

# **Scholarship**

## **2014 Assessment Report**

### **Accounting**

## COMMENTARY

The format of a five-question paper appears to work well. A number of resources were provided for candidates to use. Candidates were asked to make use of the resources when crafting their answer to the analysis and interpretation question. Candidates were required to use a particular set of resources to answer question one and question two. This provided candidates with the opportunity of adjusting a trial balance, extending it and preparing the statement of financial position.

Candidates should be aware of the details given in the Assessment Specifications. Question one answers particularly exemplified this. Although the 10 column worksheet and integrated reporting were covered in the 2013 examination, a number of candidates appear not to have been exposed to the worksheet or had reviewed the integrated reporting material. As with previous years in the qualitative questions, a number of candidates equate quantity with quality. A number of the best answers from outstanding and successful scholarship candidates to questions three and four amounted to just over a page and sometimes not longer than two pages.

The first items of additional information for question one required candidates to use higher order thinking to consider the incorrect journal entry made by the accountant, namely, that they had “incorrectly debited cash and credited property, plant and equipment with the proceeds of the sale of the asset”. Candidates needed to evaluate the entry and recognise that although the debit to cash was correct, the credit of the sales proceeds to property, plant and equipment required attention. As with the previous year, this adjustment required candidates to account for the depreciation on the item of property, plant and equipment from the date of acquisition, 1 April 2013, to the date of disposal 1 August 2013. This illustrated a lack of critical thinking/technical understanding in that these candidates failed to recognise that depreciation is a consumption of economic benefits and should be accounted for while the asset is in use.

In spite of a 10 column worksheet being assessed previously, a substantial number of candidates were unable to complete the processing/worksheet part of the question. A substantial number of candidates could not distinguish between a Statement of financial position/Statement of changes in equity, and profit or loss items. A substantial number of candidates could also not account for the sale of the item of property, plant and equipment.

Although question two followed on from question one, it could be completed as a stand-alone question. A small number of candidates elected to do this without making reference to their answer in question 1. Where candidates did make reference to the 10 column worksheet a number of the figures bore no resemblance to those in the worksheet. As in the previous year, this suggests that perhaps these candidates did not understand/were unfamiliar/did not appreciate, how a worksheet can be used to facilitate the completion of financial statements.

Question two asked for the completion of a statement of financial position including accompanying notes in a format suitable for external reporting purposes. A number of candidates failed to read the question properly and provided a full set of financial statements while a number provided a statement of comprehensive income! Of some concern was the lack of understanding of how a statement of financial position is presented. A number of students included accumulated depreciation, and allowance for doubtful debts as liabilities, while others included the distributions as assets.

Question three which required candidates to use the definition and recognition criteria of the financial elements in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010 as a basis to discuss whether they agreed with the accounting treatment depicted in three journal entries, was answered better than the concepts question asked in previous years.

A number of candidates spent time discussing the definition and recognition criteria of the financial statement elements but failed to indicate whether they agreed with their friend's accounting treatment, something specifically requested in the question. A small number of candidates did not recognise that amortisation was an expense, while others spent an inordinate amount of time discussing whether amortising the brand on the straight line basis over 5 years was in fact appropriate something not asked in the in question. Again a concern is with the internal consistency of the answers provided. For example, a number of candidates indicated that the first entry to recognise the brand name was incorrect as the entity did not have control over the "brand", but considered the second entry to be correct. That is the entity could not make the first entry but could make the second.

Question four required candidates to explain what they thought were the potential concerns associated with integrated reporting. From the nature of the answers provided to question four, the integrated reporting question, it was clear that candidates from a number of schools prepared model solutions based on what they thought the question would be. A number of the prepared model solutions appeared similar to those provided last year. For example, a number of candidates spent up to two pages detailing what an integrated report is, and failed to provide any indication of the concerns associated with the report. This approach is particularly disappointing in a scholarship exam as these answers provided little evidence of critical or creative thinking on the part of candidates. A number of excellent and diverse solutions were however provided by candidates who achieved outstanding scholarship and scholarship who illustrated the ability to conduct independent research.

In question five, candidates were expected to use the resource material as well as their knowledge of analysis and interpretation and of the company to answer the question. As mentioned in the previous reports, it remains disappointing that a large number of candidates still fail to incorporate the resource material into their answers as required for the question. Additionally, where the resources are used, a number of candidates merely reproduce the material from the resources. That is the candidates provided a descriptive rather than a critical evaluation of Mighty River Power's share price performance since the share float. However the number of outstanding answers provided by candidates was gratifying especially those that were up to date with current share price movements and dividend payments.

A number of candidates who achieved scholarship had minimum technical ability. They clearly spent time researching and developing answers to the integrated reporting, and the analysis and interpretation question, but did not spend the same amount of energy honing their technical skills.

## **SCHOLARSHIP WITH OUTSTANDING PERFORMANCE**

### **Candidates who were awarded Scholarship with Outstanding Performance typically:**

In question one, candidates who obtained outstanding scholarship demonstrated critical thinking in that they were able to identify the need to account for depreciation from the date of acquisition to the date of disposal of the item of property, plant and equipment.

