

Assessment Report

Scholarship, 2008

Accounting

COMMENTARY

As in previous years, too many candidates failed to show their working for Questions 5 and 6. This was specifically asked for in the question. Failure to provide working meant that part marks could not be awarded.

It was reassuring to see Question 6 being answered well by a significant number of candidates, with the mean mark for this question being 4.6.

Too many candidates failed to read the question set or did not answer the question asked.

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

The lack of examination techniques of a significant number of candidates remains a cause for concern.

From the answers provided to certain questions it would appear that a number of candidates were unaware of the contents of the Assessment Specifications.

Candidates who achieved Scholarship with Outstanding Performance most commonly demonstrated the following skills and/or knowledge:

- ability, in Question 1(a), to explain the importance of Fletcher Building Limited disclosing their transactions with related parties; a number of candidates had carefully considered the concept of related party transactions and they linked these transactions to recent media coverage of companies where the non-disclosure of related party transactions had been problematic (e.g. Hanover Limited)
- ability, in Question 1(b), to explain why reporting entities whose shares are listed on the New Zealand Stock Exchange disclose information on corporate governance; these candidates explained that the disclosure of related party transactions assisted in promoting investor confidence and enhanced transparency and accountability of listed companies; they appreciated that corporate governance practices would not prevent corporate failures but rather assist in risk management
- ability, in Question 2(a), to make good use of the resources provided in their discussion, and gave reasons for changes in analysis measures; they also gave reasons for changes in the return on equity, financial stability, dividends per share and earnings per share; they had a sound knowledge of Fletcher Building Limited
- ability, in Question 2(b), to evaluate the operating, investing and financing activities of Fletcher Building Limited; they considered the additional information provided in the resource in their answer; they had a sound knowledge of Fletcher Building Limited
- ability, in Question 3, to prepare a Cost Volume Profit (CVP) income statement and to clearly label contribution and profit; they were able to calculate breakeven and the contribution margin per unit; they were able to clearly describe the relationship between the margin of safety and breakeven, and they understood the meaning of contribution margin
- knew, in Question 4, the definition and recognition criteria for assets in the New Zealand Framework for the Preparation and Presentation of Financial Statements; they identified the three key characteristics of an asset; they understood that while the advertising would generate future economic benefits, difficulty existed in measuring the benefits reliably or controlling the benefits; they considered the three characteristics of the definition of an asset as they applied to rent in advance; they also knew that rent paid in advance was not an expense

- ability, in Question 5, to set out their answer clearly, neatly and showed all their working; they knew that they had to accrue for the three months interest owing on the mortgage loan; they also provided all the accompanying notes required by the question; they correctly classified the long term liability into the long term and current portion and correctly accounted for the changes in equity
- ability, in Question 6, to prepare an income statement and accompanying notes in a format suitable for external reporting purposes; they set out their answer clearly and showed all their working; they also provided all the accompanying notes required by the question.

Candidates who achieved Scholarship most commonly demonstrated the following skills and/or knowledge:

- understanding, in Question 1(a), of a related party transaction (a narrative disclosure provided in the financial statements); they also appreciated the importance of Fletcher Building Limited disclosing related party transactions
- understanding, in Question 1(b), of the concept of corporate governance; they explained that the disclosure of related party transactions assisted in promoting investor confidence and enhanced transparency and accountability of listed companies
- ability, in Question 2(a), to make good use of the additional resources provided in the resource book when drafting their answer; they were able to evaluate the operating, investing and financing activities of Fletcher Building Limited; they had a sound knowledge of the analysis company Fletcher Building Limited
- ability, in Question 3, to prepare a CVP income statement clearly labelling contribution and profit; they calculated breakeven and the contribution margin per unit; they clearly described the relationship between the margin of safety and breakeven; they also understood the meaning of contribution margin
- knew, in Question 4, the definition and recognition criteria for assets in the New Zealand Framework for the Preparation and Presentation of Financial Statements; they identified the three key characteristic of an asset; they considered the three characteristics of the definition of an asset as they applied to rent in advance; they also knew that rent paid in advance was not an expense
- ability, in Question 5, to set out their answer in a clearly and showed all their working; they provided most of the accompanying notes required by the question; they also correctly classified the long term liability into the long term and current portion and correctly accounted for the majority of the changes in equity
- ability, in Question 6, to set out their answer in a clearly and to show all their working; they also provided most of the accompanying notes required by the question.

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

- did not understand, in Question 1(a), what a related party transaction is these candidates provided a general discussion of the Financial Reporting Act, 1993 rather than discussing the importance of disclosing related party transactions; a number of them lacked knowledge about the importance of narrative financial statement notes – e.g. they attempted to link company share prices with the disclosure or non-disclosure of related party notes; a number of candidates were under the mistaken belief that the disclosure of related party transactions would prevent fraudulent activities
- did not understand, in Question 1(b), the concept of corporate governance, they did not read the question, and, rather than explaining why companies disclose corporate governance information, merely listed individual corporate governance practices

- did not provide, in Question 2(a), possible reasons for changes in the financial ratios; a number of them calculated and discussed liquidity for financial stability; they merely commented on the trend for the analysis but did not discuss reasons for the changes
- did not, in Question 2(b), separate the cash flow into sections for analysis
- had difficulty, in Question 3, calculating the contribution margin ratio and margin of safety; they were also unable to explain the effects on the costs of producing Naturally Wild if production facilities were modernised and the number of employees were reduced
- lacked knowledge, in Question 4, of the definition and recognition criteria for assets provided in the New Zealand Framework for the Preparation and Presentation of Financial Statements; they incorrectly considered that advertising expenses could be written off over the life of the advertising campaign; they considered rent paid in advance to be an expense
- did not have, in Question 5, the skills to prepare a balance sheet in a format suitable for external reporting purposes; they also lacked the skills to provide the accompanying notes required by the question; they failed to distinguish between the current and long term portions of liabilities; they usually could not account for the changes in equity
- did not, in Question 6, set out the income statement in a format suitable for external reporting purposes; they also failed to provide the accompanying notes required by the question; a number of them were unable to prepare an income statement classified by function, suggesting that they remain unfamiliar with IFRS; they usually failed to provide workings to support their answer.