

2024 NCEA Assessment Report

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

General commentary

The Level 2 Accounting examination consisted of three papers, each having an independent 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 (whether the entity is retail or service, what the business sells / provides, and / or the specific events that have happened) is critical in achieving each standard, especially for the higher grades.

Candidates who were familiar with the explanatory notes of each achievement standard, and the appendix and clarifications linked through the assessment specifications, were better prepared to answer the questions accurately.

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

Report on individual achievement standards

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

Assessment

This assessment consisted of three questions, each having multiple parts. All questions related to *Get Active Gym*, a predominantly service entity.

Commentary

Candidates need to be familiar with the [NZQA Clarification of the New Zealand Framework](#) as directed in the assessment specifications.

It is important for candidates to read the resource information for each question, in order to answer accurately and in context. Some questions had bullet points that provided candidates with further information to help answer the question. Candidates should ensure that they respond to all parts of the question.

Understanding that one transaction / event can impact multiple accounts / elements is expected at this level. For example, the gifting of the branded backpacks in Question Two (c) impacted both drawings and expenses.

Grade awarding

Candidates who were awarded **Achievement** commonly:

- provided rote-learned definitions for the financial elements, accounting concepts, and qualitative characteristics that included some context, but without clear explanations. For example, not including dollar amounts or specific examples from the resource material
- described that the gym equipment is reported as an asset in the Statement of Financial Position for *Get Active Gym* without classifying or explaining that it is non-current / property, plant and equipment
- described the purchase of gym equipment being capital expenditure: a one-off cost which has a benefit going beyond the current accounting period
- partially explained the characteristics of a liability by describing how the invoice resulted in a present obligation for *Get Active Gym*, but did not explain the liability characteristic requiring a transfer of an economic resource as the cash that needs to be paid, leading to a decrease in *Get Active Gym*'s bank
- described the accounting concept of materiality in terms of dollar size influencing users' decisions
- identified a limitation of the accounts receivable note to the financial statements.

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

- explained definitions of financial elements, accounting concepts, and qualitative characteristics that included detailed context for each question
- explained how the invoice / accounts payable meets all three characteristics of a liability as well as the recognition criteria of probable outflow of economic benefits
- explained how the gym membership advertisement demonstrated the going concern concept as offering membership for 24 months / two years indicates that *Get Active Gym* intends to continue to operate into the foreseeable future
- correctly defined the period reporting concept as the lifetime of *Get Active Gym* (not its financial statements) being divided into periods of equal length and used figures to link to decision making
- explained comparability as identifying similarities and differences in *Get Active Gym*'s revenue, expenses or profit using figures
- explained how the qualitative characteristic of faithful representation is satisfied with the accounts receivable figure of \$4 900 by referring to the invoices sent to members
- explained a limitation of the accounts receivable note to the financial statements.

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

- answered questions succinctly, accurately, in context, and supported by evidence. This included the use of appropriate and accurate dollar figures, correct account names, and references to examples from the resource material to justify their answers
- explained that both the delivery and installation costs are included as capital expenditure as there are costs incurred to get the gym equipment into condition and position for *Get Active Gym* to use, including the correct figure of \$19 000 for the gym equipment being reported in the statement of financial position
- explained the probable outflow of economic benefits being the cash that *Get Active Gym* is more than likely to pay as well as providing a reason of maintaining credit rating / continue to receive the servicing of the gym equipment in the future
- demonstrated a clear understanding that four backpacks were drawings and the other six backpacks were an expense for *Get Active Gym*, and explained the correct asset decreasing when applying the expense definition
- explained the period reporting concept, including the appropriate date of 31 March each year and specific figures to explain a decision regarding the membership fees

- explained comparability as identifying similarities and differences in *Get Active Gym's* revenue, expenses or profit including how comparability is enhanced with the consistency in the preparation of the financial reports
- explained a valid decision to increase *Get Active Gym's* membership fees (or keep the same) for 2025 by explicitly referring to figures from the income statement extract, and supported by comparability
- explained the predictive value of the accounts receivable note, as \$4 851 is the likely amount of cash to be received from credit customers when settling their account.

