

Assessment Report

New Zealand Scholarship Accounting 2024

Performance standard 93203

General commentary

The definition and recognition criteria for financial statement elements underpins accounting. These should be thoroughly embedded as they are necessary to ensure financial statements are correctly prepared to provide users with quantitative financial information for decision making purposes. It was reassuring to see that many candidates were familiar with the application of element definitions. However, this was not the case when it came to the application of the recognition criteria. The 2018 NZ Framework and its NZQA Clarification, referenced in the assessment specifications, are valuable resources that candidates should be familiar with.

Although the overall quality of answers to written questions was reasonable, candidates need to be wary of prioritising quantity over quality. To gain scholarship, the convincing communication criteria must be met. Unstructured answers for the concepts and current events questions were common, some of which stretched as long as eight pages without fully addressing the question. This highlights the importance for candidates to carefully plan and structure answers.

Question One was a technical processing question that incorporated financial statement preparation and critical thinking elements. Candidates had to use the information in the question to prepare adjusting journal entries, then prepare the statement of comprehensive income classified by function and accompanying notes. Candidates who did not reach scholarship level in this question often missed or miscalculated adjustments, particularly those relating to depreciation, insurance, and interest. In some cases, the adjustments were accurate, but did not correctly follow through to the statement of comprehensive income. Some processing steps related to Level 1 and Level 2 skills but not all candidates carried them out correctly. Some candidates were not familiar with allocation of expenses or preparation of a statement of comprehensive income by function. Candidates need to ensure that they demonstrate convincing communication by following appropriate conventions for statement preparation, such as heading up the statement of comprehensive income correctly and providing the reporting currency. Finally, some candidates made GST adjustments despite being instructed to ignore it.

Question Two was a current issues question that required candidates to read unfamiliar resources and then discuss how advances in artificial intelligence (AI) enhance and challenge the accounting profession's ethical standards in addressing the concerns of society, business, regulators, and individuals. The essence of the question was convincing communication in that candidates were expected to consider all four groups. Although candidates appeared to take time to get familiar with the resources and spent time planning and incorporating the resources into their answers, many did not consider the concerns of society, business, regulators and individuals. Others saw an AI question and focused primarily on their knowledge of its strengths and weaknesses. Despite the above some of the answers to this question were impressive.

Question Three was a management decision question. The question was not answered particularly well and many responses lacked cogent structure. The question required candidates to draft a report to *Mighty Tanks Limited* in which financial and non-financial information was used to recommend whether the company should modify the design of their water tanks. To meet performance

expectations, the company had to make a profit of \$3 806 000 annually. This question required critical thinking as well as technical ability. Candidates had to first calculate the expected break-even point and net profit for the existing design and the 2025 reporting period, before evaluating the new manufacturing system. While most candidates were able to do so, many struggled to get accurate equivalent data for the modified tanks or calculate the expected profit. Finally, most candidates did not calculate how many tanks would need to be sold to meet performance expectations nor recognise how the constraint of the relevant ranges posed an issue. The above omissions resulted in candidates lacking sound financial information to support a decision. When non-financial factors are considered, candidates should assess whether they are practical. For example, shipping 30 000-litre steel reinforced tanks to Australia to sell is probably not a practical recommendation.

Question Four was a concepts question that required convincing communication and critical thinking. It required candidates to use the financial statement element definition and recognition criteria contained in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2018 (NZ Framework) to discuss whether they agreed with the accounting treatment for two items included as assets in an application for a bank loan. Candidates were required to consider whether 'contracts at valuation' (the amounts to be invoiced over the remaining life of the contracts), and 'digital assets' (the website with the online booking forms and contracts, as well as other social media presence) met the definition of an asset. Candidates needed to consider whether the items listed provided *Earthwormers Limited* with certain rights. Do the rights have the potential to produce economic benefits? Then, will the disclosure of the assets provide information that is both relevant and representationally faithful? To determine whether information disclosed by an asset is relevant, candidates needed to consider existence uncertainty and the probability associated with the measurement uncertainty of the expected inflow of economic benefits to *Earthwormers Limited*. A dollar amount that faithfully represents the value of the contracts at valuation and digital assets, coupled with the measurement uncertainty that undermines faithful representation, means that it is not appropriate to recognise these items in the statement of financial position. On the whole, candidates were able to define an asset, use the information to clearly identify the three parts of the definition to recognise the existence of an asset, and apply them to contracts at valuation and digital assets. However, candidates were less certain in applying the recognition criteria, particularly around existence uncertainty and the probability associated with the inflow of economic benefits – measurement uncertainty. The recognition criteria and how it is applied is an area that required work on the part of many candidates. Finally, a number of candidates did not explain why information about assets would be useful to the bank.

