brackets and correct stems with correct figures • specifically understood how the revaluations of land and buildings are disclosed in the Statement of Comprehensive Income • could fully explain either the balance sheet test or the liquidity test as both parts of the solvency test, linking their explanation to the totals provided in the question and to the \$5,000 dividend payment.
Standard specific comments	<p>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.</p> <p>The term "Accounting treatment" means explaining the transaction in detail.</p> <p>Candidates who understood the calculations for financial statements were generally able to answer the written questions.</p>

3. Assessment Report for 91408: Demonstrate understanding of management accounting to inform decision-making

Achieved	<p>Candidates who were assessed as Achieved commonly:</p> <ul style="list-style-type: none"> • calculated break-even correctly • were able to define break-even, fixed and variable costs in context • calculated targeted output for all units per annum but were able to manipulate the data to illustrate the unit rental requirement for one unit per annum • calculated and presented straightforward material in a cash budget • made suggestions of strategies for the business that would not be practical for the client, for example, to cease drawings • recognised the difference between financial and non-financial information <p>stated information from the case study in written answers and occasionally demonstrated additional thinking about the context by embedding the supporting given information in their answer.</p>
Not Achieved	<p>Candidates who were assessed as Not Achieved commonly:</p> <ul style="list-style-type: none"> • correctly calculated none, or very few, of the Cost-Volume-Profit calculations or the figures in the cash budget • did not attempt to answer all questions • described some Cost-Volume-Profit concepts with no context • provided ideas about a decision but there was no link to the case study which demonstrated very little understanding of the implications for this business.
Achieved with Merit	<p>Candidates who were assessed as Achieved with Merit commonly:</p> <ul style="list-style-type: none"> • calculated break-even and explained what this term meant for the case study business by linking the calculation to its definition • calculated the targeted output required to achieve a set profit for all eight units • recognised that the relevant range involved eight units and 365 days without being able to label this data with the appropriate term

	<ul style="list-style-type: none"> • answered the majority of questions in context • accurately completed the cash budget and displayed an in-depth understanding of the purpose of a cash budget and provided an example of a business decision that was related to the cash budget • could link ideas relating to the recommendation with one or two examples explained with supporting evidence relating to Financial or Non-financial information.
<p>Achieved with Excellence</p>	<p>Candidates who were assessed as Achieved with Excellence commonly:</p> <ul style="list-style-type: none"> • completed all calculations correctly • comprehensively explained the Cost-Volume-Profit concepts in context and, when required, linked these concepts to decision-making • demonstrated a high level of literacy that showed an understanding of the difference between “state” and “describe or explain” and “comprehensively explain” • clearly described the purpose of a cash budget and linked their explanation to a viable business decision based on the data calculated in the cash budget • used language appropriate in explaining a cash budget, for example, receipts, payment, surplus and deficit • developed a flow of argument in their report that linked both financial and non-financial information ideas, data, calculations and proposals in a logical sequence using structured paragraphs • used appropriate management accounting language throughout their evidence, constructing explanations in clear and well-planned paragraphs • used previous calculations and other meaningful calculations, for example, margin of safety, that were meaningful and useful to the decision-making process for this case study • identified and explained any repercussions of a business decision and/or situation.
<p>Standard specific comments</p>	<p>The Achievement Standard requires candidates to describe management accounting elements to inform decision-making. Candidates who only calculate management accounting elements are not providing sufficient evidence to meet the standard.</p> <p>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. Literacy skills are essential for candidates to be able to cope with the diverse range of business contexts that can be the focus of this assessment.</p> <p>The use of specific examples from the resource material is absolutely necessary.</p>