

# **Scholarship, 2007**

## **Accounting**

### **Assessment Report**

## **Accounting, Scholarship, 2007**

### **Commentary:**

Candidates are 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 annual report. In addition, candidates must answer the question asked. A well-prepared, rote-learned essay is unlikely to answer the examination question, stunning as the essay might be.

In Question One and Question Five, too many candidates failed to show their workings in spite of this being specifically required in the question.

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

- set out their answers clearly and showed all their workings
- prepared and set out clearly an income statement and accompanying notes in a format suitable for external reporting purposes, showed all their workings, and provided all the accompanying notes required
- explained the importance of the statement of compliance note to a potential investor in Contact Energy Limited, showing understanding that financial statements cannot be described as being in compliance with International Financial Reporting Standards (IFRS) unless all IFRS requirements are met
- explained why it is important for the financial statements of Contact Energy Limited to comply with generally accepted accounting practice, and showed understanding that compliance usually means the financial statements give a true and fair view of an entity's financial position, performance and cash flows
- accurately calculated the contribution margin, the breakeven point and margin of safety as well as the number of units that needed to be sold for a profit of \$100,000 per annum in Question 3
- prepared a comparative CVP income statement that clearly showed the contribution margin separately to profit
- considered non-financial information that may impact their decision and were able to discuss whether or not the company should make the changes set out in Question 3
- explained the accounting implications of the loyalty scheme in Question 4, recognising that it gave rise to a present obligation of the entity, that the liability was measurable and had a long-term and current portion
- provided all the accompanying notes required by Question 5
- correctly classified the long-term liability into the long-term and current portion and correctly accounted for the changes in equity
- demonstrated understanding that a segment report gave information additional to, rather than instead of, the full financial statements
- demonstrated understanding that a segment report gave financial information about retail and wholesale sectors and recognised that the segment report enabled users to distinguish between the profitable wholesale sector and the less profitable retail sector
- made use of the additional material provided to them as well as explained its limitations
- analysed and discussed the return on shareholders equity, return on assets and explained that it was the dividends per share and not the return on equity that reflected the amount per share Grandma would receive on her investment – these candidates were able to use the information to make a recommendation on whether or not \$100,000 should be invested in the Contact Energy Limited.

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

- did not set out the income statement in Question 1 in a format suitable for external reporting purposes
- did not provide the accompanying notes required by the question
- were unable to prepare an income statement classified by function, suggesting they were unfamiliar with IFRS – these candidates usually failed to provide workings to support their answer
- were sidetracked by perceived problems that did not exist given the information they were provided. For example, these candidates wrote about the need to employ more sales staff to sell more yachts adding further to costs; the costs they had been given would have included a consideration for this if it had been deemed necessary
- did not support their arguments with their CVP analysis and failed to include any non-financial information that might impact on the decision to make the changes suggested by William Poseidon
- did not know the definition of a liability and were therefore unable to explain the accounting implication of the loyalty scheme in Question 4 – these candidates considered the loyalty scheme gave rise to a contingent liability and did not recognise it as an expense that would appear in the income statement
- were unable to prepare a balance sheet in a format suitable for external reporting purposes
- did not provide the accompanying notes required by Question 5
- could not distinguish between the current and long-term portions of liabilities
- could not account for the changes in equity
- did not adequately address segment reporting or did not understand the purpose of segment reporting
- did not make use of the resources provided in the Resource Booklet to address the issue of whether \$100,000 should be invested in Contact Energy Limited
- were unable to explain the changes to the ratios provided in the Resource Booklet
- did not understand the ratios required to support their position; for example, some candidates implied the return on equity of 9.5% would give an investor a 9.5% return on \$100,000 (\$9,500) and compared this to a return of 7% from a bank (interest return \$7,000).