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

- repeated the bullet points provided in the resource material without addressing the questions
- incorrectly defined accounting concepts, financial elements, and qualitative characteristics, often by missing key criteria, mixing up concepts, or not using appropriate terminology
- incorrectly classified the purchase of gym equipment as a current asset in the statement of financial position
- defined capital expenditure as a one-off expense as opposed to one-off expenditure / spending in nature
- described accounts payable as a liability that needed to be paid, without any reference to the three characteristics (definition) of a liability
- did not attempt to answer all the questions.

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

Assessment

This examination paper consisted of three questions. The context of this paper was a retail business for Questions One and Two, and a related service business for Question Three. A separate resource booklet was provided and candidates were directed to the relevant resource for each question. Nearly all candidates used the correct resource to answer the relevant question.

It is important that candidates are familiar with the requirements set out in the achievement standard and Level Two Accounting Appendix. The achievement standard describes three levels of adjustments: for Achievement the figure is provided, for Merit the figure requires a calculation, and for Excellence the figure requires a multi-step calculation. This is what determines how each adjustment is marked.

Commentary

The general journal entries to record balance day adjustments were done well, ensuring that the debit column equalled the credit column (i.e. a complete journal entry was prepared). The ledger accounts proved to be more challenging. Ledger accounts do not have brackets or minus signs in them, and the balance column must be completed after each entry and have the correct Dr / Cr indicator. Some candidates incorrectly included an 'income summary' closing entry in all ledger accounts.

Items being deducted in the statements / extracts must be clearly deducted through brackets or a subtraction sign, the word 'less', or a clear subtotal if relevant.

Some questions required working to be provided with labels. It is important that this instruction is followed. This included the item, names, the correct figures and treatments (i.e. whether it is added or subtracted).

Several candidates calculated cash from received from accounts receivable for Question Three (c), instead of the cash received from the sale of the equipment, which is what was asked for.

Grade awarding

Candidates who were awarded **Achievement** commonly:

- recorded the balance day adjustments in the general journal correctly
- prepared the income statement with reasonable accuracy, including several correctly adjusted figures. However, adjustments to take time-frames into account were missed
- classified the current and non-current liabilities with some adjustments completed
- prepared parts of the equity section of the statement of financial position accurately, indicating the treatment of drawings
- did not attempt Question Three (d). If attempted, it was common for the working to lack labels, or for the opening and closing balance for accounts payable to be transposed
- included additional and / or wrongly classified items in the financial statements
- included foreign items in the financial statements
- used abbreviations for account names.

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

- made complex adjustments to report the expenses accurately in the income statement
- reported the accrued expenses and accounts payable in the statement of financial position accurately
- reported the loan correctly as a current liability
- completed aspects of the property, plant and equipment extract with some accuracy, typically accounting for the depreciation and the disposal
- recorded the advertising prepayment, the inventory revaluation in the relevant ledgers. Most aspects of the accounts receivable ledger account were completed aside from the 'bank' entry
- completed most steps in the calculation for the accounts payable amount paid
- included foreign items in the cash flow statement, particularly the \$6 000 drawings component and / or the computer
- prepared statements that are fit for purpose regarding sub-totals and layout
- carried the profit or loss from question one to the equity section of Question Two with the appropriate label
- included detracting errors in the ledger accounts and / or financial statements for example, total income or income summary.

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

- calculated multi-step adjustments accurately, including the rates and income in advance adjustments
- calculated the amount of cash received from selling the playground equipment
- avoided foreign items or detracting errors in the financial statements
- prepared financial statements that are fit for purpose regarding sub-totals and layout
- calculated and labelled gross profit in the income statement
- indicated the treatment by word or (brackets) to indicate when an account is to be deducted
- accurately prepared the property, plant and equipment extract to include addition, disposal, and depreciation.

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

- partially attempted journal entries, leaving out one of the particular's stems or not having the debit column equalling the credit column
- classified administration expenses as distribution costs in the income statement
- did not complete the ledger account entries, or omitted Dr / Cr indicators in the ledgers
- did not make adjustments to figures
- included several foreign items in the financial statements, including non-cash items in the statement of cash flows
- left large amounts of the paper unanswered.

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

Assessment

This assessment consisted of three questions, each having multiple parts. A separate resource booklet provided analysis measure formulae and a range of information about the retail entity, *Strut Your Stuff*. Candidates were instructed to refer to all resources throughout the examination paper.

