

Assessment Report

On this page

[91404: Demonstrate understanding of accounting concepts for a New Zealand reporting entity](#) ▼

[91406: Demonstrate understanding of company financial statement preparation](#) ▼

[91408: Demonstrate understanding of management accounting to inform decision-making](#) ▼

Level 3 Accounting 2018

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

Part A: Commentary

Candidates who gained Achievement in Level 3 Accounting were able to:

- answer the question set by using the context of the question in their answers rather than giving a rote-learned response
- complete general journal entries in terms of providing a stem and with no numbers missing in either the debit or credit column
- use account names in both general journal entries and financial statements correctly
- use correct contra entries in general ledger entries.

Candidates should familiarise themselves with the context before beginning to answer questions. They should not produce rote-learned responses to generic questions. This particularly relates to both the 91404 and 91408 standards, where candidates must answer in context to gain Achievement. Candidates need to be

encouraged 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
- described Auckland International Airport Limited's shareholders as being personally not liable or that their personal assets are protected
- described that the benefit of preparing any financial report must outweigh the cost of doing so
- identified an example of an estimated figure or non-cash item not included in the general purpose financial statements of Auckland International Airport Limited's annual report
- described NZ GAAP as rules for the preparation of general purpose financial statements

- identified that the depreciation expense results in a decrease in assets (runway, taxiways and aprons), a decrease in equity, and is not a distribution to shareholders
- explained, using relevant amounts, how the interest expense and the interest expense owing would be reported in the Statement of Comprehensive Income or Statement of Financial Position and related this to the appropriate accounting period
- explained the three essential characteristics of a liability as being a present obligation resulting from a past transaction or event which results in an outflow of economic benefit
- described that Auckland International Airport Limited has no present obligation to pay for any noise insulation costs
- described that there is no outflow of economic benefit from Auckland International Airport Limited but did not recognise that the past event / transaction in this question resulted in Auckland International Airport Limited reporting the contingent liability
- described the qualitative characteristic of relevance in the context of Auckland International Airport Limited
- described why the contingent liability is material because of its size and that it is likely to influence users of Auckland International Airport Limited's financial reports in making decisions.

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

- did not attempt all the questions
- 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

- showed little understanding or familiarity with the measurement base of realisable value
- described that benefits must outweigh the cost with no reference to the preparation of financial statements
- described why depreciation is an expense without linking this description to all components of the definition of an expense
- were unable to explain how the treatment of interest expense and the interest expense owing complied with the accrual basis of accounting. These candidates often omitted relevant numbers and provided only a definition of the accrual basis of accounting with no reference to the Statement of Comprehensive Income or Statement of Financial Position, and the link to the correct period was not clear
- were only able to describe the essential characteristics of a liability if an attempt was made to answer the paragraph question, with no reference to Auckland International Airport Limited or to the pending lawsuit.

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
- described a circumstance in which limited liability may not protect a director (who is also a shareholder) of Auckland International Airport Limited
- described that the benefit exceeds the cost of preparing annual financial statements prepared in accordance with NZ GAAP / annual financial statements with full compliance to NZ IFRS
- explained that depreciation is an estimated figure in the general purpose financial statements of Auckland International Airport Limited's annual report, linked to the profit of Air New Zealand Limited not being entirely accurate
- described that following NZ GAAP means that Auckland International Airport Limited has complied with all the applicable financial reporting standards in the NZ IFRS to give a true and fair view
- described that depreciation on the runway, taxiways and aprons is a decrease in assets, a decrease in equity by less profit, and is not a distribution to shareholders

- identified the measurement base of realisable value being applied to the reporting of trade receivables
- fully explained, using relevant figures, either the interest expense reported in Auckland International Airport Limited's Statement of Comprehensive Income or the liability reported in Auckland International Airport Limited's Statement of Financial Position
- explained by providing a reason why Auckland International Airport Limited has no present obligation to pay for any noise insulation costs
- explained by providing a reason why there is no outflow of economic benefit from Auckland International Airport Limited
- explained the qualitative characteristic of relevance in context of Auckland International Airport Limited
- explained why the contingent liability is material because of its size and that it is likely to influence users of Auckland International Airport Limited's financial reports in making decisions.