Additionally the candidates were able to make the necessary entries to correctly account for

the disposal of the property, plant and equipment and correctly calculate the property, plant and depreciation for the year, as well as correctly account for the share buy-back. They were able to correctly complete the worksheet adjustments from the information provided and correctly extend the worksheet.

In question two, candidates who achieved outstanding scholarship exhibited the technical skills necessary to correctly prepare the statement of financial position including accompanying notes in a format suitable for external reporting purposes. These candidates had the technical ability to make the correct calculations and adjustments, set out their answer clearly, neatly and show all the required accompanying notes to the financial statements.

In question three, candidates who achieved outstanding scholarship were able to use the definition and recognition criteria of the financial elements contained in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010 to discuss whether they agreed with their friend's accounting treatment of each of the three journal entries detailed in the question.

In question four candidates who achieved outstanding scholarship were able to explain and identify a number of potential concerns associated with integrated reporting. The extent and depth of the answers of these candidates provided evidence of independent research and deep thinking. The answers provided by candidates who achieved outstanding scholarship showed evidence of careful planning and included an introduction to contextualise the solution and a conclusion.

Candidates who achieved outstanding scholarship in question five had the ability to use the information in the resources provided and integrate the material from them to critically evaluate Mighty River Power's share price performance. Additionally these candidates provided evidence of independent research and deep thinking through their knowledge of the most recent movements in the share price and dividends as well as identifying other germane information and incorporating it into their answer. As with question four, the answers provided by candidates who achieved outstanding scholarship showed evidence of careful planning and included an introduction to contextualise the solution and a conclusion.

## **SCHOLARSHIP**

### **Candidates who were awarded Scholarship but not Scholarship with Outstanding Performance typically:**

In question one, candidates who obtained scholarship were able to make the majority of the entries necessary to account for the disposal of the item of property, plant and equipment, as well as correctly account for the share buy-back. These candidates had the technical skills necessary to correctly account for the majority of the adjustments from the information provided and correctly extend the worksheet.

In question two, candidates who achieved scholarship exhibited the technical skills necessary to correctly prepare the statement of financial position including accompanying notes in a format suitable for external reporting purposes. These candidates had the technical ability to make the majority of calculations correctly, set out their answer clearly, neatly and show the majority of accompanying notes to match the financial statement extracts.

Candidates who achieved scholarship in question three generally were able to use the definition and recognition criteria of the financial elements contained in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010 to discuss whether they agreed with their friend's accounting treatment with at least two of the three journal entries detailed in the question.

In question four candidates who achieved scholarship were able to explain or identify a number of potential concerns associated with integrated reporting. Some evidence of independent research and deep thinking was apparent from the candidates' answers.

Candidates who achieved scholarship in question five had the knowledge to evaluate Mighty River Power's share price performance. Additionally these candidates provided some evidence of independent research through including some knowledge of recent movements in the share price in their answer. They were able to integrate some of the information from the resources into their answers. Some evidence of deep thinking was apparent.

## **OTHER CANDIDATES**

### **Candidates who were not awarded Scholarship or Scholarship with Outstanding Performance typically:**

In question one, candidates who did not obtain scholarship were unable to account for the entries necessary to account for the disposal of the item of property, plant and equipment. These candidates failed to recognise that they first needed to adjust for depreciation for the current year to the date of disposal then eliminate the cost of the property plant and equipment as well as the accumulated depreciation to arrive at the loss on sale, and failed to account for the share buy-back. These candidates failed to complete the adjustment columns and could not extend the worksheet. Where the worksheet was completed, a number of candidates were unable to distinguish between debit and credit amounts. Particularly concerning was the number of candidates who could not differentiate between the items that appeared in the statement of financial position or profit or loss/statement of comprehensive income.

In question two, candidates who did not achieve scholarship failed to exhibit the technical skills necessary to correctly prepare the statement of financial position including accompanying notes in a format suitable for external reporting purposes. Where these candidates did not attempt (or failed to complete) question one, they did not show the technical ability to make the correct calculations and adjustments, set out their answer clearly, neatly or show any workings.

In question three, candidates who did not achieve scholarship were unable to use the definition and recognition criteria of the financial elements contained in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2010 to discuss whether they agreed with their friend's accounting treatment of the three journal entries detailed in the question. These candidates were the most likely to provide internally inconsistent solutions or failed to indicate whether they agreed with the accounting treatment provided in the question.

In question four, candidates who did not achieve scholarship were unable to explain or identify the potential concerns associated with integrated reporting. A number of these candidates merely detailed what integrated reporting is and as such failed to answer the question.

Candidates who did not achieve scholarship in question five lacked the knowledge to incorporate material from the resources into their answer. These candidates were unable to evaluate Mighty River Power's share price performance since the share float. A number of these candidates merely described the changes in the share price since the date of the float.