

Scholarship

2009 Assessment Report

Accounting

COMMENTARY

The overall performance of candidates was pleasing. Most demonstrated that they were familiar with the requirements of preparing financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards. This was reflected in the confidence evident in many of the candidates' answers. For the sustainability questions there was good evidence of independent research being undertaken.

SCHOLARSHIP WITH OUTSTANDING PERFORMANCE

Candidates who were awarded Scholarship with Outstanding Performance typically:

- used the element definition and recognition criteria contained in *The New Zealand Equivalents to the IASB Framework for the Preparation and Presentation of Financial Statements* (NZ Framework) to correctly explain how a football club would account for the purchase price and the weekly salary of a football player
- recognised that there would be an increase in future economic benefits associated with the purchase of Ronaldo in the form of increased gate sales and the sale of merchandise
- described the concept of sustainability reporting
- explained why it was important for entities to report on sustainability issues, and that there were both financial and non-financial benefits to reporting
- recognised that neither format of the statement of comprehensive income (income statement) was superior to the other, and also acknowledged that the classification of expenses by nature was the simpler of the two methods and as such was suitable for smaller reporting entities
- recognised that classifying expenses by function required management to allocate expenses according to their function, and that the allocation may be arbitrary and involve professional judgement
- recognised that entities would select the statement of comprehensive income format that would best suit their external reporting requirements
- related their answer to the suggested reading, and used and incorporated into their answers the information contained in the resources provided
- explained why an investor would make use of the segment report to analyse the financial performance and financial position of Restaurant Brands Limited
- set out answers clearly and neatly, and showed all workings
- correctly adjusted for the bad debts and did not adjust for the depreciation
- provided all the accompanying notes required by the question and in particular completed the property, plant and equipment note in full
- explained what is meant by the fixed overheads of \$1 150 over the relevant range of production
- provided examples of direct material costs
- correctly drew and labelled their graph and incorporated the breakeven point
- correctly calculated the margin of safety, the expected profit for the month, and the minimum number of biscuits that would need to be sold to make a profit of \$720 per month.

SCHOLARSHIP

Candidates who were awarded Scholarship but not Scholarship with Outstanding Performance commonly:

- provided elements definitions of an asset and expense

- in their accounting treatment of the purchase price, explained that the purchase of Ronaldo occurred as a result of a past event, that the club was able to exercise control over the player, and that the future economic benefits would flow to the entity
- correctly explained how the football club would account for the weekly salary paid Ronaldo
- described the concept of sustainability reporting and why it is important for entities to report on sustainability issues
- identified some benefits to those entities who report on sustainability issues
- recognised that classifying expense by function required management to allocate expenses according to their function
- recognised that the allocation of the expenses may be arbitrary and involve professional judgement by management
- acknowledged that the classification of expenses by nature was the simpler of the two methods and as such, was suitable for smaller reporting entities
- recognised that entities would select the statement of comprehensive income format that would best suit their external reporting requirements
- explained what EBITDA stands for, and explained why an investor would use the segment report to analyse the financial performance and financial position of Restaurant Brands Limited
- calculated and used the ratios to analyse and interpret the performance and position of the different segments of the Restaurant Brands Limited
- correctly classified the long-term liability into the long-term and current portion
- explained what is meant by fixed overheads over the relevant range of production
- correctly calculated the margin of safety, expected profit for the month, and minimum number of biscuits that would need to be sold to make a profit of \$720 per month.

OTHER CANDIDATES

Candidates who were not awarded Scholarship or Scholarship with Outstanding Performance commonly:

- did not use the appropriate element definition and recognition criteria contained in the NZ Framework to explain how a football club would account for the purchase price and weekly salary paid to a football player
- did not describe the concept of sustainability reporting, and merely described what it was the two entities did rather than explaining why it was important for them to undertake sustainability reporting
- did not evaluate the relative merits of preparing a statement of comprehensive income by nature or by function
- acknowledged that the classification of expenses by nature was the simpler of the two methods and as such was suitable for smaller reporting entities, but wrongly stated or implied that a statement of comprehensive income by function would enable management to establish the amount spent by reporting costs according to function (for example administration or distribution expenses)
- did not correctly use EBITDA or explain why an investor would make use of a segment report to analyse the financial performance and financial position of Restaurant Brands Limited
- did not correctly use the ratios or calculate the ratios asked in the question and did not provide reasons for the trends in the financial ratios
- did not prepare a balance sheet in a format suitable for external reporting purposes
- did not provide the accompanying notes required by the question

- did not calculate the margin of safety, nor explain what the figure represented for Chris's biscuit venture, nor calculate the expected profit for the month from the information provided
- did not draw and label a cost-volume-profit graph
- wrongly treated the breakeven point as being the difference between variable costs and sales.

OTHER COMMENTS

Candidates were expected to use the resource material provided and respond to the resources and the newspaper articles using their knowledge of analysis and interpretation and their study of the company.

Some candidates did not produce material consistent with the contents of the assessment specifications.

Many candidates did not use the appropriate element definition and recognition criteria contained in the New Zealand Framework for the Preparation and Presentation of Financial Statements.