



**General Certificate of Education (A-level)  
January 2012**

**Accounting**

**ACCN3**

**(Specification 2120)**

**Unit 3: Further Aspects of Financial Accounting**

***Report on the Examination***

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## General

It was encouraging to see that the paper produced some strong responses across the full range of both computational and prose answers. Students must, however, be careful to follow the question requirements. For example, producing ledger accounts in a T account format, doing only an extract for the statement of cash flows, and following the command word in bold to recommend only two sources of finance or to explain only two limitations of published financial statements.

Many students produced numerical answers which were presented using set layouts. This was especially applicable to the statement of cash flows extract which needed to follow the layout prescribed by IAS7. Workings were generally evident and well referenced to the task outcome such as the income statement. However, students who included figures in a task outcome which were wrong and had no supporting workings could unfortunately not be rewarded. Students should therefore be reminded that several marks could be lost in this situation. Equally, workings which did not appear in the main task outcome could not be awarded own figure marks.

Many students produced detailed prose responses which demonstrated good knowledge and application. Some students should, however, think more carefully about what the task requirement is to avoid a response which is not always relevant. This was especially applicable to the identification of appropriate IASs where some students did not necessarily select the most pertinent IAS to the scenario. Some students need to think more carefully about how much is required for each written task. Clearly, an extended response for a task worth only a few marks is not appropriate and students will waste valuable time.

Many students communicated their prose responses using accurate spelling, punctuation and grammar as required for the quality of written communication marks. Prose responses were generally well written in full sentences and paragraphs which was encouraging. Students should be reminded that the quality of presentation marks are often attached to specific descriptions or titles of accounts, which must be accurate. For example, the full heading for an income statement must include the word 'ended' and not 'ending'.

## Task 1

- 01** Many students were able to construct the partnership realisation account to record the dissolution. Some students, however, only recorded the bank transactions and did not, therefore, record the elimination of the assets either as individual or netted off amounts. Some answers were not presented in an account even though a conventional ledger account was required. Other students did not split the realisation loss between the partners and consequently just showed a balancing amount of £9 996 (or the equivalent own figure).
- 02** Many students were able to produce accurate partnership capital accounts. Some students, however, did not understand that the accounts would be discontinued due to the dissolution of the partnership and therefore described the balancing amounts as balance c/d and balance b/d instead of bank. Some students confused the double entry and needed to think that the entries from the realisation account transfers in question 01 should have been on the opposite side to balance the debit and credit amounts. The capital accounts were done less well by students who had not fully understood the realisation account in question 01

- 03** Many students were able to produce the bank account, and especially if they had previously comprehended the task requirements in questions 01 and 02. Students need to appreciate that the realisation account, capital accounts and bank account are all interrelated in the process of dissolving a partnership and as such should correspond in terms of the entries made to each account where applicable.
- 04** Many students were able to demonstrate a detailed and applied knowledge of different sources of finance available to purchase the non-current assets. However, some students commented on several sources despite it being made clear that only two were needed. Some students made a final decision about the most appropriate source of finance and justified this well, although there was no specific requirement to select the most appropriate option from the two detailed. Some students suggested that another partnership could be set up or that shares could be sold to the general public even though the scenario specified that the business would take the form of a private limited company.

## **Task 2**

- 05** Many students were able to calculate the closing inventory valuation of £12 025. However, many applied the perpetual method by showing the valuation after each receipt and issue of inventory which was unnecessary. For the FIFO method therefore, students should have applied the much less time consuming periodic approach which would have achieved the same valuation outcome. Some students were able to determine the correct quantity of closing inventory but then either valued it all at the most recent purchase price of £173.50 or at a combination of the selling prices.
- 06** Many students were able to calculate the correct gross profit figure of £3 084.70 using the inventory valuation outcome from question 05. However, many students produced a full trading account to determine the gross profit amount. A more efficient approach would have been to adjust the inventory valuations against the gross profit figure which had already been computed using the AVCO method.
- 07** Some students were able to comment on a relevant IAS. However, a significant proportion made reference to IAS2 inventories which was not technically appropriate and further went on to comment on how inventory should be valued at the lower of cost and NRV. Students should therefore ensure that they take more care in selecting the most appropriate IAS to use in the answer.

## **Task 3**

- 08** Many students were able to calculate a good proportion of the values required for inclusion in the extract of the statement of cash flows, including some of the more complex adjustments such as depreciation. Some students used the profit for the year as the profit from operations and did not, therefore, adjust for either taxation or interest. Some students did not allow for the additional debenture loan during the year and so calculated the annual interest based on either the £40 000 or £60 000 loan amounts. Many students either used the tax on profits or the tax liability from the previous year as the tax paid amount. Some students attempted to complete a full statement of cash flows even though it was only an extract which was needed.

- 09** Some students were able to comment on limitations of financial statements. However, some students identified more than two limitations. Some students interpreted published financial statements as just the statement of cash flows and therefore suggested that a limitation was that they did not include either an income statement or a balance sheet. Some students commented on the financial performance of the business based on the statement of cash flows extract in question 08 and therefore understood limitations to mean any aspects of either poor profitability and/or cash flow.

#### **Task 4**

- 10** Most students were able to construct the income statement with many being able to correctly calculate amounts for incomplete figures including wages and depreciation. Many students calculated revenue as £61 075 based on credit sales and cash sales, but this overlooked the fact that stolen cash was also part of the original sales amount. Few students therefore realised that revenue could be determined by merely applying the mark up to the cost of sales figure of £52 300. Few students correctly used the average inventory turnover to calculate closing inventory and then purchases. One typical mistake made was to merely multiply the opening inventory by five to get purchases and this then gave an incorrect closing inventory valuation of £4 400. Some students incorrectly described a negative final figure as a profit for the year. Some students need to be more clear about the date headings for the information in the question to avoid adjusting the balance b/d and balance c/d in the wrong opposite directions.

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