

Assessment Report

New Zealand Scholarship Accounting 2022

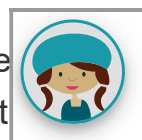
Standard 93203

Part A: Commentary

The definition and recognition criteria for financial statement elements underpins accounting. These should be thoroughly embedded as they are necessary to ensure financial statements are correctly prepared to provide users with quantitative financial information for decision making purposes. It was clear that generally candidates were not familiar with this topic although it had been highlighted in the assessment specifications.

Some candidates continue to equate quantity with quality. The number of unstructured answers for the concepts question was particularly concerning. Not only do candidates need to carefully plan their answers, but also their approach to the examination so as to meet the Scholarship criteria of convincing communication.

Question One was a current issues question which required candidates to first read unfamiliar resources then critically evaluate whether the accounting profession should play a role in combating modern-day slavery. Given the extensive resources available and the relatively open-ended nature of this question, candidates generally answered this question well and answers were varied and imaginative. Candidates appeared to take considerable time to get



familiar with the resources and spent time planning and incorporating the resources into their answers. Some of the answers to this question were outstanding.

Question Two was a management decision question. The question was not answered particularly well. The question required candidates to draft a report to *Otago Stone Limited* in which three independent scenarios were evaluated. This question required critical thinking in that candidates had to first calculate the expected break-even point and net profit for the 2022 reporting period before evaluating and comparing the three independent scenarios. Unfortunately, the majority of candidates failed to do this. For the first scenario, most candidates recognised the constraint around the relevant range, although a large number incorrectly assumed that sales in the South Island would cease and only the overseas sales would occur. Candidates were credited irrespective of the approach they took when considering this scenario. However, their calculations had to flow logically through the remainder of their answer. Although the question dealt with variable and fixed costs, some candidates incorrectly added the commission to the sales price in the second scenario even though the question said it was paid. Many candidates struggled to calculate the break-even point for North Island sales. In the third scenario, candidates were required to consider whether *Otago Stone Limited* should introduce a machine into the production process. Candidates struggled with this with a number deducting the whole cost of the machine as a fixed cost in the year of purchase. Some candidates had difficulty in evaluating the three scenarios and merely reproduced what was in the question without considering any non-financial factors.

Question Three was a concepts question. The question required candidates to use the financial statement element definition and recognition criteria contained in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2018 (NZ Framework) to explain what the financial statement implications would be for the recognition of a provision for warranty and the forgiveness of a loan and accrued interest. Candidates were required to first consider whether a provision for warranty costs was a liability that should be included in the financial statements. Has an event that creates the obligation occurred? Is there likely to be an obligation to ultimately transfer something that has value? Will the disclosure of the liabilities provide information that is both relevant and representationally faithful? Finally, consider existence uncertainty and the probability associated with an obligation to transfer economic resources away from the entity, particularly professional judgement about the probability and measurability of expected future cash flows, that is measurement uncertainty.

While candidates considered the issue of the provision for warranty, a substantial number ignored the forgiveness of the loan and accrued interest part of the question. Those candidates that considered the forgiveness of the loan and accrued interest were able to use the element definition and recognition requirement and treat this as income in *Boats R Us Limited's* financial statements. While candidates recognised that there had been a past event that may cause an outflow of economic resources, they were less certain in applying the recognition criteria, particularly around measurement uncertainty. Finally, most candidates were unable to communicate what impact the effect of the recognition the liability and income would have on the financial statements. The assessment specifications clearly indicated that understanding of the 2018 NZ Framework was required, however many candidates did not refer to this and had little understanding of the definition and recognition criteria. The number of candidates that considered the provision for warranty costs to be an asset was concerning.

Question Four was a technical question. Candidates had to use the information in the question to prepare the asset section of the statement of financial position at 31 August 2022 as well as accompanying notes. Candidates were required to make adjustments in order to answer the question. Although most candidates were able to make some of the adjustments, often these did not follow through to the financial statements. Some candidates failed to read the question properly and provided all the financial statements. Candidates who completed most of the technical requirements performed well. Those candidates who did not meet the scholarship standard often did not complete basic workings; in particular, those relating to depreciation. Many candidates continue to demonstrate poor processing skills.

