

# Assessment Report

---

## On this page

[90976: Demonstrate understanding of accounting concepts for small entities](#) ▼

[90978: Prepare financial statements for sole proprietors](#) ▼

[90980: Interpret accounting information for sole proprietors](#) ▼

## Level 1 Accounting 2018

Standards [90976](#) [90978](#) [90980](#)

## Part A: Commentary

The level one accounting examination focusses on sole proprietor entities which have one owner, not a company or a business with lots of investors. These sole proprietor entities can be trading and/or service businesses. It is important that candidates spend time acquainting themselves with the type of entity being examined in each paper by reading the resource material carefully. On the whole, those candidates who used the resource material well and incorporated this information into their answers in the relevant paper, performed well in this examination.

Candidates need to be familiar with the achievement standard explanatory notes and the accounting appendix (<http://ncea.tki.org.nz/Resources-for-Internally-Assessed-Achievement-Standards/Social-sciences/Accounting/Level-1-Accounting/Related-resources>).

## Part B: Report on standards

# 90976: Demonstrate understanding of accounting concepts for small entities

---

Candidates who were awarded **Achievement** commonly:

- described definitions of concepts and financial elements
- recognised the liabilities and/or calculated equity correctly
- described the effects of a transaction.

Candidates whose work was assessed as **Not Achieved** commonly:

- could not describe the characteristics of an asset, income or expense
- could not state the features of period reporting, depreciation, accrual basis or accounting entity.

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

- explained their answers in context for 'Cakes and Cookies', using the resource material provided
- explained the characteristics of the financial elements and the accounting concepts by referring to specifics e.g. the account name, dollar amounts, classification, the appropriate financial statement being impacted.

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

- applied definitions they had learnt to the resource material in order to demonstrate a comprehensive understanding of the financial elements and concepts for 'Cakes and Cookies'
- explained fully that the annual depreciation on the decorating tool of \$1500 is spreading the \$6000 cost over its useful life of four years
- explained fully how the \$400 ingredient purchase for both business and personal use was reported in both financial statements
- integrated the selling of cakes and cookies where relevant to ensure accurate context.

## Standard specific comments

It is important that candidates read the questions carefully. When being asked about how an item / transaction will be "reported in the financial statements"

candidates need to be specific about which financial statement, and the account name and classification, if relevant.

Candidates needed to recognise that Cakes and Cookies was a sole proprietor business, not a company.

Explaining equity was not well answered.

The accrual basis question asked for the impact on the statement of financial position, however, many candidates answered for the income statement.

---

## 90978: Prepare financial statements for sole proprietors

---

Candidates who were awarded **Achievement** commonly:

- prepared the financial statements using appropriate layout and headings
- classified income and expenses in the income statement using the expense classifications provided
- classified assets and liabilities in the statement of financial position using the standard sub-headings as stated in the Level 1 Accounting Appendix
- completed the property, plant and equipment table
- distinguished receipts and payments from the resource to prepare the cash budget
- established an accurate 'stem' from the transaction information
- included foreign items in the various statements.

Candidates whose work was assessed as **Not Achieved** commonly:

- did not use accurate headings in the financial statements and therefore could not prepare "fully classified" financial statements
- did not distinguish Revenue from Other Income

- could not classify accounts accurately in the income statement and statement of financial position
- used incorrect account names or stems, and / or abbreviations in the financial statements
- included payment method or copied sentences in the cash budget.

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

- prepared the financial statements using all / nearly all the required headings
- classified most of the income and expense accounts correctly
- treated most of the balance day adjustments correctly
- included a small number of foreign items across the entire paper
- distinguished most of the cash from the non-cash items in preparing the budget
- included detracting errors e.g. Gross Profit (detracting as this was a service entity).

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

- prepared the income statement accurately for a service business, and the statement of financial position without detracting errors, and the correct headings
- prepared the cash budget with appropriate headings, and the correct process at the bottom by labelling and calculating the surplus, opening bank balance and estimated closing bank balance
- had no foreign items in the financial statements
- distinguished all / nearly all cash and non-cash items, and made accurate calculations where required.

### **Standard specific comments**

Candidates must read the instructions carefully to avoid missing out on obtaining credit for their answers, e.g. No abbreviations, label the cash surplus or deficit.

It is important that candidates are familiar with the different headings required for the Income Statement depending on whether the business is a service or trading entity. Using the expense classifications that are provided in the instructions is also important.

# 90980: Interpret accounting information for sole proprietors

---

Candidates who were awarded **Achievement** commonly:

- calculated two of the three analysis measures correctly
- described the meaning of the analysis measure provided
- made incomplete recommendations (e.g. liquid ratio: increase bank, administrative expense percentage: decrease telephone), lacking what Fashionz must do to achieve this
- used rote-learned reasons for trends and recommendations, which were not necessarily appropriate for the resource material provided
- classified advertising as an administrative expense
- confused improving sales with improving profit
- did not understand the percentage change in sales, often stating that sales had decreased by 17.2% from the previous year.

Candidates whose work was assessed as **Not Achieved** commonly:

- calculated one analysis measure accurately in each question
- provided partial definitions to describe the meaning of an analysis measure, or provided the incorrect description (e.g. described liquid ratio when asked for equity ratio)
- did not use the resource information
- did not answer the question that was asked (e.g. described ways to improve gross profit by increasing mark-up, when the question asked to improve sales).

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

- calculated the analysis measures correctly allowing for an accurate trend to be explained

- explained reasons for trends, detailing what happened and the impact on the account
- made valid recommendations taking into consideration the resource information.

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

- fully explained reasons for the trend, by incorporating specific evidence (data / figures, information), and clearly detailing how this event caused the trend to occur
- explained justified recommendations to improve the current situation that were appropriate to Fashionz by clearly linking the recommendation to the components of the analysis measure
- demonstrated a comprehensive understanding of Fashionz financial results by applying the resource information, not just copying it.

### **Standard specific comments**

It is important that candidates read the resource material carefully and become familiar with the entity being examined before answering the questions.

A trend explained must provide the details of what specifically happened and how this would impact on the account(s) to create the trend.

A trend being fully explained requires candidates to fully explain their thinking, including linking the fully detailed event causing the trend to the account name(s), and to the classification and the analysis measure. Data and evidence should be included, if available, in the explanation.

For recommendations, the same technique should be used, except for a future event, as opposed to a past event, for both merit and excellence.

A recommendation should be something new and not something that is currently happening e.g., sell inventory is not a recommendation; this is what the entity does.

It is important that candidates provide accounting-based answers. Many provided economics or business studies answers that did not have the accounting detail / depth needed to meet this standard.

# [Accounting subject page](#)

## Previous years' reports

[2017 \(PDF, 47KB\)](#)

[2016 \(PDF, 213KB\)](#)

---

Copyright © New Zealand Qualifications Authority