

Assessment Report

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Level 2 Accounting 2018

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Part A: Commentary

Candidates who engaged with the context of each examination and integrated the context as relevant into their answers were most likely to gain success in each standard.

Part B: Report on standards

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

Candidates who were awarded **Achievement** commonly:

- described relevant concepts with some reference to the context of each question such as the purpose of the income statement was to report profit for *Okupu Photography* for the year; revenue expenditure relates to the day-to-day operations of *Okupu Photography*; historical cost is the purchase cost of the photography equipment
- completed one question to a high standard but failed to attempt or complete other questions.

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

- described concepts with no reference to context
- used colloquial rather than accounting language
- provided rote-learned answers without any reference to context such as referring to the sole proprietor business as a company
- attempted only one or two parts of the questions in the paper.

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

- explained relevant concepts, engaging with the photography business context in their evidence, e.g. providing a reason why *Okupu Photography* was a going concern with reference to Emma's plans; provided a reason why Emma would want to see the profit determined in the Income Statement
- linked detail, including relevant figures, provided in the resource material, such as the dollar amounts for income in advance liability, wedding photography income reported in the income statement, the cost of the new camera lens, when explaining the concepts and financial elements.

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

- fully engaged with the context of *Okupu Photography's* income, expenses, assets and liabilities, effectively using relevant detail including correct figures from the resource material to explain the relevant concepts, financial elements and qualitative characteristics
- understood the links between concepts, reporting of financial elements and qualitative characteristics of financial information necessary for decision making

- used relevant figures for both the wedding photo income reported in *Okupu Photography's* Income Statement and the income in advance current liability reported in *Okupu Photography's* Statement of Financial Position
- explained why the software licence fees are revenue expenditure linked to having no future economic benefit beyond the current month so they cannot be reported as an asset in *Okupu Photography's* Statement of Financial Position
- explained both the probable and reliable aspects of an asset's recognition criteria that included detailed links to the camera lens invoice.

Standard-specific comments

Candidates who read and understand the context and the links between concepts, financial elements and qualitative characteristics are able to demonstrate an in-depth or comprehensive understanding. Appropriate use of the detail provided in the resource material, including relevant figures, enhances candidates' responses. Candidates need to be exposed to a wide variety of contexts relevant to sole proprietor businesses.

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

Candidates who were awarded **Achievement** commonly:

- correctly completed balance day adjustments where the figure was given
 - correctly classified some of the photography expenses in the income statement extract
 - added incorrect classification headings to the income statement
 - identified some of the current assets
 - labelled their working for accounts receivable
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- entered some relevant information in the property, plant and equipment (PPE) note.

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

- were unable to correctly complete any of the balance day adjustments
- could not distinguish between an income statement and a statement of financial position, particularly when given extracts from each
- could not distinguish between an entry in the general journal and an entry in the general ledger.

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

- correctly completed balance day adjustments requiring a calculation
- correctly completed general journal entries for adjustments
- missed out closing entries in income and expense accounts or added a closing entry to accounts receivable
- used negative numbers in their doubtful debts ledger account
- correctly entered most of the relevant information in the PPE note and/or the accounts receivable note
- labelled their working for cash from accounts receivable and could correctly calculate some of the figures – the most common error being to use the carrying amount of accounts receivable from the accounts receivable note, instead of the closing balance of their accounts receivable general ledger account as the opening balance for accounts receivable in April
- recognised and included the correct current assets in the current asset extract
- completed the equity extract, without recognising that the profit for the year was provided in the question in the closing journal entry, or treated the closing journal entry as providing the closing equity amount.

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

- correctly completed and processed the balance day adjustments in both journals and ledgers, understanding when a closing entry would be required and when it would not be required
- understood that if you employ someone – in this case the second shoot, you pay them wages – second shoot wages in the trial balance was a clear hint –

so that when you owe money to the second shoot it is an accrued expense not accrued income to be added to wedding photo income

- understood the link between entries in journals, ledgers and financial statements – for example, understood that the opening balance of accounts receivable in April was the closing balance of their accounts receivable ledger, not the carrying amount of accounts receivable determined in the accounts receivable note
- understood the requirement to determine the profit from photography services only, meaning only the photography expense classification was required
- could distinguish between accumulated depreciation and depreciation ledgers and allowance for doubtful debts and doubtful debts ledgers – i.e. did not turn their expense ledger accounts in the examination into negative asset ledger accounts
- correctly completed both the accounts receivable note and the PPE note with minimal error
- understood that the closing journal entry provided, debiting income summary and crediting capital showed the profit for the year, not the opening or closing capital
- correctly calculated the cash from accounts receivable in April
- correctly identified the four current assets
- correctly completed the equity section of the statement of financial position.

