

A-level

ACCOUNTING

ACCN2 Financial and Management Accounting
Report on the Examination

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General comments

Overall the standard of student work continues to improve with many examples of good exam technique being evident.

Increasingly students are supporting numerical questions with detailed workings. However, a minority still do not show workings, or they make adjustments on the question section of the exam paper which are often unclear or not completed and therefore cannot be rewarded. Students should be encouraged to make sure that their workings are clear and link to the final answer.

The quality of written communication continues to improve with the majority of students providing full answers that include examples from the question and, where appropriate, reaching a reasoned conclusion.

It is important that students are encouraged to communicate as accountants, for example incorporating figures in written answers and annotating calculations to make sure that they are clear and can be understood by the reader. It is worrying that a some students make mistakes in transcribing numbers from the question to the answer paper and also from their workings to the answer, sometimes transposing numbers or inserting extra zero's, resulting in lost marks.

Students should be made aware that one of the assessment objectives includes the need to select and apply information and the use of case studies is one way of testing this skill. In this situation students are presented with information that may relate to more than one part of the question, for example in question 3.

Finally it is vital that students read the questions carefully – there are numerous examples of students who do not read the information provided carefully or the question itself – this is particularly evident in question 3.

Question 1

This question tested the students' ability to calculate gross and net profit and then use these figures to calculate the gross profit margin and profit in relation to turnover. Please note that in all ratio questions students will be expected to state the units, eg percentage, days, times etc, if they are to achieve full marks. In addition, students were asked to explain how the ratios could be improved.

The profit figures were calculated accurately by the vast majority of students with most calculating the gross profit correctly – the most common error involved the incorrect treatment of closing inventory. With the application of the own figure rule the majority of students calculated the correct profit for the year.

The gross profit margin was calculated correctly by a number of students. The most common error was to use an incorrect formula, usually $\text{gross profit} \div \text{cost of sales}$.

The profit in relation to revenue ratio caused more problems for students. A significant number of students did not state, or calculate, the formula correctly expressing the answer to 1, eg 10:1 rather than as a percentage and thus lost marks.

Questions 1(d) and 1(e) required the students to explain how the ratios could be improved, very few scored maximum marks. The main cause of this was the failure to realise that changing one part of the ratio will not necessarily result in an improvement in the ratio. For example, students stated that the gross profit margin could be improved by reducing the cost of sales but did not develop this by stating that the selling price should be maintained.

Question 2

- (a) Students had to apply the net realisable value test to inventory valuation. Almost all students achieved maximum marks on this part of the question. Those who did not, often calculated the adjustment to inventory valuation but did not pay sufficient attention to the requirement of the question to calculate the value of the inventory. It is pleasing to note that the standard of workings presented was generally high and this shows a continuous improvement over successive exams.
- (b) This proved a more difficult task for students; many were unsure of the difference between capital expenditure and revenue expenditure and the correct treatment of the delivery charges and installation costs. Many students failed to add these to the purchase price of the asset. Others included the maintenance contract which should have been revenue expenditure. The vast majority of students were able to calculate the depreciation but unfortunately a significant number again failed to answer the question by not calculating the net book value.
- (c) Students had to apply the figures calculated in (a) and (b) and show the effect these had on the profit of the business. This proved very challenging for students, with most only gaining 2 out of 5 marks. Many students included the value of inventory and/or the net book value of the non-current assets and they were unsure of the treatment of capital and revenue expenditure.

Question 3

- (a) It is vital that students read the question carefully and respond to the command words. The requirement was to calculate the effect of the introduction of the budgetary control system on profit and the bank balance. This should signal to students that a numerical calculation is required. However, a significant number of students provided a narrative answer. This approach still enabled students to achieve maximum marks but valuable time was wasted. The majority did not recognise the different effect the transactions had on profit and the bank balance and used the same figures for both. Also students were expected to quantify the effect and many simply stated that it would have an effect but not the actual amount of the effect, eg decrease in profit.

- (b)** Focused on the advantages and limitations of budgetary control. Again this is a situation where students did not read the question. The question asked for the advice on the introduction of budgetary control, specifically excluding the advantages of communication and coordination and the limitation of cost. A significant number of students focused on these in their answer and therefore were not rewarded. Some students also wrote at length about the advantages and disadvantages of IT, rather than a budgetary control system again missing the point of the question. On the other hand, it is pleasing to report that student answers are becoming much more developed, with frequent examples of good practice such as giving examples from the question. Also most students provided a conclusion giving clear and justified advice based on their discussion.

Question 4

There were a number of complex adjustments to be made and the majority of students were able to tackle these correctly and supported their answer with detailed workings, which is very good practice. However, the presentation of the income statement was weaker with students not clearly identifying operating profit, profit for the year before tax and profit for the year after tax, resulting in the loss of a number of marks.

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