Candidates were expected to read and process the resource material about *Strut Your Stuff* carefully, then use relevant information to support their answers. This entity was a cash business and there wasn't any accounts receivable in the resource, yet many candidates referred to this in their responses.

Commentary

In accounting, it is important that financial information is included to support answers. In addition to using relevant data to explain an analysis measure, many responses would have benefitted from the use of appropriate analysis measure figures and dollar amounts from the resource to support their explanations of trends and / or consequences. For example, comparing the relative % changes in expenses and sales helps provide supporting evidence for the overall increase in expense %.

Many candidates did not use the information in the resource and gave generic answers for the trends in analysis measures. Candidates need to ensure their answers are relevant for the entity and information in the resources provided. For example, in Question One, some candidates did not identify that the insurance was the expense that needed to be addressed in the answer to part (a), even though this was made quite clear in the resource. Many misclassified the purchase of the security system as an expense as opposed to a non-current property, plant and equipment asset. Additionally, some candidates attributed the finance cost percentage to factors other than the loan interest.

There were a number of relationships within the resource that were important for understanding the finances of *Strut your stuff*. For example, the increase in loan is linked to the increases in equipment and the bank balance.

The equity ratio was often referred to as a measure of ownership. The equity ratio is about the proportion of the business assets funded by the owner, as opposed to liabilities. It is also impacted by the profit or loss each year and drawings. It is not a measure of the assets 'owned' by the owner.

The measure of mark-up was not well understood. Many candidates believed that mark-up equated to profit. It was also quite common for 110% mark-up to be confused with a 10% mark-up. The link between inventory being written off and the rate of inventory turnover was often made without considering that it also affects sales. In Question Two (c), candidates often wrote about the

consequence of the business choosing to increase mark-up, when the question expected the advantages and disadvantages of Sam applying a mark-up above the industry average.

Grade awarding

Candidates who were awarded **Achievement** commonly:

- defined a range of analysis measures
- gave valid reasons for trends, some of which might not have related to the resource information. For example, increasing wages due to living / minimum wage changes causing the increase in total expense %
- identified the loan as the cause of the increase in finance cost, but did not always specify that it is the interest that increases the finance cost %
- described how the missing and damaged inventory affected analysis measures such as mark-up % and / or inventory turnover
- identified the influence that mark-up % can have on sales and / profit
- provided valid reasons for why *Strut Your Stuff's* performance should improve in the subsequent year.

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

- used relevant details from the resource to provide explanations consistent with the context of *Strut Your Stuff*. For example, explaining the link between an increase in insurance to an increase in total expenses and a decrease in profit percentages, and / or explained the increase in loans to an increase in finance cost
- explained, with an example, the meaning of mark-up percentage and explained a consequence of having a higher mark-up than the industry average
- explained the difference between liquid and current ratio being due to inventory and the impact on cash flow
- provided detailed explanations for why profitability would improve in 2025, linking to a reduction in stolen or damaged inventory due to the security system.

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

- consistently integrated relevant information from the resource material to frame their responses, including analysis measure figures and dollar amounts.
- linked the increase in finance costs to increased external borrowing in order to purchase security equipment to combat the stolen or damaged inventory issue
- justified the impact the increase in loan – increasing liabilities – had on the equity ratio, linking the increase in assets to the source of the finance
- justified the impact that lost and damaged inventory would have on inventory turnover and mark-up percentages, with a thorough understanding of inventory being written-off increasing the cost of goods sold and decreasing average inventory figures
- explained the liquid ratio, providing valid reasons for the trend in the liquid ratio
- justified valid reasons for improved profitability in 2025, linking the installed security system to reduction in insurance / theft / damage and to how it will influence relevant analysis measures
- justified valid reasons for improved liquidity in 2025 and long-term stability. For example, linking the installed security system or reduction in interest as the loan is paid off to relevant analysis measures.

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

- re-stated the question and / or copied information from the resource without answering the question
- wrote brief answers that weren't developed using the bullet points given in the questions

- classified expenses inaccurately for example, insurance as a financial expense
 - gave answers inconsistent with the resource. For example, referring to accounts receivable even though the resource stated all the sales are for cash
 - provided incorrect definitions for analysis measures such as liquid ratio, current ratio, and mark-up
 - did not identify the impact of stolen / damaged inventory on mark-up, and therefore cost of goods sold and inventory
 - left an entire question, or sections of different questions unanswered.
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