

Assessment Report

Level 3 Accounting 2017

Standards [91404](#) [91406](#) [91408](#)

Part A: Commentary

Candidates are encouraged to familiarise themselves with the context before beginning to answer questions, and avoid producing rote-learned responses. This particularly relates to both the 91404 and 91408 standards, where candidates must answer in context to gain Achievement. Candidates are advised to 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
- identified that users needed to know the policies or assumptions that have been adopted in the preparation of The Warehouse Group Limited's annual financial statements for understandability or comparability purposes
- gave a valid reason for how suppliers would use the information in The Warehouse Group Limited's Statement of Cash Flows.
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- gave a valid reason for how suppliers would use the information in The Warehouse Group Limited's Statement of Cash Flows.
- gave a valid reason how the CEO's statement satisfies the information needs of a potential investor of The Warehouse Group Limited
- described that an auditor's report states that The Warehouse Group Limited's annual financial statements show a true and fair view
- stated the income recognition criteria of probable future economic benefit with an amount that can be reliably measured
- described a component of faithful representation
- described historical costs as the computer software being recorded at its original purchase price
- described capital expenditure as a one-off payment which benefits The Warehouse Group Limited for more than one year
- described revenue expenditure as regular payments which benefits The Warehouse Group Limited for the current year only
- described that only The Warehouse Group Limited can use the computer software
- described how The Warehouse Group Limited will benefit in the future because the computer software is installed to earn income for the company
- described an expense in context that will decrease assets, decrease equity and is not a distribution to shareholders.

Candidates who were 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
- described the purpose of a Statement of Cash Flows with no reference made to an accounting period / during the year
- described why the tenancy rents received satisfies the characteristics of an income as opposed to describing the income recognition criteria of probable economic benefit or a cost that is reliable
- did not know the definition of a current liability which was often described as “to be paid in the current period” rather than the “next period”
- defined historical cost with no reference to The Warehouse Group Limited or the computer software
- were unable to distinguish between which components of the computer software is reported as capital or revenue expenditure
- if an attempt was made to answer the paragraph question, were only able to describe the essential characteristics of an asset with no reference to The Warehouse Group Limited or to the computer software.

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 that users needed to know the policies or assumptions that have been adopted in the preparation of The Warehouse Group Limited's annual financial statements for understandability or comparability purposes and linked this explanation to the accompanying notes providing additional detail and disclosures for users to make sound decisions based on The Warehouse Group Limited's annual financial statements
- gave a valid reason how the CEO's statement satisfied the information needs of a current shareholder linked to The Warehouse Group Limited's profitability
- explained the probable economic benefit of the tenancy rents received income for The Warehouse Group Limited was the money being received from the tenants
- explained that the amount of the tenancy rents received could be reliably measured by a source document

- gave a valid reason why taxation payable results in a present obligation for The Warehouse Group Limited
- described the Inland Revenue Department as an independent organisation when explaining the components of faithful representation
- linked the concepts of an asset to capital expenditure and the concepts of an expense to revenue expenditure
- described The Warehouse Group Limited's resource control characteristic of an asset by discussing the exclusion of others from benefitting from the land and buildings
- explained that The Warehouse Group Limited will benefit in the future by describing how the computer software is used to earn income for the company, which ultimately brings cash into The Warehouse Group Limited
- explained the decrease in economic benefit (cash) to an expense incurred by The Warehouse Group Limited from the installation of the computer software.

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 the purpose of the Statement of Cash Flows by linking how suppliers would use the information in The Warehouse Group Limited's Statement of Cash Flows
- explained how the information needs of a potential investor is linked to The Warehouse Group Limited's profitability and its ability to pay future dividends which may convince a potential investor to buy shares in The Warehouse Group Limited
- explained a valid reason why an auditor's report is a statutory requirement that included the identification that an auditor's report was an independent opinion
- explained the probable economic benefit of the tenancy rents received income for The Warehouse Group Limited was the money being received from the tenants that also included a reason why
- explained the amount of the tenancy rents received could be reliably measured by a source document which was from an independent third party
- explained why taxation payable is a current liability by linking the outflow of resources embodying economic benefits as the cash given up by The Warehouse Group Limited in the next year
- explained how faithful representation is satisfied by the Inland Revenue Department, an independent organisation calculating the \$2.1 million of taxation payable owing by the amount of provisional taxation paid by The Warehouse Group Limited during the year being offset against the actual taxation expense once net profit has been calculated
- fully explained the difference between capital and revenue expenditure associated with The Warehouse Group Limited's computer software
- included the costs of getting the computer software into location and condition to use when fully explaining historical cost, an asset's past event and the concept of capital expenditure.

Standard specific comments

The Warehouse Group Limited is a familiar New Zealand reporting entity for candidates to apply their knowledge of accounting concepts. Despite this, there was an increase in the number of candidates who did not attempt to answer this standard.

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.

Candidates are encouraged to answer each bullet point in the paragraph question in sequence to ensure that all the requirements of the question are included in their explanation.

91406: Demonstrate understanding of company financial statement preparation

Candidates who were awarded **Achievement** commonly:

- attempted to complete the majority of the three questions in the assessment
- were able to complete partial general journal entries and general ledger accounts for share repurchase, financial asset revaluation and dividends
- were able to partially complete a Contributed equity note
- understood the Statement of Cash Flow format using correct titles and some adjustment calculations
- were able to identify and transfer figures from the trial balance into an Income Statement
- were able to calculate straight forward balance day adjustments in the Income Statement
- had a partial understanding of the written questions.

