



New Zealand Qualifications Authority
Mana Tohu Matauranga O Aotearoa

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Assessment Report

Level 3 Accounting 2016

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

Part A: Commentary

Candidates who were successful at this level 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 have familiarised themselves with the context before beginning to answer questions. They should not have produced 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 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 *Michael Hill International Limited* has public accountability
- described a valid reason why details regarding *Michael Hill International Limited's* donations to the Pink Hope Foundation are included in the annual report of the company
- described a valid reason of how the statement extracted from the CEO's Review of Operations satisfies the information needs of an employee currently working in a retail store of *Michael Hill International Limited*
- described NZ GAAP as rules for the preparation of general purpose financial statements
- explained that *Michael Hill International Limited's* general purpose financial statements could be compared over time or with other similar reporting entities
- 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 *Michael Hill International Limited* has no present obligation to pay the total amount of tax deductions claimed by the Group to the IRD as the lawsuit is still pending and no decision has been made
- described that there is no outflow of economic benefit from *Michael Hill International Limited* but did not recognise that the past event / transaction in this question was what resulted in *Michael Hill International Limited's* reporting the contingent liability
- described the qualitative characteristic of relevance in context of *Michael Hill International Limited*
- described why the contingent liability is material because of its size that it is likely to influence users of *Michael Hill International Limited's* financial reports in making decisions.

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 that *Michael Hill International Limited* is a New Zealand reporting entity because the company operates and is located in New Zealand
- described a reason why the statement extracted from the CEO's Review of Operations is important for the company without linking their reason to satisfying the information needs of an employee currently working in a retail store of *Michael Hill International Limited*
- showed little understanding or familiarity with the measurement base of realisable value. Often their response just repeated the resource material that the "collectability of trade receivables is reviewed on an ongoing basis" and therefore identified the measurement base as ongoing basis

- 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 able to describe only the essential characteristics of a liability if an attempt was made to answer the paragraph question with no reference to *Michael Hill International 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
- explained that *Michael Hill International Limited* is a New Zealand reporting entity because the company has public accountability
- described a valid reason of why details regarding *Michael Hill International Limited's* donations to the Pink Hope Foundation are included in the annual report of the company that is linked with a user's relationship to the company
- described a valid reason of how the statement extracted from the CEO's Review of Operations satisfies the information needs of an employee currently working in a retail store of *Michael Hill International Limited* linked to their employment conditions
- described that following NZ GAAP means that *Michael Hill International Limited* has complied with all the applicable financial reporting standards in the NZ IFRS to give a true and fair view.
- identified the measurement base of realisable value being applied to the reporting of trade receivables
- explained consistency in terms of the preparation of *Michael Hill International Limited's* general purpose financial statements rather than in terms of the format of presentation of the financial statements
- fully explained, using relevant figures, either the interest expense reported in *Michael Hill International Limited's* Statement of Comprehensive Income or the liability reported in *Michael Hill International Limited's* Statement of Financial Position
- explained with providing a reason why *Michael Hill International Limited* has no present obligation to pay the total amount of tax deductions claimed by the Group to the IRD
- explained with providing a reason why there is no outflow of economic benefit from *Michael Hill International Limited*
- explained the qualitative characteristic of relevance in context of *Michael Hill International Limited*
- explained why the contingent liability is material because of its size that it is likely to influence users of *Michael Hill International 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 in the classroom 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 that *Michael Hill International Limited* is an issuer who, as a result, has public accountability
- explained a valid reason of why details regarding *Michael Hill International Limited's* donations to the Pink Hope Foundation are included in the annual report of the company that is linked to both a user's relationship to the company and to aiding comprehension for that particular user
- explained a valid reason of how the statement extracted from the CEO's Review of Operations satisfies the information needs of an employee currently working in a retail store of *Michael Hill International Limited* linked to their employment conditions and to the online store expansion
- 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
- explained how comparability is achieved by linking the act of following the same accounting policies will lead to *Michael Hill International Limited's* financial statements being prepared in a consistent way
- fully explained, using relevant figures, both the interest expense reported in *Michael Hill International Limited's* Statement of Comprehensive Income and the liability reported in *Michael Hill International Limited's* Statement of Financial Position
- explained the past event that resulted in *Michael Hill International Limited* reporting the contingent liability
- explained why the contingent liability is relevant information for any one user of *Michael Hill International Limited's* financial statements.

Standard-specific comments

Michael Hill International 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:

- were able to complete partial general journal entries and general ledger account entries for asset revaluations
- were able to partially complete the Property, plant and equipment note to the Statement of Financial Position
- demonstrated an understanding of the cash flow format using correct titles and some adjustment calculations
- were able to calculate straight forward balance day adjustments in the Income Statement
- were able to identify and transfer figures from the trial balance into an Income Statement
- were able to partially complete the distribution note attached to the Statement of Financial Position.