Part B: Report on performance standard

Candidates who were awarded **Outstanding Scholarship** commonly:

- used the material provided in the resource booklet to critically evaluate whether the accounting profession should play a role in combating modern-day slavery
- demonstrated perception and insight in understanding the tension faced by the accounting profession in dealing with modern-day slavery

- made full use of the additional information and resources to provide succinct answers which clearly conveyed their point of view
- recognised that to evaluate the three scenarios, the break-even and expected net profit for 2022 had to be calculated first
- correctly calculated the break-even and net profit for each of the three scenarios
- evaluated the independent scenarios and make a valid recommendation based on financial and non-financial information
- applied the definition and recognition criteria for a liability from the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2018 (NZ Framework) to explain the implications of the events on Boats R Us Limited's financial statements
- worked through the liability definition and recognition criteria to support their answer and identifying whether a past event occurred that had the potential to create an obligation to transfer economic resources away from the entity
- applied the definition and recognition criteria of income
- demonstrated understanding that the disclosure of liabilities relies on professional judgements about the probability and measurability of expected future cash flows in a statement of financial information that provides information that is both relevant and representationally faithful
- demonstrated critical thinking to recognise that there is a high degree of measurement uncertainty associated with the transfer of economic resources for warranty, however the recognition of a liability is nevertheless relevant to the users of the financial statements
- explained the implications that the recognition of the provision for warranty and the forgiveness of the loan and accrued interest would have on the financial statements
- provided evidence of convincing communication by carefully planning their answer to avoid repetition
- demonstrated the technical ability and critical thinking skills necessary to correctly calculate the depreciation adjustment for assets that were revalued and disposed of during the year
- exhibited the technical and communication skills to prepare the statement of financial position extract, the required technically correct accompanying note,

and the statement of changes in equity, in a format suitable for external reporting purposes

- provided evidence of convincing communication in that candidates set out their answers clearly, and correctly disclosed the information required using correct terminology.

Candidates who were awarded Scholarship commonly:

- showed evidence of planning their answers and used the additional information and resources to support their position
- used the material provided in the resource booklet to evaluate the role that the accounting profession should play in combating modern-day slavery, but not demonstrating the same depth of analysis as the candidates who achieved Outstanding Scholarship
- presented evidence of evaluation on the role the accounting profession should play in combating modern-day slavery
- calculated the break-even and net profit for some of, but not all, the scenarios presented
- demonstrated understanding of the impact that the relevant range had on the three scenarios
- evaluated the independent scenarios and made a recommendation based on financial and some non-financial information
- applied the definition and recognition criteria for a liability from the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2018 (NZ Framework), however the application of the recognition criteria was not at the same level as the outstanding candidates
- applied the definition criteria of income
- did not recognise that a provision for warranty should be recognised in the research costs incurred as a result of a past event
- demonstrated the technical skills necessary to correctly prepare some of the adjustments necessary to account for the assets that were revalued, their depreciation and the loss on disposal
- exhibited the technical and communication skills necessary to prepare the statement of financial position extract and accompanying notes in a format

suitable for external reporting purposes

- provided some evidence of convincing communication in that they set out their answer clearly and correctly disclosed the information asked for as well as the majority of the information required in the accompanying financial statement notes using correct terminology.

Candidates who were not awarded Scholarship commonly:

- did not adequately plan their answers or approach to the exam paper
- repeated the material provided in the resources into their answer
- wrote descriptive answers with little depth of analysis
- did not use the additional information in questions or integrate the additional resources into their answers
- did not demonstrate the technical ability to correctly calculate the break-even point for 2022
- did not demonstrate understanding of the importance of the relevant range
- did not calculate the break-even or net profit of any of the scenarios
- did not evaluate which of their scenarios they would recommend
- did not demonstrate familiarity with the most recent iteration of the New Zealand Equivalent to the IASB Conceptual Framework for Financial reporting 2018 (NZ Framework)
- did not demonstrate familiarity with the definition and recognition criteria for a liability or income, or incorrectly applied the definition and recognition criteria
- listed the definition and recognition criteria for all financial statement elements
- did not explain what the implications of any adjustments would be to the financial statements
- did not demonstrate the technical skills to correctly prepare some of the adjustments necessary to account for the assets that were revalued or their depreciation
- did not demonstrate the technical skills necessary to take into account the additional information

- provided little or no evidence of convincing communication in that they did not know the requirements for a statement of financial position extract and accompanying notes
 - did not set out statements clearly and neatly or use correct terminology.
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