A-Level

ACCOUNTING

ACCN4 Further Aspects of Management Accounting
Report on the Examination

2120
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General Comments

Students' overall performance was very mixed. Whilst the prose responses showed a marked improvement on previous examinations, certain computational questions proved very tricky to all except the well-prepared students.

Question 1

The first question required students to produce a trade receivables budget and then produce a budgeted manufacturing account and income statement.

Q1a Well-prepared students generally achieved good marks on this task. The majority of students were able to correctly calculate the sales for both quarters and a significant number of students correctly calculated the cash received from customers. However, many students clearly had difficulty in calculating the amount of bad debts.

Despite the presence of a pro-forma, presentation was often very poor. Many students showed no indication of whether an amount was to be added or subtracted and were penalised for this. As is the case with any budget, it is essential to show the direction of figures.

Q1b The preparation of the budgeted manufacturing account and income statement offered the opportunity to gain good marks and many students did.

A number of students showed carriage outwards as part of the prime cost and therefore lost the mark for prime cost. The most common mistake concerned the treatment of depreciation. Whilst the majority of students correctly calculated the charges for depreciation, many placed the resultant figure in the wrong place. Only the depreciation on machinery was to appear in the manufacturing account – the depreciation on delivery vehicles should have appeared in the income statement. A common failing was to miss out the total figure for overheads.

It was pleasing to note that most students correctly labelled prime cost and the production cost of finished goods. However, many students did not add a factory profit on to the production cost of finished goods to calculate the transfer price.

Q1c The preparation of the budgeted income statement was less well done. Weaker students were unable to ascertain the correct sales revenue figure for the year. A number of students, having calculated the factory profit for the budgeted manufacturing account, then failed to transfer this into the budgeted income statement. Few students made any provision for unrealised profit and many of those who did, failed to show this in the correct place in the budgeted income statement.

Question 2

The question required students to calculate the budgeted profit and actual profit from given data, calculate variances and discuss interrelationship.

Q2a   Very few students calculated the correct budgeted profit of £47 500 for the month. Students arriving at a selling price of £63 125 were awarded one own figure mark. Remaining students who produced a selling price of either £60.60 or £57.60 were not rewarded as this showed a clear misinterpretation of the difference between margin and mark-up. Many students failed to understand the process required and as a result produced lots of workings to no avail.

Q2b   As was the case in part (a), there were very few correct answers, but most students gained marks based on their own calculated selling price.

Q2c   The calculation of material and labour variances was generally well done. Most students appear to have been taught variance analysis based on formulae and unfortunately, many were unable to recall the exact correct formula, in particular for the material usage variance and the labour efficiency variance.

A more simplistic approach to variance analysis is recommended. For example, when calculating the material usage variance, the difference between the actual quantity used and the standard quantity for the actual production valued at the standard cost tends to be easier for students to understand and remember. This principle can be applied to all variances and does not involve memorising formulae.

Q2d   Many students failed to appreciate the requirements of this task. The requirement was quite clear, requiring students to explain, with examples from Irving Ltd, what was meant by the interrelationship between cost variances. Unfortunately, a great many students gave generic answers such as 'they paid more' or 'they used more'. This did not in any way deal with the issue of interrelationship.

Question 3

The investment appraisal question required students to calculate the net cash inflows from production, to calculate the net present value of the existing machine and the proposed new machine and to state benefits and drawbacks of purchasing the new machine.

Q3a   Although the calculation of net cash inflows was reasonably well done, many students did not restrict their answer to cash flows from production only and therefore included the cost of the new machine and the residual value at the end of its life. The most common error was to include the non-cash outflow in the form of depreciation, resulting in lower marks being awarded.

Q3b   Most students were able to apply discount factors correctly based on their own figures from the previous task and so gained good marks. Many omitted the residual value of £80 000, however, and some failed to apply the correct discount factor to this figure when it was included.

Q3c   Students' responses were generally of a good standard, but less well-prepared students tended to give generic answers that were unrelated to either the scenario or to their own calculated figures. These were not rewarded.

Question 4

The question focussed on marginal costing in a limiting factor environment, the final part requiring students to consider both financial and non-financial factors affecting the decision of whether or not to proceed with a system of robotic production.

Q4a   The vast majority of students correctly identified machine hours as being the limiting factor.

Q4b   Having clearly flagged up the limiting factor situation in the first task, it was disappointing to note that many students failed to apply limiting factor principles in order to calculate the maximum profit to be earned. Many made the fundamental error of basing their calculations on the contribution per unit of production rather than on the contribution per unit of limiting factor. As such few, if any, marks were awarded.

The most common error was to fail to account for the under absorption of fixed overheads, but a number of students were awarded eight of the available ten marks for calculating a maximum profit of £9436.

Q4c   Students were clearly well prepared for a question of this nature, with many gaining very high marks. There were many good examples of relevant issues, though weaker students failed to develop their points sufficiently to gain full marks. Some spent a great deal of time discussing generic issues for which there was no reward. Students must realise that in a question of this nature, responses must be more focussed to the requirements, ie in this case, specifically, 'discuss the issues that the directors should consider before making a decision'.

Some students concentrated their answer almost exclusively on non-financial issues, focussing on the impact of the robotic production system on the local community, rather than the impact on the company and the workforce. When required to discuss both financial and not financial issues, there will be a maximum mark attached to each area.

Summary

It was very pleasing to note that throughout the paper, the standard of communication was generally of a higher standard than previous papers. The most disappointing factor was the poor standard of presentation of the computational questions.

This was particularly noticeable in question 1(a), the preparation of the trade receivables budget where many students were penalised for not showing the direction of their figures, and in questions 3(b) and 4(b), where the failure to set out answers in a clear and logical manner, undoubtedly cost students valuable time and ultimately, marks.

Mark Ranges and Award of Grades

Grade boundaries and cumulative percentage grades are available on the Results Statistics page of the AQA Website.

Converting Marks into UMS marks

Convert raw marks into Uniform Mark Scale (UMS) marks by using the link below.

UMS conversion calculator