

2023 NCEA Assessment Report

Subject:	Accounting
Level:	Level 2
Achievement standard(s):	91174, 91176, 91177

General commentary

The Level 2 Accounting examination had three papers each with an independent business entity context. It is important that candidates take the time to read the resource material that is provided either in the separate resource booklet or as part of the examination booklet. Understanding the context – for example, retail or service, what the business sells / provides, the specific events that have happened – is critical in achieving each standard.

Candidates who showed familiarity with the explanatory notes of each achievement standard and the Accounting NCEA Level 2 Appendix demonstrated that they were better prepared to answer the questions accurately.

Every question should be attempted in the examination booklet as credit towards Achievement, Achievement with Merit, and Achievement with Excellence can be accumulated throughout each part of the question.

Report on individual achievement standard(s)

Achievement standard 91174: Demonstrate understanding of accounting concepts for an entity that operate accounting subsystems.

Assessment

This examination consisted of three questions, each having multiple parts. Bullet points provided candidates with clarification of what was expected to be explained in their answer. It is important to read and answer the main question, and answer each bullet point of that question to score well.

Commentary

Answering in context is critical. The context for this business was a movie theatre sole proprietorship, *Movie Matrix*. Understanding the impact of the new 3D theatre, and the transactions and events associated with this decision, was important when explaining the accounting concepts examined. The depth and accuracy of the candidates' responses influenced the grade attained.

Candidates who were awarded **Achievement** commonly:

- described accounting concepts using rote-learned definitions and some context yet lacked specific figures or examples
- described that movie ticket fees were an income that increases the asset of bank when customers purchased the tickets, increasing equity through increasing profit that was not a contribution from the owner, Mason
- described materiality in terms of dollar size influencing users' decision
- described the unit of use method of depreciation as the most appropriate method to depreciate the 3D projector because the more movies shown, the more hours the 3D projector is used
- identified a limitation of using the carrying amount of the 3D projector as a basis of decision making
- described the purpose of the Statement of Cash Flows
- demonstrated a weak understanding of both the predictive value and confirmatory value criteria of the qualitative characteristic relevance.

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

- explained definitions of financial elements, accounting concepts, and qualitative characteristics including *Movie Matrix* and other relevant context in their response
- explained, with reference to the customer survey results and Monthly Income Summary, the predictive value and confirmatory value of relevance and the influence on decision making
- explained timeliness in terms of receiving information monthly as being a suitable timeframe to assist with decision making
- explained the concept of money measurement referring to the figures in both currencies: 26 000 Euros and NZ\$45 000
- explained a limitation of using the carrying amount of the 3D projector for decision making
- explained the time periods correctly when answering how prepaid insurance should be reported in the Statement of Financial Position
- explained the purpose of the Statement of Cash Flows.

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

- answered all questions succinctly and accurately, in context with supporting evidence. For example \$ figures, use of correct account names and / or examples from the resource material to justify their answer
- explained how the historical cost of an asset can be verified by a source document that accurately records the original purchase price of an asset
- justified that depreciation is a reduction in the future economic benefit of an asset through increasing the accumulated depreciation, which consequently results in a decrease in the carrying amount of the asset
- justified how having the bank overdraft may influence decision making by a potential lender, integrating relevant information from the resource material and previous questions.

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

- did not attempt to answer all the questions
- wrote vague, incomplete or inaccurate definitions for the accounting concepts, financial elements, and qualitative characteristics
- provided responses that repeated the bullet points provided and / or the resource material, without answering the question being asked
- demonstrated a lack of understanding of the accrual basis concept and did not identify that prepayments is a current asset.

Achievement standard 91176: Prepare financial information for an entity that operates accounting subsystems

Assessment

This examination consisted of three questions each consisting of several parts. The context was a service entity. A resource booklet was provided that consisted of two resources that the candidates were required to use to complete the examination paper. Candidates were instructed which resource to use to answer the 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 the Income Statement, and Statement of Financial Position, as well as the cash receipts sections of the Statement of Cash Flows 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.

Commentary

Candidates tended to be stronger when completing the Income Statement and Statement of Financial Position than the Statement of Cash Flows, Notes to the financial statements, general journal or ledgers entries. It is expected that candidates use the templates provided and the layouts prescribed in the Level two Accounting Appendix.

Candidates had to prepare a 'complete' general journal entry requiring the debits to equal the credits with stems. The entry and treatment to the balance had to be accurate to receive credit in the general ledger.

Candidate had to use account names provided in the trial balance when answering this examination. Abbreviations were not acceptable. Appropriate accounting terminology had to be used when creating new accounts from the additional information, for example Accrued expenses, Prepayments.

Grade awarding

Candidates who were awarded **Achievement** commonly:

- completed accurate general journal entries ensuring the debit entries equalled the credit entries
- prepared some general ledger entries to record simple balance day adjustments and / or closing entries or balances
- classified the Administrative expenses in the Income Statement

- made adjustments to figures in the trial balance for the simple balance day adjustments, those where the figure was provided, to correctly report the accounts in the financial statements for that financial period
- prepared a fully classified Statement of Financial Position using their figures from the trial balance, adjusted if required, and the figures from the Accounts Receivable and Property, Plant, and Equipment notes when appropriate
- left out important labels, headings or figure, for example did not calculate and / or label Net Assets
- included some appropriate accounts from the additional information provided in Resource A in the Current Asset and Current Liability sections
- identified some cash receipts and used appropriate stems for a Statement of Cash Flows
- did not label workings and / or indicate the treatment (+ or -) when calculating cash from accounts receivable and cash paid to accounts payable.