Report on performance standard

Candidates who were awarded **Outstanding Scholarship** commonly:

- demonstrated the technical ability and critical thinking skills necessary to correctly calculate the depreciation adjustment for assets that were acquired and disposed of during the year
- demonstrated the technical ability to correctly prepare the adjusting journal entries from the information provided
- had the technical ability to provide most adjustments necessary to calculate the profit for the year
- exhibited the technical and communication skills to prepare the statement of comprehensive income by function in a format suitable for external reporting purposes
- provided evidence of convincing communication in that candidates set out their answer clearly and correctly disclosed the information required using correct terminology
- used the material provided in the resource booklet to discuss how the advances in artificial intelligence (AI) enhance and challenge the accounting profession's ethical standards in addressing the concerns of society, business, regulators, and individuals
- convincingly communicated how AI enhances and challenges the accounting profession's ethical standards

- made full use of the additional information and resources to provide succinct well-structured answers that clearly conveyed their point of view
- used the break-even, margin of safety, and expected net profit for 2025 to compare each scenario for *Mighty Tanks Limited*
- made a valid recommendation for for *Mighty Tanks Limited* based on financial and non-financial information
- applied the definition and recognition criteria for an asset from the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2018 (NZ Framework) to explain whether the information provided in the statement of financial position extract is useful to the bank when it makes a decision about lending a business \$500 000
- correctly worked through the asset definition and recognition criteria to support their answer, and identified whether a past event occurred that had the potential to create an inflow of economic benefits to the entity
- explained that the disclosure of assets relies upon professional judgements about the probability and measurability of expected future cash flows that provides information that is both relevant and representationally faithful
- used critical thinking to recognise that there is a high degree of measurement uncertainty associated with the recognition of the contracts at valuation and digital assets
- provided evidence of convincing communication by carefully planning their answer to avoid repetition.

Candidates who were awarded **Scholarship** commonly:

- demonstrated the technical skills necessary to complete a range of the adjustments to account for the assets that were acquired and disposed of, their depreciation, and the loss on disposal
- demonstrated the technical ability and critical thinking skills necessary to correctly prepare the majority of adjusting journal entries from the information provided
- correctly accounted for the downward revaluation of the land
- exhibited the technical and communication skills necessary to prepare the statement of comprehensive income classified by function in a format suitable for external reporting purposes
- showed evidence of planning their answers and used the additional information and resources to support their position
- used the material provided in the resource booklet to discuss how the advances in artificial intelligence (AI) enhance and challenge the accounting profession's ethical standards in addressing the concerns of society, business, regulators, and individuals, but did not demonstrate the same depth of analysis as candidates who achieved outstanding scholarship
- were able to make some limited evaluation on how the definition of accounting could be amended to more accurately reflect accounting's modern, purpose, influence and contribution to society
- correctly calculated the break-even, margin of safety, and or net profit for 2025 and for the modified water tanks
- evaluated the impact that the relevant range would have had on management decision
- evaluated the two scenarios and made a recommendation based on financial and a limited amount of non-financial information
- applied the definition and recognition criteria for an asset from the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2018 (NZ Framework)
- struggled to articulate measurement uncertainty around the contracts at valuation and digital assets.

Candidates who were **not awarded Scholarship** commonly:

- did not show evidence of planning their answers
- did not correctly prepare most of the adjustments required to account for the assets that were disposed of
- did not appropriately consider the additional information supplied for the preparation of statements
- did not follow requirements for the preparation of a statement of comprehensive income classified by function in a format suitable for external reporting purposes, including appropriate set out and terminology use
- did not account for the downward revaluation of the land
- repeated the material provided in the resources without providing further details
- wrote descriptive answers with little depth of analysis
- did not use the additional information in the questions or the additional resources in their answers
- did not calculate the break-even point or margin of safety for 2025
- did not understand the importance of the relevant range
- did not correctly calculate the break-even or net profit for the modified water tanks
- did not evaluate which of their scenarios they would recommend
- did not show familiarity with the most recent iteration of the New Zealand Equivalent to the IASB Conceptual Framework for Financial reporting 2018 (NZ Framework)
- did not show familiarity with the definition and recognition criteria for an asset, or incorrectly applied the definition and recognition criteria, or listed the definition and recognition criteria for all financial statement elements without application to the context.