

Assessment Report

New Zealand Scholarship Accounting 2023

Performance standard 93203

General commentary

The definition and recognition criteria for financial statement elements underpins accounting. They are necessary to ensure financial statements are correctly prepared to provide users with quantitative financial information for decision-making purposes. The assessment specifications clearly indicated that understanding of the 2018 NZ Framework was required. However, many candidates did not refer to this and had little understanding of the definition and recognition criteria. There were candidates who could have achieved a scholarship if they had attempted the question related to this topic.

Although the quality of answers to written questions is reasonable, some candidates continue to equate quantity with quality. Candidates need to be reminded that to gain scholarship the convincing communication criteria must be met. Careful planning of written answers is important for ensuring that they are well structured and succinct.

Question One was a technical processing question that incorporated financial statement preparation and critical thinking elements. Candidates had to use the information in the question to prepare the adjusting journal entries from the information provided, then prepare the statement of changes in equity. This question built on the statements question asked in previous years. Although candidates were able to make some of the adjustments, often these did not follow through to the statement of changes in equity. Candidates' failure to meet the scholarship standard was in part due to their not completing basic working, in particular, those relating to depreciation. Most candidates did not provide any working detailing how the retained earnings component of total comprehensive income for the year was calculated. The processing skills demonstrated by many candidates was disappointing. Finally, many candidates did not demonstrate convincing communication as they did not head up the statement of changes in equity correctly or provide the reporting currency.

Question Two was a current issues question that required candidates to first read unfamiliar resources then suggest how the traditional definition of accounting could be amended to accurately reflect accounting's modern purpose, influence, and contribution to society. Given the extensive resources available and the relatively open-ended nature of this question, candidates generally answered this question well. As in previous years, the answers were varied and imaginative. Candidates appeared to take considerable time to get familiar with the resources and spent time planning and incorporating the resources into their answers. Some of the answers to this question were outstanding. However, a number of candidates did not consider how the definition of accounting could be amended to reflect its modern purpose. The length (sometimes in excess of 8 pages) and the structure of some of the answers interfered with the clarity of the response.

Question Three was a concepts question that required convincing communication and critical thinking. As in previous years, it was important that candidates planned their answer to avoid

repetition. The question required candidates to use the financial statement element definition and recognition criteria contained in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2018 (NZ Framework) to discuss whether they agreed with the accounting treatment detailed in two journal entries for the costs of setting up a pet business. Candidates were required to consider whether the initial costs for the pet formula, design, and advertising could be capitalised as assets and then written off over five years. That is, do the items meet the definition of an asset? Do they provide *Frolicking Pets Limited* with certain rights? Do the rights have the potential to produce economic benefits? Then, will the disclosure of the assets provide information that is both relevant and representationally faithful? To determine whether information disclosed about an asset is relevant, candidates needed to consider existence uncertainty and the probability associated with the measurement uncertainty surrounding the expected inflow of economic benefits to *Frolicking Pets Limited*. It would be difficult to attribute a value that faithfully represents the value of the pet formula, design costs, advertising, and social media. When coupled with the measurement uncertainty that further undermines faithful representation, it is not appropriate to recognise these items in the statement of financial position. While many candidates recognised the existence of assets in the initial part of the question by applying the definition criteria of an asset, they were less certain in applying the recognition criteria. Finally, the number of candidates that did not understand how the two journal entries related to each other was concerning.

Question Four was a management decision question. The question was not answered particularly well. The question required candidates to draft a report to *Forge Audio Limited* in which three independent scenarios were evaluated. This question required some critical thinking in that candidates had to first calculate the expected break-even point and net profit for the 2023 reporting period before evaluating and comparing the three independent scenarios. Unfortunately, the majority of candidates did not do this. For the first scenario, most candidates recognised the constraint around the relevant range, although a large number failed to recognise that to meet the overseas demand, some local sales would need to be sacrificed. What was disappointing is that candidates struggled to calculate the break-even point for the Australian sales. In the third scenario, candidates were required to evaluate whether the production process could be moved to Vietnam. Some candidates had difficulty in evaluating the three scenarios and merely reproduced what was in the question without considering any non-financial factors. Many candidates failed to produce the required report.