Standard-specific comments

This standard requires students to prepare financial statements/financial statement extracts that are fit for purpose. Fit-for-purpose financial statements will meet the needs of the specific business and/or its sole proprietor owner, so for example software licence fees paid to enable Emma to edit her photos is a photography expense. Office expenses is not. The accounts receivable note requires a figure to be calculated from accounts receivable less allowance for doubtful debts, so this figure can be entered in the Statement of Financial Position. Adding bad debts to the calculation does not make it fit for purpose. Treating the accrued expense for second shoot wages as a current asset (accrued income) does not make the current assets total fit for purpose as this

amount is owed by *Okupu Photography*, not to it, thus overstating current assets if it is included there.

Candidates should be exposed to a wide range of relevant sole proprietor contexts, so they are able to prepare financial statements that are fit for purpose.

91177: Interpret accounting information for entities that operate accounting subsystems

Candidates who were assessed as **Achievement** commonly:

- described analysis measures using the context and figures provided, with some reference to the context provided in the resource material
- described a trend in an analysis measure, with some reference to the context
- gave a reason for a change in an analysis measure, with some reference to the context
- restated the resource material, only partially using it to answer the question.

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

- described analysis measures without reference to the context or the figures provided
- restated the formula instead of describing the analysis measures
- restated the resource material instead of using it to answer the question
- provided rote-learned answers without clear reference to the context.

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

- engaged with the context of each question
 - used detail from the resource material to explain individual analysis measures
 - used detail from the resource material to explain trends, for example in profitability, and recommendations, for example the accountant's
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recommendation for accounts receivable.

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

- engaged with and understood the different contexts for each question
- understood the interrelationship between analysis measures such as inventory turnover and mark-up percentage, age of accounts receivable and liquid ratio
- used detail from the resource material to justify the links between analysis measures, recommendations such as:
 - the link between low inventory turnover, high mark-up percentage and maintaining profitability in question one
 - the link between the accountant's recommendation, the age of accounts receivable and the ability to pay creditors on time
- used detail from the resource material to explain both the accountant's decision to grant a loan and the reason for the lower than budgeted return on total assets in the first season of operating a jet ski hire alongside kayak hire, while understanding that this would not be a permanent reduction in the return on total assets.

Standard-specific comments

Candidates need to understand the links between analysis measures and exactly what they are measuring

For example:

- the link between profitability percentages, including gross profit percentage, expense percentages and profit for the year percentage
- the link between the inventory turnover and gross profit percentages for different types of businesses should be understood, such as the need for a clothing business selling more expensive items, like surf wear, to have a higher gross profit percentage when inventory turnover is low; whereas, when selling inexpensive items, a higher gross profit percentage might be associated with a high inventory turnover, such as selling pens in a school stationery shop
- the link between management analysis measures and liquidity measures such as the link between the inventory turnover and current ratio, the link between the accounts receivable ratio and both the current and liquid ratios

- the link between financial stability as measured by the equity ratio and ability to pay expenses/debts measured by a cash flow statement or current/liquid ratio.

Candidates need to understand the reasons for decisions such as the decision to grant a loan, or for recommendations, such as recommending a course of action to improve the age of accounts receivable or inventory turnover or other analysis measure.

Candidates should be exposed to detailed resource material in relation to businesses used in the teaching and learning programme for this standard.

Restating formulae for analysis measures or restating the resource material without using it to explain the analysis measures does not provide evidence of understanding at Level 2.

[Accounting subject page](#)

Previous years' reports

[2018 \(PDF, 112KB\)](#)

[2017 \(PDF, 46KB\)](#)

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