



General Certificate of Education

Applied Business 8616/8619

BS15 Financial Accounting for Managers

Report on the Examination

2007 examination - June series

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General Comments

In this second sitting of the examination it was encouraging to see that so many candidates continue to be comfortable with presenting a trading and profit and loss account and making the necessary adjustments for expenses owing, prepayments and depreciation. It was also pleasing to see that many candidates were able to make at least basic comments on the results of the ratios presented to them. Very few candidates did not attempt all of the three questions.

Although there were many positive aspects to candidate's performance there are a number of frequently occurring issues that need to be addressed to gain higher marks in this paper.

- The answers to questions need to be set in context. In this paper, context will be found in the 'items' that start each question. Higher grades will be rewarded where candidates apply their knowledge in the context of the scenarios set out in these items. Candidates need to make sure that they are answering from the correct perspective, for example, the directors of *Street Style Ltd* or from *Street Style Ltd* rather than *The Fashion House* or generalised statements.
- 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 lost marks in question 1(c) and in terms of analysing ratios in question three.
- Although candidates were relatively comfortable analysing numerical data in question three, many candidates appeared not to have brought a calculator into the examination. This lost marks in question 1(a) and question 2(a). Where candidates use calculators they must make sure that they input the correct figures (usually the correct number of zeros) to avoid further numerical errors.
- Poor written communication in terms of spelling and in expression of ideas.

Question One

- (a)(i) Most candidates gained one or two marks on this question, however a minority of candidates described an invoice or bank statement.
- (ii) Whilst most candidates gained marks on this question it was disappointing that a relatively small number gained full marks. Common errors included:
- calculation errors
 - deducting rather than adding VAT
 - not deducting trade discount from goods returned to *Street Style Ltd*.
- (b) The answers to this question were generally disappointing. Candidates clearly do not appreciate that the purchases book is for credit transactions only, with references to all purchases or all transactions very common. Indeed, many candidates thought it was to record purchases by customers (ie sales).

- (c) This question proved to be a good discriminator with the full range of marks encountered. Part (i) tended to be better answered than part (ii) although many candidates do not know the difference between a book of original entry and ledger accounts. In part (ii), very few candidates were able to correctly identify manufacturing account.

Question Two

- (a) This question was answered well with many candidates gaining full marks. When mistakes were made it tended to be for one of the following reasons:
- with provision for depreciation candidates did not know the method of calculating depreciation so substituted their own, frequently charging 10%. Many candidates correctly calculated depreciation in the workings section and then transferred an incorrect figure (usually £80000) into the profit and loss account
 - incorrect additions and subtractions, largely due to not using a calculator.
- (b) Candidates tended to gain one or two marks on this question. Whilst many candidates knew that the purpose of the trial balance was to check for errors, most candidates did not emphasise that it only performed an arithmetic check. Some candidates thought that it was a profit statement and more than a few thought that it was a forecast set of accounts.
- (c)(i) As with part (a) most candidates gained marks here, however their explanations did not merit the full three marks.
- (ii) The responses to this question were poor. The most significant problem in this part was a failure to answer the question, ie that the directors would be concerned that errors in the trial balance would follow through into the final accounts, result in inaccurate decision making and unhappy customers.
- (d) Most candidates gained marks in this question, but few candidates were able to reach level three responses. Disappointingly, candidates used the question as an opportunity to describe all the accounting concepts that they could remember rather than selecting the relevant concepts of prudence or accruals, thereby not actually developing their arguments even when describing a relevant concept. Many candidates thought that the provision was some sort of insurance policy that would pay out if a customer could not pay, or that it was setting aside a pot of money from which customers could render payment. Other candidates thought that it was a method of screening customers to avoid selling to those who were likely to go bankrupt (described as the going concern concept, ie do not sell to those who are not a going concern).

Question Three

It was pleasing to see that few candidates compared to January 2007 examination misread the dates and reversed the years.

- (a) This question was reasonably well done. Most candidates were able to offer a descriptive account of the decline in all three profitability ratios. The better responses noted that gross profit margin declined only very slightly and, therefore, the fall in the net profit margin was due to an increase in expenses. Very few candidates offered any commentary on the significance of the trend observed and therefore did not gain the full marks available. Some candidates quoted 'ideal' ratios for profitability, eg gross profit margin should be 50% although the better responses did state that ROCE should be

compared to the return on risk free investments which currently earn around 5.5% p.a. Suggestions as to how to improve profitability (which was not asked for) were very naive and often involved sacking staff. Some candidates suggested that the company was not making a profit at all but simply breaking even, apparently because the Balance Sheet 'balanced'. Very few candidates were able to suggest that the profitability ratios may have decreased as the business was trying to address a solvency problem from the previous year.

- (b) Candidates did not gain as many marks on this question as in part 3(a) and, unfortunately, many candidates thought that the solvency ratios had decreased. Most candidates were able to report that the acid test excluded stock as being the least liquid asset but suggestions as to how to improve liquidity (again not asked for) were often very basic, for example they need to reduce their liabilities or increase their assets, with no recognition that the two are linked, eg buying goods on credit increases both stock and creditors.
- (c) Candidates were able to gain marks in this question, however, it was disappointing that few candidates were able to provide level three responses that required an explanation in context. Candidates were able to offer appropriate limitations relating to staff training, morale, management expertise, location, goodwill etc but few related it to Item C.
- (d) Unfortunately, there were few level four responses to this question. Many candidates simply used it to repeat what they had said about profitability and liquidity in the earlier questions without making a judgement about the balance between the two. A significant number of candidates did not make a definite recommendation as to whether to buy *The Fashion House* or not, changing their mind as they trawled their way through information, rather than weighing the issues and reaching a recommendation.

Many candidates failed to bring in comments about the three ratios that had not been referred to in earlier parts of question three and therefore missed the opportunity to note the increases in efficiency. There was evidence of confusion between debtors and creditors here. Creditors payment being reduced was often referred to as debtors paying more quickly (favourable) whilst other candidates thought that it meant that suppliers had imposed shorter credit periods on the company rather than the company having paid suppliers earlier due to an improvement in their liquidity position.

Only the better candidates related the purchase of the company to the cost of £5million and the burden of debt and interest payments that would arise. Very few candidates noticed the link between the manufacturing business of *Street Style Ltd* and the retailer (*The Fashion House*) and the advantages that would arise due to the vertical integration and possible economies of scale.

Some candidates seemed confused with the scenario and thought that the accounts presented were those of the company buying *The Fashion House*.

Mark Ranges and Award of Grades

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