



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

Scholarship, 2005

Accounting 93203

National Statistics

Assessment Report

Accounting, Scholarship, 2005 93203

National Statistics

No. Scholarship Results	Results			
	Outstanding	Scholarship	Scholarship	
	No. Awards	% of L3 Cohort	No. Awards	% of L3 Cohort
85	12	0.4%	73	2.4%

Commentary

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

A number of candidates misread Question 2(a) and discussed the difference between a reporting and non-reporting entity. Additionally, a number of candidates failed to recognise the general nature of Question 2(b).

Question 2(c) dealt with materiality. This should have been an easy question at this level. However, too many candidates exhibited a complete lack of knowledge and understanding not just of the correct application of materiality, but also of the *Statement of Concepts for General Purpose Financial Reporting* definition of this term. Candidates rarely wrote more than half a page for this question which, when compared to their efforts in other sections of the examination, illustrated lack of understanding.

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

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

- ability to calculate and recognise the difference between a cash surplus and a net profit
- inclusion of the issue of ‘judgment’ in their discussion of materiality
- recognition that due to the (possible) high levels of inventory, the liquid ratio was probably unacceptable
- understanding of direct and indirect costs. These candidates were able to clearly define the difference between direct and indirect costs and relate their definition to the information in the question
- ability to identify a range of non-manufacturing expenses (selling, administrative and financial) and clearly explain their importance to the business in question
- recognition that higher start-up costs, or greater initial capital investment, increased the riskiness of a venture

- recognition that profitability can be measured in both dollar and percentage terms, and ability to explain both measures
- identification that non-cash items such as depreciation should be excluded from a cash budget
- ability to pinpoint strategies to increase poor sales for a business
- ability to accurately describe the full range of items that should be included in a statement of accounting policies. These candidates had the knowledge to identify a number of reasons why it was important for stakeholders to be aware of the accounting policies
- ability to separately identify a range of reporting requirements as set out in the *Companies Act 1993* and the *Financial Reporting Act 1993*
- ability to recall the complete definition of materiality as set out in the *Statement of Concepts for General Purpose Financial Reporting*. These candidates demonstrated the knowledge to accurately and competently discuss the difference between ‘nature’ and ‘amount’ and were able to utilise a range of examples to illustrate their understanding
- ability to identify all of the correct ratios and percentages, under the correct headings for profitability, liquidity, stability and earnings returns
- provision of relevant reasons for trends as related to the business and discussion of future implications of the trends
- ability to keep their report concise, to the point and relevant
- clear understanding of the difference between ‘cash from operating activities’ and ‘overall cash position’. These candidates were also able to demonstrate a clear understanding of and differentiate between ‘net surplus’ and ‘cash from operating activities’. They knew this difference was due to accrual accounting and non-cash items and provided a range of examples
- ability to accurately and concisely identify the main reasons for changes in operating, investing and financing sections of the cash flow statement for the business
- clear understanding of the difference between ‘profit’ and ‘solvency’
- clear understanding of ‘solvency’ and ability to accurately apply it to the business in question
- ability to identify a range of non-financial information that may have affected the Warehouse and to relate this knowledge back to their answer
- ability to use the information in the resource material when answering the question.

Other candidates commonly lacked the following skills and / or knowledge:

- ability to demonstrate a clear understanding of the difference between direct and indirect costs. An example of this was the inclusion of ‘oil used in machinery’ as a direct cost. These candidates often stated that indirect costs were not needed to produce the soccer balls
- understanding of the nature of direct costs. These candidates commonly stated that direct costs were costs related overall to the ‘production process’ rather than ‘traceable to the product’
- ability to differentiate direct and indirect costs from variable and fixed costs. Direct costs were commonly confused with variable costs, and indirect costs with fixed costs. A number of candidates considered indirect costs and fixed costs to be

the same, and proceeded to explain fixed costs. Similar errors were made with indirect and variable costs

- ability to identify a range of non-manufacturing expenses (selling, administrative and financial). These candidates limited themselves to one or two examples of non-manufacturing costs or merely provided a list with no discussion
- ability to calculate the break-even in sales dollars
- ability to identify which venture was more risky. They simply gave a generic discussion of break-even
- ability to recognise that profitability can be measured in both dollar and percentage terms. These candidates limited their discussion to either dollar or percentage
- ability to identify which items should be included and excluded from cash budgets (depreciation and initial cash investment by owner)
- ability to integrate their knowledge of both the cost-volume-profit and the cash budget to provide a recommendation as required
- ability to pinpoint strategies to increase poor sales as relating to the business and to link to earlier answers
- understanding of the full range of items that should be included in the statement of accounting policies. These candidates were unable to identify more than one reason why it was important for a stakeholder to be aware of accounting policies
- ability to discuss the reporting requirements set out in the *Companies Act 1993* and the *Financial Reporting Act 1993*. These candidates commonly focused on just one or two points, focused on just one Act, or combined the *Companies Act 1993* and the *Financial Reporting Act 1993*. A number of candidates failed to consider the *Companies Act 1993* requirement for companies to have a constitution
- ability to discuss materiality as set out in the *Statement of Concepts for General Purpose Financial Reporting*, with a common error being to link materiality with ‘large dollar value’
- ability to extend their discussion beyond including capital items in reports. They omitted capital items altogether (which is incorrect) or treated capital items as revenue expenditure
- ability to recognise and include the difference between ‘nature’ and ‘amount’
- ability to explain that companies should include all financial information in their financial statements to the extent that it is material. Unsuccessful candidates implied that implementing materiality was optional, and commonly stated that “implementing materiality made the performance of a company look worse, as assets then had to be classified as expenses, increasing expenses and decreasing profit”
- ability to identify which ratios were relevant and required. In addition, they lacked the ability to identify correct ratios and percentages under the correct headings for profitability, liquidity, stability and earnings returns
- ability to identify relevant trends as related to the business
- ability to form adequate conclusions based on their prior evaluation
- ability to provide concise reports
- ability to clearly differentiate between ‘cash from operating activities’ and ‘overall cash position’
- ability to distinguish between ‘net surplus’ and ‘cash from operating activities’
- ability to specifically identify the accrual basis of accounting as contributing to the difference between ‘net surplus’ and ‘cash from operating activities’. Candidates

were unable to demonstrate that this difference was due to accrual accounting and non-cash items. A common error was candidates incorrectly stating that the difference between the two figures was due to the taxation expense being calculated (and affecting net profit) in one year, but paid out (in cash) the following year

- ability to identify the main reasons for changes in the operating, investing and financing sections of the cash flow statement
- ability to read and coherently analyse a cash flow statement
- ability to demonstrate whether they understood the difference between ‘profit’ and ‘solvency’
- ability to differentiate between ‘solvency’ and ‘the solvency test’. They incorrectly provided a full analysis based on the solvency test
- ability to identify a range of non-financial information that may have affected the Warehouse. Where candidates were able to identify examples of non-financial information they lacked the skills to relate this knowledge back to the question
- ability to make use of the information in the resource material – ie newspaper extracts.