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, treatment, and balance indicators
- classified Revenue, Administrative Expenses, and Finance Costs in the Income Statement
- calculated and reported the profit for the year in the Income Statement
- fully classified the current and non-current assets and the current and non-current liabilities in the Statement of Financial Position
- made adjustments to figures in the trial balance for balance day adjustments where the figure was provided and required calculation, to accurately report the accounts in the financial statements for that financial period
- labelled their working for the cash from accounts receivable and cash paid to accounts payable, and included most of the necessary items
- correctly left out most of the non-cash items from the Statement of Cash Flows extract.

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

- recorded complex balance day adjustments in the general journal and general ledger correctly without including additional entries
- prepared the financial statements without including foreign items or additional expenses
- did not include any detracting errors such as 'Gross Profit' in the service firm Income Statement
- accurately prepared the majority of the Property, plant, and equipment note, recognising that there were no disposals of the office equipment during the year and no additions of the repair equipment during the year
- calculated the Depreciation on Office equipment for a part-year time period
- prepared the Statement of Cash Flows extract, recognising that it was for a service firm and using appropriate stems
- prepared the Statement of Cash Flows extract, without the inclusion of non-cash adjustments / items.

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

- did not attempt all the questions
- misclassified expenses, for example included distribution costs in the Administrative costs, or used incorrect labels for the service firm such as Gross Profit in the Income Statement
- prepared incomplete general journal entries by including a debit entry or credit entry only, or entered balances in the general journals
- provided insufficient correct classifications in the Income Statement and / or Statement of Financial Position
- did not use the additional information for the simple (or other) balance day adjustments to adjust the figures reported in the financial statements
- included non-cash items when preparing the Statement of Cash Flows extract.

Achievement standard 91177: Interpret accounting information for entities that operate accounting subsystems

Assessment

This examination was for a retail entity and consisted of three questions each with two parts. Bullet points were provided to aid candidates' responses. It was important to read and answer the main question and the bullet points. A resource booklet was provided that consisted of three resources. Candidates were instructed to refer to all resources for the entire examination paper.

It is important that candidates support their explanations with financial information / figures and analysis measures that are consistent with the resource material and the question asked.

Commentary

This examination paper was a similar format and style as recent years except for question 3, which required candidates to make a decision and justify it. Most candidates attempted this question, although not all answers covered the details requested in the bullet point instructions.

Candidates need to ensure that they have the level of depth and context expected at Level 2. The use of accounting terminology and the information in the resource material to support the answer was expected. It was important to read and answer the main question and the bullet points which support it.

Responses to Question 3 suggested that a number of candidates needed to read the question and resource material more carefully. Too often, the increase of the equity ratio was explained as additional capital. This indicates that the candidates were not thinking about the implications of the case study or the actual questions asked. For Question 3b there was generally a lack of any supporting financial data. Candidates often wrote a 'nice story' but did not use the resource material or support answers with an analysis measure as requested. Those candidates who followed the bullet points and justified their recommendation using information from the resource often wrote high level answers and demonstrated a clear understanding of *Mika's Music World*.

Grade awarding

Candidates who were awarded **Achievement** commonly:

- provided analysis measure definitions
- related trends to an aspect of the context, for example relating second hand instruments to increasing sales but not to an increase in customer base, or linking to the inventory turnover
- stated the components in an analysis measure
- recommended an option to fund the Auckland expansion supported by a general reason
- did not include the analysis measure results / figures in their explanations. For example, not relating the current ratio of 4.69:1 to being able to repay short term debts or to reasons why it is high, and not providing a supporting analysis measure to justify their recommendation regarding the Auckland expansion.

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

- explained the analysis measures and / or trends accurately for *Mika's Music World*, using relevant information from the resource material, but often lacked figures or included a contradictory or incorrect statement
- explained the increase in sales as the reason for the increase in distribution costs due to a valid reason related to the resource material
- explained the current ratio of 4.69:1 and the reason for the high value being the increased inventory
- demonstrated an in depth understanding of some of the analysis measures and *Mika's Music World*, but were not consistent across the entire paper
- explained their recommendation to fund the Auckland expansion with at least one valid reason supported by evidence.

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

- justified their explanations with evidence and detail, including financial information and figures, and referred to *Mika's Music World* or Mika (the owner) when appropriate
- demonstrated a sound sequence of logic in their responses, ensuring their responses answered the question and covered the bullet points. For example, using figures to link the increase in inventory from selling second-hand instruments to the increase in current assets, but not liquid assets due to inventory being a current asset and not a liquid asset, therefore resulting in a low liquid ratio
- wrote cohesive and succinct explanations, often demonstrating a 'bigger picture' understanding, including the impact of the events in the resource material on a wide range of analysis measures
- justified the link between the second hand inventory, mark-up % increasing from 57.8% to 62.2% and the increase in inventory turnover and what this means for *Mika's Music World*
- justified the link between the distribution costs and inventory with a specific example from the resource material. For example, linked how *Mika's Music World* spending on the photo promotion, which increased distribution costs, would create a larger customer base therefore increasing sales, and by selling more inventory their inventory would turn over at a faster rate (with figures included)
- justified how the loan impacts the equity ratio, supporting this with calculations

- justified their recommendation to fund the Auckland expansion using at least one appropriate analysis measure, providing additional calculations and / or discussing interest earned offsetting interest on loan.

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

- did not answer all questions, often leaving blank answers
- provided answers that did not answer what was asked, suggesting that the resource or questions were not read carefully or fully understood
- wrote vague answers without context, for example selling second-hand instruments, '*Mika's Music World*' or without ratios / percentages into their answers
- used inaccurate or vague terms, for example business or company, or 'Mika owns' when referring to equity ratio
- mixed up the different analysis measures, for example, confusing the current and liquid ratios
- lacked an understanding of the analysis measures (meanings, reasons for trends) despite being provided with the formulae and supporting resource material
- copied information from the resource booklet without using it to answer the question.