

Scholarship

2010 Assessment Report

Accounting

COMMENTARY

The exam techniques used by candidates this year were good. Candidates appeared to answer the most familiar question/s first, while the number of questions completed suggested that the majority of candidates were keeping to the recommended times detailed in the question. From the answers provided to certain questions it would appear that a few candidates remain unaware of the contents of the Assessment Specifications. Additionally a number of candidates failed to read the questions and so provided answers that were not appropriate. Failure to read the question was particularly evident in the answers to question five. Here a number of candidates completed all the accompanying notes rather than just the property, plant and equipment note.

Questions three, five and six were answered well by a large number of candidates.

Many candidates were unable to use the appropriate element definition and recognition criteria contained in the New Zealand Framework for the Preparation and Presentation of Financial Statements. It appears that a number of candidates interpreted the phrase “the cost of this refurbishment in four year’s time will amount to approximately \$3.8 million” as if the costs had already occurred and as a result incorrectly treated the “refurbishment” as an asset even though the expenditure would not increase future economic benefits.

Candidates should be made aware of the importance of reviewing the logic of their arguments when providing answers. For example in their answers to question three candidates would state “a company acting ethically will see increased brand recognition and sales...”, while further in their answer suggesting that “organisations such as McDonalds are seen as unethical in that they contribute to obesity”. These do not necessarily follow. On the basis of the logic provided, it could be argued that increased brand recognition and sales at McDonalds is a result of being unethical.

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. However, a large number of candidates failed to incorporate any of the resource material into their answers.

SCHOLARSHIP WITH OUTSTANDING PERFORMANCE

Candidates who were awarded Scholarship with Outstanding Performance typically:

- demonstrated the knowledge and were able to apply the element definition and recognition criteria contained in *The New Zealand Equivalents to the IASB Framework for the Preparation and Presentation of Financial Statements* (NZ Framework) to the scenario surrounding the refurbishment costs. These candidates recognised that the journal entry proposed by the managing director was incorrect, recognised that there had been no past transaction and there was no obligation to an external party. As such there was no expense and therefore no liability. These candidates also demonstrated the knowledge to recognise that under accrual accounting the expense should be recognised in the year it is incurred
- correctly prepared a statement of comprehensive income classified by nature, correctly accounted for the reclassification adjustment and had the knowledge to prepare a statement of changes in equity. These candidates had the knowledge to include all the items to be disclosed under “Other comprehensive income”
- demonstrated the knowledge to describe the concept of business ethics, were able to discuss benefits for a business that acts ethically and had the knowledge to make reference to the additional resources detailed in the assessment schedule. Candidates were able to discuss factors a New Zealand business operating in a developing country should consider to ensure that it acts ethically. The answers provided by these candidates reflected careful consideration of the

suggested reading in the assessment schedule and showed evidence of independent research and deep thinking

- were able to use the return on average shareholder funds, financial stability and dividend and earnings returns to explain why shareholders appear to have lost confidence in Allied Farmers Limited. These candidates had the knowledge to detail reasons why changes occurred in the given ratios and were able to incorporate the information contained in the resources into their answers. By identifying the current going concern issues with Allied Finance Limited, candidates who achieved Outstanding Scholarship showed up to date knowledge of current issues surrounding the company beyond the resources provided and were able to incorporate this material into their answer
- showed the technical skills to correctly prepare a statement of financial position and the complete supporting property, plant and equipment note. These candidates were also able to correctly calculate the depreciation adjustment, make the correct revaluation adjustment and correctly adjust retained earnings. These candidates also provided the correct total asset figure. Candidates also correctly classified the long term liability into the long term and current portion, provided the equity section, set out their answer clearly, neatly and showed all their workings
- demonstrated the knowledge to explain what the variable cost per suitcase means. They demonstrated the technical skills to correctly calculate the contribution margin per unit and breakeven point in units and dollars. These candidates demonstrated the knowledge necessary to use the planned sales mix to calculate the contribution margin per unit. These candidates had the technical skill to correctly calculate the two-product breakeven and show all their workings. Candidates recognised that even though the breakeven had increased, the contribution margin had decreased and it was not a good decision to proceed with the order.

SCHOLARSHIP

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

- demonstrated the knowledge to apply the element definition of an expense. These candidates recognised that the journal entry proposed by the managing director was incorrect. These candidates also recognised that under accrual accounting the expense should be recognised in the year it is incurred
- correctly prepared the majority of the statement of comprehensive income classified by nature and included at least one of the items to be disclosed under “Other comprehensive income” and prepare a statement of changes in equity
- described the concept of business ethics, listed some of the benefits for a business that acts ethically, and recognised some factors a New Zealand business operating in a developing country should consider to ensure that it acts ethically. The answers provided by these candidates showed evidence of their reading the material in the Assessment Specifications but did not provide illustrations in their answer
- demonstrated the knowledge to use the return on average shareholder funds, financial stability and dividend and earnings returns to explain why shareholders appear to have lost confidence in Allied Farmers Limited. These candidates incorporated some of the information contained in the resources into their answers
- demonstrated the knowledge to prepare a statement of financial position and the supporting property, plant and equipment note, were able to make the correct revaluation adjustment and demonstrated the knowledge to correctly classify the long term liability into the long term and current portion, as well as providing the equity section

- explained what the term variable cost per suitcase means. Candidates demonstrated some technical skills in completing a number of calculations correctly and demonstrated the knowledge to justify whether the order should be accepted or not.

OTHER CANDIDATES

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

- lacked the knowledge to apply the appropriate element definition and recognition criteria contained in the NZ Framework to explain whether the accounting treatment proposed by the managing director for refurbishment costs was correct
- lacked the skills to prepare a statement of comprehensive income classified by nature (often it was prepared classified by function). They lacked the skills to account for the reclassification adjustment, were unable to identify any items to be included in “other comprehensive income”, and were unable to prepare a statement of changes in equity. These candidates lacked the knowledge to correctly prepare a statement of changes in equity. Candidates often lacked the knowledge to correctly account for dividends. Dividends were shown as being disclosed by Vital Limited as an expense in the statement of comprehensive income rather than as a distribution in the statement of changes in equity
- lacked the knowledge to describe the concept of business ethics, were unable to list some of the benefits for a business that acts ethically and were unable to identify factors a New Zealand business operating in a developing country should consider to ensure that it acts ethically. The answers provided by these candidates showed no evidence of their reading the material in the Assessment Specifications
- lacked the skills to use the return on average shareholder funds, financial stability and dividend and earnings returns to explain why shareholders appear to have lost confidence in Allied Farmers Limited. These candidates typically did not incorporate the information contained in the resources into their answers, were unable to explain reasons for trends in the ratios and showed no knowledge of the current issues surrounding Allied Finance Limited
- lacked the skills to prepare a statement of financial position and the supporting property, plant and equipment note in a format suitable for external reporting purposes, were unable to make the correct revaluation adjustments, calculate the depreciation or adjust retained earnings. These candidates failed to distinguish between the current and long-term portions of the loan.