

A-level

ACCOUNTING

ACCN1 Introduction to Financial Accounting
Report on the Examination

2120
June 2013

Version: 1.0

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General

Many students produced excellent work on this paper, in particular, coping well with some unfamiliar situations and adjustments. As always, a good understanding of the basic principles of accounting, and in particular double entry, will always place the student in a strong position for the ACCN1 examination. I feel that the recent improvements in these basic principles were once again clearly evidenced by a number of students.

Some improvements were noted in the quality of written communication, but the presentation of all financial documents still needs some serious work. This applies not only to the income statement and balance sheet, but also to ledger accounts and bank reconciliations.

Question 1

- (a)** The question required students to identify the source documents and subsidiary books to account for two transactions. Whilst three-quarters of students were able to gain two marks of the available four, less than 20% of students gained full marks, mainly due to a lack of precision in differentiating between a subsidiary book and the name of an account. For example, purchase returns is not sufficient for purchase returns day book/journal.
- (b)** This part of the question was designed to test students' knowledge of basic double entry and the results were rather disappointing. For the second transaction, a significant number of students believed that the account to be debited and/or credited was 'cash book'. The cash book is, of course, a subsidiary book, not an account.
- (c)** Students were required to identify an error as either an error of original entry or as a transposition error and to discuss how this error would affect the accounting records and financial statements. A number of students recognised and identified the error correctly, but then detailed various errors that both affect and do not affect the balancing of the trial balance rather than answering the question that had been set. Those students who recognised the requirements of the question produced very good answers addressing the effect on both the accounting records and the financial statements. A large proportion of students produced very coherent answers and they were duly awarded two marks for quality of written communication.
- (d)** The final part of the first question dealt with the processing of five transactions to a purchases ledger account. Well prepared students were able to gain very good marks on this task, but others clearly had great difficulty applying the rules of double entry bookkeeping. I have commented frequently in the past on students' difficulties in balancing an account correctly and this was again very apparent. This is a basic skill that must be developed in all students.

Question 2

- (a) The first task required students to update and balance a cash book from a given bank statement. Details were given of four cheques that were unrepresented at the opening date of the cash book, but it was clearly stated that these had already been entered in the cash book. Despite this, many students re-entered the cheques. Details were also given of a cheque that had been entered incorrectly in the cash book and surprisingly, many students attempted to correct this by simply crossing out the original entry and replacing this with the correct figure. This showed a lack of understanding of how to deal with errors in the accounting records. Once again, the skills necessary to balance the cash book were not demonstrated in many cases. Less than 8% of students were able to gain full marks from this question.
- (b) Students then had to prepare a bank reconciliation statement from the balanced cash book. The cash book showed an overdrawn balance at the close, a fact that few students recognised when opening their bank reconciliation statement. A significant number of students failed to recognise that two of the opening unrepresented cheques had subsequently been presented and consequently included all four cheques as unrepresented. Students were equally rewarded whether commencing their reconciliation statement with the bank statement balance or the cash book balance.

Question 3

The question stated that the sole trader 'sells sports equipment' and his non-current assets appeared under the heading 'equipment'. A number of students then interpreted the subsequent purchase of equipment as being a trading activity rather than a capital transaction. In view of the possibility of this interpretation, both treatments were accepted.

- (a) The first part of the question required students to prepare an income statement from a list of balances and make adjustments for various pieces of additional information. The format of the question should have been familiar to all students as this type of question has been asked on many previous occasions. The question gave the well prepared student the ideal opportunity to gain good marks and this was the case. A number of students once again penalised themselves by showing no workings.
- (b) Having completed the income statement, students then had to prepare a balance sheet incorporating all of the adjustments from question 3(a). Whilst there were some very good answers to this part, a number of students appeared to be unfamiliar with the layout of a balance sheet and once again caused problems for themselves by not showing workings.

Question 4

- (a) The first part of the final question, again testing knowledge of basic double entry rules, was not well done by a large percentage of students. Many were unable to enter opening prepayments and accruals on the correct side of the expense account. Only a small minority transferred a figure to the income statement, most balancing the account and carrying down one figure incorporating the closing prepayment, the closing accrual and the figure that should have been transferred to the income statement; this despite the fact that the question included the words 'clearly showing the transfer to the income statement'.
- (b) A question asking students to explain the meaning of accrued expenses and prepaid expenses should have been very familiar territory. As I have commented in the past, answers should always include reference to a time scale. For example, it is not sufficient to state that accruals are unpaid expenses without development to show that this is at the end of a financial period. It is disappointing to note that many students do seem to be unfamiliar with commonly used accounting terminology.

Summary

Whilst many aspects of students' performance showed continued improvement, it is still disappointing to note that some recurring problems are still present.

- Many students continue to penalise themselves by not providing full legible workings when undertaking computational tasks.
- Lots of students are not demonstrating the necessary skills to balance and close off an account correctly.
- Students must appreciate that financial statements are important documents and the structure and form of these must be learnt and applied.

On a more positive note, it was pleasing to see continued improvement in the quality of written communication. It was also pleasing to note that students are taking a little more care to develop their answers in narrative questions.

Mark Ranges and Award of Grades

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