



A-Level

ACCOUNTING

ACCN3 Further Aspects of Financial Accounting
Report on the Examination

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General Comments

The question paper covered aspects of most topics on the syllabus and there was clear evidence from the responses that a high proportion of students were well prepared on each. There were consequently less examples where students had variable standards of outcome across different tasks and were, thus, usually quite consistent in their approaches. The vast majority of students also managed to complete all tasks within the time available. It should be noted that there was at least one example of a syllabus specific topic being incorporated into another task. This was the case where an inventory reconciliation scenario appeared within the main incomplete records task. All tasks had examples of students attaining maximum marks and all tasks equally had a reasonably good distribution of marks. This suggests that they were accessible to the full ability range and provided appropriate differentiation in this context. This is commendable as there were some challenging and technical elements embedded into all tasks, especially on some of the computational based activities.

Layouts of computational tasks were generally good. It would be expected that students could produce an income statement and balance sheet for the incomplete records task and this was so in the vast majority of cases. Perhaps, in contrast to previous papers, it was encouraging to observe that many students are now able to produce a statement of cash flows quite well including the use of appropriate sub categories for investing and financing activities for example. Some students, however, produced a separate reconciliation statement aside from the main statement of cash flows which technically is not the prescribed version according to IAS7. However, students were not penalised for this style provided that the calculations were correct. It was perhaps more surprising to note that a proportion of students were getting more confused with the layout for the partnership appropriation account. There were instances of including capital and current account balances as well as drawings amounts into this format. Also, the direction of adjustments was not always clear. This was sometimes indicated by using almost an implied debit and credit column approach which would apply more to the actual current account itself. For the current account, some students made elementary mistakes in the postings to either the debit or credit side.

A high proportion of students used clear workings to support the computational task outcomes, and these were predominantly referenced accordingly. The best instances for example, used ledger account formats where appropriate and this especially applied to the incomplete records task. Although not essential, this style generally means that it is comparatively easier to understand how the adjustments are being treated in terms of the direction used. Some workings in contrast were not labelled very clearly and it was not always easy to determine how the adjustment of different component parts were being done. It is worth pointing out that there were in this paper more correct figure marks being awarded than previously. Also, some of the own figure marks were only accepting a more limited range of plausible alternatives to the strictly correct figures. This applied, for example, to interest and dividend paid amounts in the statement of cash flows. It is more unusual to find standalone workings not linked to the main task requirements but where this happened, the marks allocated were constrained to a maximum. For example, if a profit from operations figure did not feature in the statement of cash flows or reconciliation section, then four marks would have been the maximum possible.

Many students produced detailed and well-articulated written prose response on both the profit and cash scenario and equally on the shares compared to debentures argument. Especially for the latter, it was encouraging that in many instances, a clear and logical structure was adopted in which each source of finance was treated in turn before a decision was reached.

Most students displayed quite good accuracy in terms of spelling punctuation and grammar and so got at least one of the two marks available for quality of written communication. On this occasion the marks for quality of presentation were assigned to the title and sub section descriptions in the statement of cash flows. These need to be very precise and in some instances this was not the case. Some students used 'as at' in the document title for the date referencing as opposed to the correct version which is 'for the year ended'. Also some students were vague with the sub titles, using investment and financial activities rather than investing and financing as should have been the case.

Question 1

- Q1a** Many students were able to correctly calculate interest on drawings, interest on capital and divide profit in the correct proportions. In cases where this did not happen, it was mainly due to not time apportioning the amounts to only be for the latter nine month period from when the partnership agreement took effect. There was a greater incidence of not time apportioning the salary. Some students did not time apportion the initial profit whilst others did not make any adjustment against profit for the interest on the loan account. Others did include the interest on the loan account but as an appropriation of profit instead of an adjustment against the profit. This approach was not taken as an alien entry, however, when awarding own figure marks for the remaining profit splits. In contrast, the inclusion of lump sum capital account, for example, did constitute an alien entry.
- Q1b** Many students were able to produce a correct current account with only some of getting debit and credit entries confused and so, for example, posting drawings on to the credit side. Most students recognised that the figures for the interest on drawings, loan interest, interest on capital and profit share had, in part, to come from the appropriation account in task 1a. However, the most common problem was to omit the loan interest or profit share for the first three months when the partnership agreement did not exist. For the loan interest, this also necessitated the understanding about the interest being charged at 5% pa in the absence of an agreement to the contrary.