Report on performance standard

Candidates who were awarded Scholarship with **Outstanding Performance** commonly:

- demonstrated the technical ability and critical thinking skills necessary to correctly calculate the depreciation adjustment for assets that were revalued and disposed of during the year
- demonstrated the technical ability to correctly prepare the adjusting journal entries from the information provided
- demonstrated the technical ability to correctly calculate the retained earnings component of total comprehensive income
- exhibited the technical and communication skills to prepare the statement of changes in equity in a format suitable for external reporting purposes
- provided evidence of convincing communication in that they set out their answer clearly and correctly disclosed the information required using correct terminology
- used the material provided in the resource booklet to discuss some of the current issues facing accountants in practice or business

- critically evaluated whether the traditional definition of accounting continues to be fit for purpose
- used convincing communication when suggesting how the traditional definition of accounting could be amended to more accurately reflect its modern purpose
- made full use of the additional information and resources to provide succinct well-structured answers, which clearly conveyed their point of view
- recognised that to evaluate the three scenarios, the break-even and expected net profit for 2024 had to be calculated first
- calculated the break-even and net profit correctly for each of the three scenarios
- evaluated the independent scenarios and made a valid recommendation based on financial and non-financial information
- applied the definition and recognition criteria for an asset from the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2018 (NZ Framework) to explain the implications of the events on *Boats R Us Limited's* financial statements.
- worked through the asset definition and recognition criteria correctly to support their answer and identify whether a past event occurred that had the potential to create an inflow of economic benefits to the entity
- demonstrated understanding that the disclosure of assets relies upon professional judgements about the probability and measurability of expected future cash flows that provide information that is both relevant and representationally faithful
- used critical thinking to recognise that there is a high degree of measurement uncertainty associated with the recognition of the pet formula, design, advertising, and social media costs
- provided evidence of convincing communication by carefully planning their answer to avoid repetition.

Candidates who were awarded **Scholarship** commonly:

- demonstrated the technical skills necessary to correctly prepare some of the adjustments necessary to account for the assets that were revalued, their depreciation, and the gain on disposal
- demonstrated the technical ability and critical thinking skills necessary to correctly prepare the majority of adjusting journal entries from the information provided
- exhibited the technical and communication skills necessary to prepare the statement of changes in equity in a format suitable for external reporting purposes
- provided some evidence of convincing communication in that they set out their answer clearly and correctly disclosed the information using correct terminology
- showed evidence of planning their answers and used the additional information and resources to support their position
- used the material provided in the resource booklet to discuss some of the issues facing accountants in practice or business, but did not demonstrate the same depth of analysis as the candidates who were awarded outstanding scholarship
- made some limited evaluation on how the definition of accounting could be amended to more accurately reflect accounting's modern, purpose, influence, and contribution to society
- applied the definition and recognition criteria for an asset from the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting 2018 (NZ Framework), however

the application of the recognition criteria was not at the same level as those who were awarded outstanding scholarship

- had difficulty in articulating measurement uncertainty around the pet formula, design, advertising, and social media costs
- calculated the break-even and net profit correctly for some, but not all, of the scenarios presented
- demonstrated understanding of the impact that the relevant range had on the three scenarios
- evaluated the independent scenarios and made a recommendation based on financial and a limited amount of non-financial information.

Candidates who were **not awarded Scholarship** commonly:

- did not provide evidence of planning in their answers
- did not demonstrate the technical skills to correctly prepare some of the adjustments necessary to account for the assets that were revalued or their depreciation
- did not demonstrate the technical skills necessary to take into account the additional information needed for the preparation of the financial statements
- were not familiar with the requirements for a statement of changes in equity
- did not set out statement of changes in equity clearly, neatly, or using correct terminology
- repeated the material provided in the resources in their answer without further processing or extrapolation
- wrote descriptive answers with little depth of analysis
- failed to use the additional information in question or integrate the additional resources into their answers
- were unfamiliar with the most recent iteration of the New Zealand Equivalent to the IASB Conceptual Framework for Financial reporting 2018 (NZ Framework)
- were unfamiliar with the definition and recognition criteria for an asset or incorrectly applied the definition and recognition criteria
- simply listed the definition and recognition criteria for all financial statement elements
- failed to demonstrate the technical ability to correctly calculate the break-even point for 2024
- did not demonstrate understanding of the importance of the relevant range
- did not correctly calculate the break-even or net profit of any of the scenarios
- did not evaluate which of the scenarios they would recommend.