

Subject: Accounting

Level: 2

Standards: 91174, 91176, 91177

Part A: Commentary

There are three external achievement standards in this examination. All three papers could be completed in three hours. There are multiple opportunities within each examination paper for candidates to demonstrate sufficient understanding to meet the standard.

All achievement standards provide resource material which is required to be used when answering the questions. This can be in the form of a resource booklet and/or as part of the question. Candidates are encouraged to read one entire question booklet and relevant resources before commencing their answers to familiarise themselves with the entity and gain an understanding of the business.

Candidates must read the questions carefully and answer what is asked. Clear, succinct explanations are encouraged. Proof-reading and double-checking answers would have benefited many candidates.

In preparation for the external examination, it is important that candidates are familiar with the Achievement Standard, Assessment Specifications, and any documents referred to in these resources.

Part B: Report on standards

91174: Demonstrate understanding of accounting concepts of an entity that operates subsystems

Examination

This examination consisted of three questions, each having two parts. Bullet points provided candidates with further clarification of what was expected to be explained in their answer. It is important to read and answer the main question, while answering the bullet point questions to achieve this.

The questions in this paper covered a range of content specified in the explanatory notes Achievement Standard 91174 <https://www.nzqa.govt.nz/nqfdocs/ncea-resource/achievements/2019/as91174.pdf> and the assessment specifications. The concepts that can be assessed are listed in Explanatory Note #4 of the Achievement Standard and are required to be the definitions in the 2018 NZ Conceptual Framework. Clarification of the depth required for the 'element' definition expectation can be found on the NZQA website.

Observations

Answering in context is critical. Context goes beyond simply writing *Fries With That* or rewording the question. Understanding the context relates to the type of business, i.e. a fast food truck, what events have taken place as detailed in the resource, and how these have impacted the business and concepts being examined. Candidates who used resource information accurately to develop their answers achieved higher grades than those who merely repeated the resource or made no reference to it.

Some candidates demonstrated a very comprehensive understanding of the entity, events, and impact on the accounting concepts. However, many candidates did not show sufficient knowledge or understanding of the accounting concepts being examined, wrote general or vague answers, or left parts of questions blank.

Grade awarding

Candidates who were awarded **Achievement** commonly:

- provided accurate definitions of concepts that included some context within their answer
- described the qualitative characteristics of comparability and understandability with reference to the usefulness of the Income Statement
- described the difference between capital and revenue expenditure and used accurate examples for the food truck spending provided in the resource material
- defined the accounting entity concept and identified the spending for the graduation party would be reported as drawings
- described the characteristics of assets and liabilities in context
- described the going concern concept and identified that the loan is reported as a non-current liability in the Statement of Financial Position.

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

- attempted some of the questions, not all
- repeated the bullet points and / or resource material without answering the questions
- demonstrated a lack of understanding of the accounting concepts by not correctly defining the requested concepts, notably the period reporting and accrual basis
- demonstrated a lack of understanding of the requested financial elements, notably accounts receivable providing future economic benefit
- demonstrated a lack of understanding of the requested qualitative characteristics.

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

- described how Frankie could use the information in the Income Statement to make a financial decision in the 2023 financial year

- explained the difference between capital and revenue expenditure by using the examples and dollar amounts of the food truck spending provided in the resource material
- provided evidence of how the food truck meets the recognition criteria of faithful representation by naming and explaining a source document
- explained that the graduation payments were not an expense because it was a distribution to the owner
- explained how the asset of accounts receivable has the potential to produce economic benefits when debtors settle their accounts, which brings in cash to *Fries With That*
- explained the qualitative characteristic of relevance and its influence on decision-making
- explained the going concern concept by detailing why the loan is reported as a non-current liability in the Statement of Financial Position as this is due in 6 years / September 2028
- used the interest on loan owing balance day adjustment to explain the accrual basis concept by detailing the interest on loan increasing by \$200 for the current period in the Income Statement
- used the interest on loan owing balance day adjustment to explain the accrual basis concept by detailing the present obligation of \$200 accrued expenses in the Statement of Financial Position requiring *Fries With That* to pay this in next accounting period with cash.

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

- answered all questions succinctly and accurately, in context, and supported by evidence, for example \$ figures, use of correct account names and detailed reference to the food truck entity *Fries With That*
 - justified that the graduation party spending is drawings which is a distribution to the owner and therefore has no effect on *Fries With That's* profit in the Income Statement
 - justified the past event that created the asset of account receivable was *Fries With That* catered an event for a private event booking and invoicing the customer to pay at a later date
 - justified the qualitative characteristic of relevance as the reporting of accounts receivable predicts the likely amount of cash to be received from debtors and the impact on decision-making
 - explained the links between the accounting concepts, qualitative characteristics or financial elements that were requested in the question.
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91176: Prepare financial information for an entity that operates accounting subsystems

Examination

This examination considered a retail entity and consisted of three questions with several parts. A resource booklet was provided that contained two resources that the candidates were required to use to complete the examination paper. Candidates were instructed which resource to use to answer each question or part of the question.

Templates were provided for the journal and ledger entries and the financial statement notes. Candidates were required to complete extracts of the Income Statement and Statement of Financial Position, as well as complete a full Cash Flow Statement in the tables provided. Knowledge of headings, classifications and layout was required, in addition to making the required balance day adjustments, for candidates to meet this standard.

Observations

Many candidates struggled to prepare the Cash Flow Statement. The information was provided to candidates as summary information in a table (not a Trial Balance) and a list of additional information that candidates had to use to establish whether the item was cash or non-cash, and whether numbers had to be adjusted. A lot of non-cash items were included in the candidates' responses. In addition to this, calculating the cash paid to accounts payable appeared to be problematic.

