



General Certificate of Education

Applied Business 8616/8619

BS15 Financial Accounting for Managers

Report on the Examination

2007 examination - January series

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General Comments

This was the first opportunity to enter this examination and it was pleasing to see that so many candidates had understood the subject content of this unit and were able to write with confidence. This was particularly noticeable with question two where errors that do not affect the balancing of a trial balance, accruals and depreciation were all answered strongly. Many candidates were comfortable in analysing numerical data.

Despite these positive aspects of candidates' performance there are a number of issues which centres would be advised to work on in order to improve attainment in this paper.

- Higher grades will be rewarded where candidates apply their knowledge in the context of the scenario outlined in Items A, B and C.
- It is vital that candidates develop a limited number of arguments, in depth, when responding to the questions on this paper. Introducing several points produces answers that are lists rather than an analysis or evaluation of the problem set.
- Many candidates were confused between debtors and creditors which inevitably lost marks in both questions one and three.
- Many candidates seem to use the terms cost price and sales/selling price interchangeably. These terms must be described with respect to the business concerned. Therefore, the cost is incurred by the company and the selling price is paid by the customer. Many candidates write in the context of themselves as the customer and only seem able to relate to retail situations rather than manufacturing contexts as in the scenario of this paper.
- Although many candidates were comfortable analysing numerical data, many candidates appeared not to have a calculator. In addition, candidates need to take care when entering figures as there were many instances of the incorrect number of zeros being entered resulting in numerical errors.

Question One

Although many candidates scored highly on this question few candidates achieved full marks.

- (a)(i) Most candidates scored full marks on this part, those who did not were as a result of the errors identified in the General Comments above or by subtracting VAT.
- (ii) Despite correctly identifying the correct financial document as a credit note many candidates did not achieve full marks as they related their answers to retail situations rather than business to business transactions. It was not appreciated that the original invoice had not yet been paid and therefore the credit note reduced the amount owed.
- (b)(i) Candidates were generally able to state a purpose of a statement of account but tended not to fully explain the purpose of the document or identify that the document would indicate how much *Better Homes* owed *FFG*.
- (ii) Most candidates achieved this mark.

- (c) Most candidates gained marks here, but few achieved level 3 responses because they failed to answer in the context of the scenario, ie trade with *Better Homes*, a customer who accounted for 30% of their sales.
- (d) The full range of marks was encountered on this question. Part (i) was better answered than part (ii) where many candidates failed to recognise the difference between the purchase of stock and purchase of a fixed asset that would be recorded on the balance sheet.

Question Two

This question tended to produce the highest number of marks for candidates, although very few candidates gained full marks.

- (a) This question was answered well with candidates able to correctly state an error that would not be identified by a trial balance. Most candidates were able to explain fully why the error would not be revealed by a trial balance.
- (b) This question was very well answered with most candidates gaining full marks.
- (c) Again this question was answered well although some candidates added rather than subtracted the prepayment.
- (d) Whilst this part of the question was also answered well there was a minority of candidates who were unfamiliar with calculating the straight-line method of depreciation and instead applied a fixed percentage rate of depreciation of their own choosing.
- (e) Candidates gained marks on this question with the calculation of prime cost the least well answered with the most common incorrect answer given as £350 000.
- (f) This question was not completed as well as expected. Whilst the fixed assets section was completed well, many candidates added current liabilities to current assets and then deducted working capital from fixed assets.
- (g) The full mark range was encountered in this question. More able candidates identified two relevant accounting concepts, usually realisation and prudence and used these to explain why the closing stocks of finished goods was valued at cost price.

Less able candidates listed all the concepts that they could remember and cited examples that had no relevance to stock, for example discussing the need to make provision for depreciation.

Question Three

This was the most challenging question on the paper. It was disappointing that many candidates overlooked the context of the question ie the liquidity problems being faced by this business due to the expansion resulting from a significant new customer to whom an extended period of credit had been offered.

Some candidates did not look carefully at the dates in the columns in Item C and reversed the figures from 2005 and 2006. Others did not take advantage of the assistance given in Item C where the ratios had been classified as efficiency, solvency and profitability ratios.

- (a) Candidates tended to recognise that falling asset and stock turnover figures and higher collection and payment figures were undesirable. Few candidates recognised that the decline in the asset turnover was as a result of the investment in fixed assets that had taken place. Many thought that the decline in the stock turnover meant that they must be selling fewer goods, whereas the scenario indicated that sales had increased due to the new contract and therefore the fall in stock turnover must have been due to increased stock levels.

Some candidates were able to relate the poor debtors' collection period as the cause of the worsening creditors' payment period and the poor reputation that the company was gaining with suppliers. Very few candidates recognised, however, that the extended credit offered to *Better Homes* was a deliberate action by the company in order to secure the contract. Similarly, very few realised that only *Better Homes* was offered 60 days credit and a debtors' collection period of 62 days meant slack credit control with the remainder of their customers.

- (b) The majority of candidates were able to recognise that the ratios had fallen and that this meant a deterioration in the solvency position. Many compared the figures to 'ideal' values. Few candidates suggested that the cause of the worsening situation however, was the *Better Homes* contract, resulting in high levels of stock holding and increased debtors due to the extended credit offered. Some candidates did make a judgement that the solvency position was not too severe at this stage, as long as it did not deteriorate further.
- (c) Candidates did not score well on this part of the question mainly due to a failure to read the question which required candidates to discuss, with justification, the extent to which they agreed with the view of the Sales Director.

Many candidates did not refer to ratios at all, other candidates only made references to the profitability ratios. Those candidates who referred to the value of all the ratios (efficiency, solvency and profitability) spoke in general terms not related to the results for *FFG*, which if used, would certainly have helped to frame an answer.

- (d) Whilst candidates scored marks in this question, many of the responses were poorly thought out. This question referred candidates to Item C to provide context for their answer. Many candidates chose to list as many actions as possible with no consideration as to the validity or consequences of any of them. These answers would only score a level 1 response. The suggestions offered were wide ranging, for example cut down on expenses by making staff redundant; make more profit by putting the price up; find new suppliers who won't complain, spend more on advertising, cut down on the phone bill etc.

Those candidates who did focus on the problems that the company was facing, for example poor credit control, offered few practical actions that could be taken and simply stated, "lower the debtors' collection period and pay creditors quicker". Better responses did include suggestions such as offer settlement discounts, try to renegotiate the contract with *Better Homes*, try to arrange a longer credit period.

Mark Ranges and Award of Grades

Grade boundaries and cumulative percentage grades are available on the [Results statistics](#) page of the AQA Website.