Candidates who were assessed as **Not Achieved** commonly:

- were unable to complete general journal entries or general ledger accounts with correct processes and stems / figures
- did not attempt to answer the written questions
- did not understand the requirements of how to answer the written questions as well as not providing context in their answers
- were unable to correctly identify figures required for the Contributed equity note or show the correct process of adding and subtracting
- used incorrect formatting or lack of titles in the Statement of Cash Flows
- could not distinguish cash and non-cash items in the Statement of Cash Flows
- could not complete balance day adjustments
- included foreign items in the financial statements.

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

- completed general journal entries and general ledger account entries for share repurchase, financial asset revaluation and dividends
- showed clear understanding of Contributed equity note including the process, calculations and stems
- calculated the majority of the cash flow figures correctly in the Statement of Cash Flows and showed adequate working
- understood layout and what items belonged in what financial statements
- calculated the majority of the balance day adjustments and reported them correctly in the Income Statement and Statement of Financial Position extract
- understood correct accounting treatment in financial statements and transferred this knowledge to the written questions.

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

- completed the Contributed note using correct stems, treatment and figures
- read the questions carefully and answered the written questions with clarity and understanding of what the question was asking
- had a comprehensive understanding of how provisional tax works for a company
- had a comprehensive understanding of how a building revaluation is processed
- comprehensively completed the Statement of Cash Flows with nearly all transactions correctly calculated with correct stems and layout

- calculated balance day adjustments and used correct stems and layout/processes in the Income Statement, including process of profit before and after tax
- understood how to calculate the cash paid to suppliers figure and vehicle sale/purchase in the cash flow statement
- explained both the calculation and why the interest on loan figure was not representing cash paid in the Income Statement
- clearly showed how to complete a Contributed equity note with stems and figures
- had no foreign items in any of the financial statements.

Standard specific comments

Candidates need to have an understanding about WHY transactions occur and HOW they are processed and reported in the financial statements. This would then enable candidates to answer the written questions at the level required. Use of "because" as a connector and figures are vital for a candidate to show comprehensive understanding.

Many candidates did not seem to have a good understanding of how provisional tax works for a company.

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

Candidates who were awarded **Achievement** commonly:

- were able to write reasonable definitions and used the context of the paper, sometimes using an example that was appropriate to the question
- could calculate two of contribution margin, break even dollars and margin of safety
- could complete the Cash Budget with fair accuracy and were able to write some relevant information were able to describe a recommendation in context, identify a range of ideas from the source material and restate them in their answer showing a knowledge of financial and non-financial items.

Candidates who were assessed as **Not Achieved** commonly:

- did not attempt to answer all questions
- experienced difficulty with calculating contribution margin, breakeven dollars and margin of safety.
- experienced difficulty with the definitions of a variable cost, contribution margin and routine decision
- calculated data for a Cash Budget with some calculation errors
- confused a budgeted income statement with a cash budget
- wrote unstructured ideas with some awareness of financial and/or non-financial information
- restated data from the case study information with little awareness of application in the business context.

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

- calculated contribution margin, breakeven in dollars of sales (although sometimes in units which was not asked), margin of safety (although sometimes as a percentage which was not asked)
- explained 'variable cost' and 'routine decision' in context
- explained the link between changing a routine matter and impact on break-even/margin of safety
- accurately calculated data for a Cash Budget
- made a limited connection between the data in the Cash Budget prepared and the effect of council plans

- showed understanding of why estimates in a Cash Budget, while being accurate, may result in a variance when later compared to what actually happened
- showed understanding that a variance may require a change in business plans
- recognised financial and non-financial information
- wrote a report that incorporated some data from the case study and the required calculations in their answer booklet
- effectively applied generic knowledge of cost terminology/concepts to the context of the case study business activity
- showed some understanding of literacy skills such as paragraphing, internal construction of paragraphs, and development of a logical argument using a report style.

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

- explained 'variable cost' and 'routine decisions' in context
- calculated contribution margin, breakeven in dollars of sales, and margin of safety in units
- understood the links between a routine decision and an impact on contribution margin, break-even and margin of safety
- accurately calculated data for a Cash Budget
- applied the data from the Cash Budget to an applied context for the business, recognising all parts of the task
- showed understanding of why estimates in a Cash Budget, while being accurate, may result in a variance when later compared to what actually happened
- incorporated examples of realistic events, relevant to this case study, that may result in variances between estimated and actual data
- recognised financial and non-financial information
- wrote a report that incorporated material from the case study, calculations from the answer booklet and their own calculations, particularly with reference to the impact of changes on the cost data for the business
- linked this data to their own thinking to show a sophisticated level of understanding of business decision-making
- structured their report in a manner that would assist the business owners to understand the ideas/suggestions/observations, using topic headings, paragraphing, tight paragraph construction, and development of argument throughout the report
- showed perception of business ideas relevant to the owners, that were not explicitly disclosed in the case study data.

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 Three 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. Legibility of writing is now starting to become more of a problem when assessing a candidate's written explanation.

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

Accounting subject page

Previous years' reports

[2016 \(PDF, 0KB\)](#)

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