



NEW ZEALAND QUALIFICATIONS AUTHORITY  
MANA TOHU MĀTAURANGA O AOTEAROA

# **Assessment Report**

## **Scholarship, 2006**

### **Accounting**

## **Accounting, Scholarship, 2006**

### **Commentary**

Overall, candidates performed to a high level in this examination. However, too many candidates went for quantity rather than quality.

Candidates should relate their answers to the specifics of the question. Those who provided rote-learned answers, without regard to the specific requirements and / or context of the question, did not perform well.

A significant number of candidates did not follow instructions, such as answering each new question on a new page.

### **The best-performing candidates most commonly demonstrated the following skills and / or knowledge:**

- understanding the objectives of financial statements
- ability to link section 3 of the Financial Reporting Act 1993 with FRS-41
- awareness of the FRS-41 disclosure requirements
- understanding that the choice of preparing an income statement by nature or function would depend on the historical and industry factor and the nature of the entity
- understanding that the preparation of an income statement by function requires management to exercise judgement when allocating individual expenses between cost of sales, selling and distribution expenses, and administration expenses
- understanding that the preparation of an income statement by function may provide information that is more relevant to users
- ability to prepare an income statement classified by function
- ability to calculate correctly the gross profit and profit for the year figures
- ability to provide correct accompanying notes appropriately set out
- ability to calculate the correct revaluation surplus for land and buildings
- ability to provide the correct depreciation figure, thereby ensuring the correct carrying amount for the property, plant and equipment at 30 June 2006
- ability to accurately set out the required numerical note, and provide appropriate and complete accompanying narrative notes
- ability to identify and explain the potential benefits accruing to New Zealand reporting entities from adopting International Financial Reporting Standards
- ability to describe GAAP
- understanding of the importance of GAAP in the preparation of financial statements
- understanding of section 3 requirements of the Financial Reporting Act 1993
- understanding that accounting standards are the primary indicators of GAAP
- familiarity with the company's annual report which clearly went beyond the information given in the examination
- ability to incorporate in their answer the resource material provided from the newspaper articles
- ability to provide answers that were beyond 'there was more cash from operations because there was more cash from customers'
- ability to provide reasons, such as; 'because of the expansion undertaken by Waste Management there was a much larger customer base, so more cash from customers, and while more cash was paid to suppliers to service these customers, it was proportionately less of an increase than the increase in cash

from customers, thereby increasing cash from operating activities. Business investments had paid off with an increase in dividends received'

- ability to provide good examples of fixed and variable expenses in relation to the business context
- ability to provide innovative reasons why the profit target was / was not feasible in each of the two scenarios, eg recognised that specialising in children's haircuts would mean a small customer base during school hours / children's hair cuts need time and attention as they are not always happy to be there / there needs to be time for booking customers; answering the telephone and having breaks.

**Candidates who did NOT achieve scholarship lacked some or all of the skills and knowledge above and in addition they:**

- did not answer questions in context
- listed the disclosure requirements of FRS-41 without answering the question
- provided only superficial descriptions of an income statement by nature and an income statement by function
- could not prepare the income statement classified by function
- were unable to calculate the gross profit correctly and failed to provide correct notes
- did not provide the accompanying narrative notes required by the question (gave an incomplete answer by only providing a numerical note)
- were unable to identify the benefits that may accrue to New Zealand reporting entities from adopting IFRSs
- could not link the Financial Reporting Act 1993 with GAAP
- made comments that could have applied to any business when the question specifically related to a particular business.