



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

Accounting

ACCN2

(Specification 2120)

Unit 2: Financial and Management Accounting.

Report on the Examination

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General

This examination proved more challenging to students than recent papers. The average marks achieved were lower and the marks needed to achieve a pass were also lower at 37 out of 80.

It is pleasing to report that more students are able to respond at length to the written questions and are showing much improved examination technique. However, more improvement is still needed in using the information provided in the question in their own answers to support their discussions and hence achieve higher marks. Please see comments on questions 1 and 2 below.

Increasingly, students are presenting answers using correct formats and layouts, eg for the cash budget (Question 2) and the balance sheet (Question 3).

A major disappointment in this examination was the responses to Questions 4(b) and 4(c), the calculation of the gearing ratio and the follow up question on the impact on the gearing ratio. 11% of students did not attempt Question 4(b) and nearly 14% did not attempt Question 4(c) despite the fact that virtually all students had attempted the balance sheet and the majority gained over 10 out of the 16 marks on this task. It is important that students know all the ratios and are able to explain them.

Question 1

This question focused on the issue of ICT in accounting and required students to be able to explain why the value of the computerised inventory may be different from the physical stock-take value.

Most students were able to give general reasons for the difference and were rewarded for this. However, to gain maximum marks, they were required to explain why the physical stock take was a higher value than the computerised stock and many students did not do this. It is important to note that credit is given for applying knowledge to the specific situation given in the question. In this case, students were required to explain how it is possible to have a higher physical stock valuation compared with the computer value. A typical answer might be “information was missed out of the computer system causing the computerised value to be lower”. To achieve higher marks an example of the actual type of information missed should be given, eg “the purchase of goods has been omitted”.

Question 2

This question required the preparation of a cash budget and then an explanation of how it is possible for a business to make a profit but have an overdraft.

It is good to note that students are using appropriate layouts for the budget which is a significant improvement on previous years. However, there were a number of points in the question which made this more difficult for students than previous questions as follows:

- the calculation of bad debts was 2% of the credit sales that paid after 2 months. Many students calculated bad debts as 2% of total sales. Also a number of students showed these as a payment which is incorrect
- calculating drawings – the majority of students calculated these at 10% of cash received rather than sales for the month
- interest payments – many students calculated the interest payment at 6% for the year and forgot that this was for one month only.

Question 2(b) focused on the difference between cash and profit. This question was not well answered; over 60% of students scored less than half marks.

Many students clearly did not understand the reasons why a business can make a profit but still have an overdraft. There is also some confusion over what the budget shows with many students talking about profit or loss instead of surplus or overdraft. Some students were able to identify reasons, eg the purchase of non-current assets. However, they failed to gain full marks because they did not quote figures from the question and fully explain the impact. For example, “the purchase of non-current assets of £6800 would not affect the income statement as the purchase of non-current assets would be recorded on the balance sheet, with only depreciation affecting the income statement”.

Question 3

This question focused on the impact of adjustments on profit and net current assets, together with the identification of the accounting concept to be applied in each situation.

The question proved very challenging for students. Many were able to identify the amount to be adjusted but were unsure of the effect the adjustment would have on the profit and net current assets. As in the past, many struggled with the calculation of the net realisable value of inventory, and its impact on profit and net current assets. Most students were able to identify accounting concepts but few identified all of them correctly.

It should be noted that if an adjustment has no effect on profit or net current assets, for example, adjustment 2, then students must make this clear by putting a zero, a hyphen or dash in the answer – leaving it blank will generally be treated as if the student does not know what to do.

Question 4

This question focused on limited company financial statements and the calculation of the gearing ratio.

The first part required students to amend a balance sheet and account for an issue of shares. Almost 60% of students scored 10 or more out of 16. Most students were able to account for the share issue and correctly calculated the share issue and share premium, which is demanding. The main problem was that students did not realise that the share issue would generate cash and that this should either reduce the overdraft or be added to current assets. The other common error was the treatment of the revaluation reserve. The majority of students correctly placed it in the equity section but deducted it from reserves.

Question 4(b) was on gearing ratio. As previously stated, the question was not attempted by 11% of students, a further 24% scored 0 marks. This is very disappointing. However, 30% of students gained full marks. A common error for those who knew the formula was to state the formula, eg $\text{non-current liabilities} \div \text{equity}$ and then calculate $\text{non-current liabilities} \div \text{capital employed}$. In these situations students can only achieve a maximum of 2 out of 3 marks.

Question 4(c) also proved problematic for students. Many were able to state the impact on the gearing ratio, eg decreased by 20% and were rewarded for this. However, they struggled to explain the effect, for example, gearing is reduced and it is now low geared.

It should be noted that all the marks available in 4(c) could be awarded whatever the calculation made in 4(b). Students should therefore be encouraged to answer written questions as fully as possible even if they are not confident that their calculation is correct.

Mark Ranges and Award of Grades

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