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 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 Property, plant and equipment note or were unable to show the correct process of equal carrying amounts in this note to the Statement of Financial Position
- did not distinguish between cash and non-cash items in the Statement of Cash Flows
- could not distinguish between operating and financing activities in the Statement of Cash Flows
- did not use correct stems in the Statement of Cash Flows
- did not provide working for the calculations in the Statement of Cash Flows
- used an incorrect format for the Income Statement and often presented information in this statement by using the format taught in Level 1 and 2 Accounting, especially for Revenue and Other Income
- were unable to calculate balance day adjustments sufficiently
- included foreign items in the completion of the financial statements.

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

- completed general journal entries and general ledger account entries for revaluations with correct stems and figures
- demonstrated a clear understanding of Property, plant and equipment note process, calculations and stems
- calculated most cash flow calculations correctly, showed adequate workings for the cash calculations and labelled stems correctly
- showed in-depth understanding of the different types of transactions that impact on both the operating and financing activities of the Statement of Cash Flows
- distinguished between cash and non-cash items
- understood the components of the Income Statement and were able to calculate figures correctly and used appropriate stems
- had an in-depth understanding of how to incorporate balance day adjustments in the Income Statement
- understood layout and what items belonged in what financial statements

- understood correct accounting treatment in financial statements and transferred this knowledge to answer the written questions.

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

- completed the Property, plant and equipment note of the Statement of Financial Position using correct stems, treatment and figures
- demonstrated an understanding that an increase in fair value of assets was a current asset and explained how this increased profit and net assets
- read the questions carefully and answered the written questions with clarity of what the question was asking
- 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
- demonstrated an understanding of how to calculate the dividends figure in the cash flow statement and explain both the calculation and why the dividends received figure was not representing cash received in the Income Statement.
- clearly demonstrated how to complete a distributions note with stems and figures
- completed the dividends note with dates, dividend value and total cost as well as explain why the final dividend was a note to the financial statements.

Standard-specific comments

Candidates needed 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.

Candidates needed to carefully read the whole question, especially in Question 1 (d). Candidates who showed understanding of the calculations for financial statements were generally able to answer the written questions, especially in Question 2 (d).

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

Candidates who were awarded **Achievement** commonly:

- described two out of the three cost concepts of relevant range, margin of safety or production budget
- calculated one out of the three Cost-Volume-Profit calculations of contribution margin, production of kete needed to achieve a targeted profit or margin of safety
- recorded at least ten correct receipts and/or payments calculations in the Cash Budget

- provided a recommendation for *TKMC* and supported this by using one example that showed an understanding of financial or non-financial information
- recognised the difference between financial and non-financial information
- stated information from the case study in written answers and occasionally demonstrated additional thinking about the context by embedding the supporting given information in their answer.

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

- described one out of the three cost concepts of relevant range, margin of safety or production budget
- calculated one (or less) out of the three Cost-Volume-Profit calculations of contribution margin, production of kete needed to achieve a targeted profit or margin of safety
- recorded less than ten correct receipts and/or payments calculations in the Cash Budget
- provided a recommendation for *TKMC* but the written ideas provided showed no real understanding of the problem posed.

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

- calculated the Cost-Volume-Profit calculations of contribution margin, production of kete needed for targeted profit, and margin of safety (although sometimes expressed as a percentage)
- explained the cost concepts of relevant range, margin of safety and/or production budget in context
- recorded twelve to fourteen correct receipts and/or payments calculations in the Cash Budget
- incorporated the data from the Cash Budget to an applied context for the business
- 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 events that may result in variances between estimated and actual data
- recognised financial and non-financial information and made a link to informed decision making
- 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.

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

- calculated the Cost-Volume-Profit calculations of contribution margin, production of kete needed for targeted profit, and margin of safety in units
- explained the cost concepts of relevant range and margin of safety in context and linked them to decision making
- understood the purpose and application of production budgets, linking to projected sales data and control of costs in the context of the case study business
- recorded nearly all the correct receipts and/or payments calculations in the Cash Budget and recorded the correct figures for the closing bank balance

- 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
- provided a recommendation and wrote a report that incorporated material from the case study and supported this with calculations from previous questions and their own calculations – in particular, reference to the impact of changes on the cost data for the business
- linked data from the Cash Budget and resource material 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
- showed an understanding of literacy skills such as paragraphing, internal construction of paragraphs, and development of a logical argument using a report style.

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.

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