Question 2

Q2a Many students produced the correct income statement which included some technical elements, especially in calculating correctly the closing inventory and depreciation amounts. Typical problems included the following;

- there were examples where the revenue figure did not correspond to 120% of the cost of sales own figure
- for closing inventory, some students did not convert the sales adjustment to cost price and so had an inventory amount of £11 400
- some students did not adjust for the non-current asset disposal before calculating depreciation charge and so quite often showed £5667.50 as the expense for the year.

There needed to be more care and attention given to the labelling of loss for the year in this particular question. Some students, for example, described it as loss for the year but then showed the corresponding amount as an open bracketed figure, whilst others described it as profit / loss when it had to be one or the other strictly speaking.

Q2b Many students were able to produce good or better balance sheets, albeit not always completely correct. The most common issues were either not adjusting for the opening balances or adjusting for them in the incorrect direction when working out the amounts for trade receivables and payables as well as for prepaid and accrued expense amounts. There were still some students who used the opening balances in the balance sheet. A more surprising mistake, however, occurred in the case of the bank account. Here, some students did not incorporate the opening balance in the statement of affairs and so produced an opening capital amount of £31 235. Also, a number of students showed the bank overdraft of £9770 as a current asset.

Question 3

Q3a The statement of cash flows was produced well by many students, which is encouraging given that in previous exam series it has quite often proved to be the task where students perform least well. Despite this however, there were still some inaccuracies and many of these have too many permutations to warrant mention individually. Some more typical mistakes were related to either the profit from operations or the depreciation amounts. For the profit from operations, many students did not appreciate that the difference between a loss from last year and a profit from this year necessitates adding them together to isolate the profit retained for this year. As a result, some students used £37 724 as the figure for retained profit for the year. A smaller proportion of students only managed to make all adjustments for tax, interest and dividends and in some cases, the direction was unclear. For depreciation, the common error was to not include the revaluation amount and so arrive at a depreciation amount of £2575. A more elementary problem was to include the revaluation amount of £29 925 as an actual cashflow movement within the statement.

Q3b The comments made by students and the examples used to distinguish between profit and cash were, in many cases, good. Some students however drifted in to articulating what profit and cash actually were, using definitions which weren't relevant to the question and so attracted no marks. Some examples were given which were valid but then it was made less clear how this would affect either profit or cash or both. For, example it wasn't untypical for students to recognise that the purchase of a non-current asset would affect cash negatively but then didn't qualify what impact if any this would directly have on profitability. Comments about sales, purchases and inventory were also technically incorrect in some cases where some students were stating that, for example, inventory wouldn't affect profit. The idea about timing differences was therefore less well explored or with inaccuracies.

Question 4.

Many students had a really sound grasp of the relative merits and drawbacks of shares in comparison and when contrasted with debentures as a source of finance. However, some of the weaker responses did not use examples from the scenario by way of illustration and so were constrained to the relatively less well rewarded generic comments compared to application remarks. In contrast to the tighter own figure marks in the computation tasks, the own figure marks here were more generously awarded for using data irrespective of how accurate that might be in the absence of any supporting workings. Most comments were valid with perhaps the exceptions being, for example, where students were suggesting that dividends have to be paid on ordinary shares (when in fact they vary depending on profit) and also that ordinary shares do not affect gearing (when in fact gearing would be lower). Most students came to a rational decision about what was most appropriate in the context of the scenario to fund expansion plans.

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