

Assessment Report

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Part A: 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 having 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 familiarise themselves with the context before beginning to answer questions. They should not produce 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 should 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).

Part B: Report on standards

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

Candidates who were awarded **Achievement** 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
- 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
- described how *The a2 Milk Company Limited* is an issuer or has public accountability
- described NZ GAAP as rules for the preparation of general-purpose financial statements
- described that information capable of influencing decisions is relevant information
- described that the benefit of preparing financial statements exceeds the cost
- described that audit fees are revenue expenditure as these are paid annually or have a recurring nature
- identified that write-down of inventories is a decrease in assets that results in an decrease in equity and that this is not a distribution to the shareholders
- described that the IRD is an independent organisation to *The a2 Milk Company Limited*, which meets the fundamental qualitative characteristic of faithful representation

- described that *The a2 Milk Company Limited* has a present obligation to honour the amount owing for the employee entitlements
- described that the past event was employee working for *The a2 Milk Company Limited* to earn the employee entitlements
- described that there is an outflow of economic benefit from *The a2 Milk Company Limited* when employees use their annual leave and long service leave
- described a reason why *The a2 Milk Company Limited* is a going concern e.g. no intention of liquidation.

Candidates whose work was assessed as **Not Achieved** commonly:

- 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
- 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
- were unable to describe a valid reason why *The a2 Milk Company Limited* is a New Zealand reporting entity
- were only able to identify that the write-down of inventories decreased both assets and equity without stating that this is not a distribution to the shareholders
- were only able to describe the essential characteristics of a liability if an attempt was made to answer the paragraph question, with no reference to *The a2 Milk Company Limited* or to the employee entitlements
- described the definition of a current liability as being “paid in the current period” rather than the “next period”.

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 and recognition criteria of financial elements and apply these to the context of the question
- explained how *The a2 Milk Company Limited* is an issuer that, as a result, has public accountability
- described the fair value of *The a2 Milk Company Limited's* listed investments provides a predictive value of the future economic benefit of these assets
- 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
- described the future economic benefit of the audit fees paid is limited to the current accounting period and therefore reported as an expense
- described that write-down of inventories results in a decrease in assets (inventories), a decrease in equity by less profit, and is not a distribution to shareholders
- described *The a2 Milk Company Limited* as having a contractual obligation to honour the employment entitlements until they are redeemed
- described that the reliable measure of employee entitlements is based upon the calculations by the accountants of *The a2 Milk Company Limited* that are free from bias / faithfully represent the fair value of these liabilities
- linked the description of why *The a2 Milk Company Limited* is a going concern to the classification of liabilities as current and non-current.

Candidates who were awarded **Achievement with Excellence** commonly:

- 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 that compliance with NZ GAAP and the NZ IFRS is necessary due to *The a2 Milk Company Limited* having public accountability / being relied on by shareholders or lenders to give a true and fair view

- explained the fair value of *The a2 Milk Company Limited's* listed investments is linked to the future economic benefit of these assets, which may lead to decisions about holding or selling the listed investments
- explained why write-down of inventories is an expense that included how there is a decrease in economic benefit for *The a2 Milk Company Limited*
- explained how faithful representation is satisfied by the IRD, an independent organisation calculating the \$43.7 million of taxation payable owed by *The a2 Milk Company Limited*
- explained the distinction between a current and non-current liability that demonstrated an understanding of the reporting of *The a2 Milk Company Limited's* employee entitlements.

Standard-specific comments

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.

91406: Demonstrate understanding of company financial statement preparation

Candidates who were awarded **Achievement** commonly:

- attempted most of the general journal and general ledger entries
- completed straightforward calculations
- did not attempt the written component of each question or, if an attempt was made, their responses showed little or no understanding
- did not recognise that dividends are not classified as an expense
- did not classify investment shares as a current asset.

Candidates who were awarded **Not Achieved** commonly:

- did not complete the assessment
- attempted the general journal and general ledger entries but with inaccurate stems and few correct calculations
- were unable to differentiate between a general journal entry and a general ledger account

- were unable to recognise that retained earnings is an equity account and therefore in nature has a credit opening balance
- did not attempt the written components of each question
- did not attempt the statement of cash flows or completed an answer that looked similar in appearance to an income statement
- completed only one section of the statement of cash flows and / or the statement of financial position
- failed to incorporate balance-day adjustments in the statement of cash flows and / or the statement of financial position.

Candidates who were awarded **Achievement with Merit** commonly:

- attempted all parts of the assessment
- completed the majority of the general journal and general ledger entries accurately
- displayed a good understanding of the effects of transactions on financial statements but lacked attention to the specific detail required. For example, why depreciation is not included in the statement of cash flows.

Candidates who were awarded **Achievement with Excellence** commonly:

- prepared all the general journal and general ledger entries with attention to detail
- incorporated GAAP conventions when preparing general journals, general ledgers and the financial statements
- prepared a statement of cash flows with no errors and was appropriately supported by thorough and labelled workings
- completed complex calculations for a statement of financial position and reported assets and liabilities under the correct classifications
- described the process of dealing with interim and final dividends with an in-depth understanding
- understood that dividends are a distribution of equity (NOT an expense).
- understood that depreciation is a non-cash transaction
- accurately completed the equity section of the statement of financial position

- understood how transactions impact on the financial statements.

Standard-specific comments

91408: Demonstrate understanding of management accounting to inform decision-making

Candidates who were awarded **Achievement** commonly:

- were able to explain the calculation of breakeven
- calculated correctly the contribution margin
- defined the meaning of margin of safety or relevant range
- completed a cash budget with some accuracy
- described a recommendation and stated some ideas to support the recommendation.

Candidates who were awarded **Not Achieved** commonly:

- did not attempt all questions
- gave incorrect calculations
- did not understand the problem posed in the case study.

Candidates who were awarded **Achievement with Merit** commonly:

- calculated the majority of the contribution margin, margin of safety, and profit
- explained the future implication of breakeven in context
- explained margin of safety using figures
- explained the relevant range with figures
- supported their explanations with figures or context
- completed a correct cash budget
- explained the impact on the cash budget of forgetting an item

- explained a recommendation and used examples in context showing an understanding of financial and non-financial information.

Candidates who were awarded **Achievement with Excellence** commonly:

- calculated all of contribution margin, margin of safety, and a CVP statement
- justified their explanations with figures and context
- justified the impact of the future implication of the margin of safety and the relevant range in context
- justified the future implication of the impact on the cash budget of forgetting an item including calculations
- explained and linked a recommendation using examples and supporting figures in context, showing an understanding of financial and non-financial information.

Standard-specific comments

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.

Candidates need to understand that for Level 3 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.

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

[Accounting subject page](#)

Previous years' reports

[2019 \(PDF, 340KB\)](#)

[2018 \(PDF, 139KB\)](#)

[2017 \(PDF, 60KB\)](#)

[2016 \(PDF, 254KB\)](#)

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