The information to use for preparing the Cash Flow Statement can be provided to candidates in a variety of ways, including source documents, transactions, lists, a Trial Balance with additional information, and summary information. Time spent emphasising dates, cash and non-cash items, and the calculation of cash from accounts receivable and cash paid to accounts payable is important.

The depreciation on office equipment \$60 was provided to candidates in the Trial Balance. Some candidates did not take this into account.

Grade awarding

Candidates who were awarded **Achievement** commonly:

- accurately prepared some general journal entries and some partial general ledger entries to record simple balance day adjustments and / or closing entries or balances
- classified distribution costs in the Income Statement extract
- included some expenses that were not distribution costs or used incorrect labels such as 'Total Income' in the Income Statement
- classified liabilities for the Statement of Financial Position extract
- did not label all working when calculating cash paid to accounts payable in the Cash Flow Statement
- reported accurately some receipts and some payments into the Cash Flow Statement.

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

- did not attempt the whole paper, or whole questions
- entered only one line or entered balances into the general journal
- did not complete a ledger account entry with a correct stem, treatment, and account indicator
- provided insufficient correct classifications for items in the Statement of Financial Position extract or the Income Statement extract
- did not use the additional information and did not complete simple balance day adjustments
- did not attempt or did not label working for cash paid to Accounts Payable
- included the majority of the non-cash items in the Cash Flow Statement.

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

- recorded most of the balance day adjustments accurately in the general journal and general ledger accounts, using the correct stems, columns, treatment, and balance indicators
- classified revenue, other income, and distribution costs in the Income Statement extract
- reported and calculated gross profit in the Income Statement extract
- classified current and non-current liabilities for the Statement of Financial Position extract
- labelled their working for the cash paid to accounts payable and included most of the necessary items
- correctly left out some of the non-cash items from the Cash Flow Statement.

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

- reported complex balance day adjustments in the general journal and general ledger correctly, without including additional entries
 - prepared the financial statement extracts without including foreign items or additional expenses
 - did not include any detracting errors such as 'Total Income'
 - recognised that there were no disposals of the delivery vehicle during the year
 - identified the three key pieces of information in the Loan Note
 - prepared the Cash Flow Statement without the inclusion of non-cash adjustments / items
 - calculated and labelled 'Net Decrease in Cash' (using brackets) in the Cash Flow Statement.
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91177: Interpret accounting information for entities that operate accounting subsystems

Examination

This examination consisted of three questions, each with two parts. Bullet points provided candidates with further clarification of what was expected to be explained in their answer. It is important to read and answer the main question by answering the bullet point clarifications to achieve this.

The questions in this paper covered a range of content specified in the explanatory notes Achievement Standard 91177 <https://www.nzqa.govt.nz/nqfdocs/ncea-resource/achievements/2019/as91177.pdf> and the assessment specifications.

Observations

Answering in context is critical. Context goes beyond simply writing *Laki's Landscaping* or rewording the question. Understanding the context relates to the type of business, i.e. a gardening / landscaping service business, what events have taken place as detailed in the resource and how these have impacted the business, and the analysis measures being examined.

It is important for candidates to understand what impacts the different analysis measures and to refer to the elements in the formulae when explaining an impact on the analysis measure.

Candidates who used the resource information accurately to develop their answers reached higher grades than those who repeated the resource or made no reference to it.

Grade awarding

Candidates who were awarded **Achievement** commonly:

- provided generic-type answers by describing the definition of the analysis measure using some context, or examples that were not appropriate for the entity, for example bad debts increasing administration expenses when there weren't any bad debts
- included the analysis measure results in some of their responses
- confused the ratios / percentages in their explanations or wrote incomplete explanations for the question being asked, for example did not link the age of accounts receivable to the ability to meet immediate debts in the future or confused liquid assets / liabilities with current assets / liabilities
- described both analysis measures when being asked to make a choice to explain one.

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

- left parts of questions unanswered
- did not include context and / or ignored the resource material, for example used 'business' as opposed to *Laki's Landscaping*

- wrote incomplete or inaccurate definitions or reasons, for example identified the wrong analysis measure, described the current ratio instead of the liquid ratio, or referred to 'owns' when describing the equity ratio
- did not incorporate the ratio / percentage results in their answers
- used inaccurate or vague terms.

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

- explained the correct analysis measure by using accurate definitions with evidence from the resource material to provide reasoned responses
- explained a valid reason for the average age of accounts receivable of 48 days being greater than the expected 28 days using information from the resource material
- explained a valid reason for a trend without justification linking to the formulae, for example for equity ratio discussed the increase in liabilities without relating it back to assets and equity nor business stability and control
- demonstrated an in-depth understanding of the impact of the introduction of credit on *Laki's Landscaping*.

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

- integrated the resource material into their answers including specific results, data, events as appropriate
- demonstrated what impact the increase in credit services would have on administrative expense %, and justified their answer with links
- demonstrated a sound sequence of logic to justify a reason for trend, for example linking the purchase of the new truck to an increase in non-current assets and long-term loan, therefore a decreasing equity and the equity ratio
- demonstrated understanding of the impact on *Laki's Landscaping* of the analysis measure results by knowing and understanding whether results are suitable/sufficient and integrating this reasoning into their answers
- demonstrated the relationship between the elements of the question, for example administration expenses and profit %, and linking to the introduction of credit
- demonstrated a clear understanding of the analysis measure with logical, well written responses.