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

- had been exposed to New Zealand reporting entities' annual reports and therefore 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 how the benefit exceeds the cost of preparing annual financial statements prepared in accordance with NZ GAAP, linked to Auckland International Airport Limited being an issuer / public accountability and having many users
- explained that the realisable value of trade receivables is the expected cash to be received from accounts receivable, assuming that doubtful debts are written off as bad debts
- fully explained, using relevant figures, both the interest expense reported in Auckland International Airport Limited's Statement of Comprehensive Income and the liability reported in Auckland International Airport Limited's Statement of Financial Position

- explained the past event that resulted in Auckland International Airport Limited reporting the contingent liability
- explained why the contingent liability is relevant information for any one user of Auckland International Airport Limited's financial statements
- explained why the contingent liability is material because it is likely to influence users of Auckland International Airport Limited's financial reports in making decisions.

Standard specific comments

Auckland International Airport 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 Achievement in this standard.

91406: Demonstrate understanding of company financial statement preparation

Candidates who were awarded **Achievement** commonly:

- entered a correct transaction stem in a General Journal or the General Ledger and completed some entries in the Distributions Notes
- reported at least eight correct entries in the Cash Flow Statement under correct headings and classifications
- reported at least twelve correct entries in the Statement of Comprehensive Income or the extract for current assets in the Statement of Financial Position

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

- entered six or less correct transaction stems in a General Journal or the General Ledger and completed some entries in the Distributions Notes

- reported six or less correct entries in the Cash Flow Statement under correct headings and classifications
- reported less than ten correct entries in the Statement of Comprehensive Income or the extract for current assets in the Statement of Financial Position
- did not attempt the written answers or if they did the answers were very poor. For example, no figures stated, no accounts identified, and no financial statements identified.

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

- identified a correct ledger account for the revaluation of shares with a correct figure
- reported at least eleven correct entries in the Cash Flow Statement under correct headings and classifications
- described the difference in figures between the Cash Flow Statement and the Statement of Comprehensive Income for the rent received explaining how actual cash received related to which period
- reported at least sixteen correct entries in the Statement of Comprehensive Income or the extract for current assets in the Statement of Financial Position
- identified how the retained earnings ledger was classified and recognised at least one component that adjusted the retained earnings for the closing balance.

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

- identified a correct ledger account for the revaluation of shares with a correct figure and explained how this account is reported in the correct financial statements
- reported at least thirteen correct entries in the Cash Flow Statement under correct headings and classifications and showing the correct process for calculating the closing bank figure
- explained the difference in figures for rent received between the Cash Flow Statement and the Statement of Comprehensive Income and explained how actual cash received related to which period by adjusting for the balance day account of Income in Advance and also stating a figure
- reported at least nineteen correct entries in the Statement of Comprehensive Income or the extract for current assets in the Statement of Financial Position

- identified where retained earnings was classified and recognised all components that adjusted retained earnings, at the end of the year to calculate the closing balance.

Standard specific comments

Higher achievement is dependent on the quality of the written answers. Candidates need to use the bullet points provided in the question to structure their answers to the written questions and they need to note that when transferring figures from financial statements to written answers they need to be careful about 000's.

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

Candidates who were awarded **Achievement** commonly:

- were able to describe some definitions of semi-variable costs, routine decisions, strategic decisions or the purpose of a cash budget
- calculated some of breakeven in units, margin of safety in dollars or breakeven to achieve a given profit
- completed a cash budget with some accuracy
- described a recommendation and stated some ideas to support the recommendation
- included non-cash items in the cash budget.

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

- provided incorrect calculations
- did not understand the problem posed in the case study
- experienced difficulty identifying the difference between a routine and strategic decision.

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

- calculated most of breakeven in units, margin of safety in dollars or breakeven to achieve a given profit
- explained most definitions of semi variable costs, routine decisions, strategic decisions or the purpose of a cash budget in context
- completed a correct cash budget with no foreign items
- explained the impact of the new ideas on the cash budget
- explained a recommendation and used examples in context showing an understanding of financial and non-financial information.

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

- calculated all of breakeven in units, margin of safety in dollars or break even to achieve a given profit correctly
- explained and justified definitions of semi variable costs, routine decisions, strategic decisions and the purpose of a cash budget in context
- justified the impact of the new ideas on the cash budget
- explained and linked a recommendation using examples in context showing an understanding of financial and non-financial information
- showed perception of business ideas relevant to the owner 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.

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

[Accounting subject page](#)

Previous years' reports

[2017 \(PDF, 60KB\)](#)

[2016 \(PDF, 254KB\)](#)

Copyright © New Zealand Qualifications Authority