
AS
ACCOUNTING

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Report on the Examination

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General comments

In response to questions requiring written answers students were able to write extensively. However, there was often a lack of precision, particularly where definitions are required, but also in the longer answers where for example students will use the term “liquidity” when they mean “liquidation” and visa-versa. Additionally students will use assets and liabilities when discussing liquidity ratios. It was difficult to know if the student knows that these are current assets and current liabilities and were being imprecise, or if they think that all assets and liabilities are involved.

Extended response questions

Students have clearly been prepared to answer this type of question and did so at length. However, here are a number of issues arising from the extended response answers and a number of key lessons.

- 1 There must be a clear conclusion, judgement, evaluation or recommendation. Many students provided a discussion of the issues but did not come to a clear conclusion and therefore could not be awarded anything above Level 1.
- 2 Students need to be aware that as part of the analysis and evaluation being tested they will be expected to select from the information provided, so for example in question 17 not all the ratios provided relate to liquidity. If students feel they have too much information to be able to discuss it all, then they can demonstrate evaluation by identifying the information that they feel is relevant but then going on to say that they are choosing to discuss particular points as they think these are the most important and explaining why they think this.
- 3 Students should, as part of evaluation, be prepared to question the validity and/or accuracy of the data provided. For example in question 18 this could be to question the basis of the accountant’s budget figures and how accurate they are. Similarly in question 17 this could take the form of questioning how up to date the figures are. Also students should be prepared to say that more information may be needed to make a judgement, for example in question 17 having industry average figures would help in deciding if the company does have liquidity problems.
- 4 Students often use prepared phrases to introduce paragraphs, for example in question 18: “Claudia should manufacture in the UK because” and then the next paragraph “Claudia should buy from Italy because”. Whilst this provides a structure for the answer it appears that many students think this is also providing a conclusion – however this is not clear from the answer as they have effectively provided 3 or 4 different conclusions. It would be better if students used the prompts of arguments for, arguments against or something similar.

Workings

Workings appeared to be an issue for many students. The better students provided full workings which are annotated and linked clearly to their final answer.

Common errors with workings are:

- a list of numbers, with no indication to what they refer
- a list of numbers with no end total, so again it is difficult to know to which number in the final answer they refer
- a list of numbers ending in a total, which is not used in the final answer.

Finally, students **must** show their workings in the space provided for the answer to the question, too many students are making adjustments to the question itself, which can result in these not being rewarded

Ratios

There are no IDEAL ratios whether for liquidity, where they are frequently quoted, or profitability. Students need to be made aware that there are no ideal ratios and that ratios will vary significantly from industry to industry. Whilst students will not be penalised for discussing ideal ratios they will equally not be rewarded.

Questions 1-10

The objective test questions were generally well answered with over half the students getting each correct, with the exception of questions 5, 8 and 10.

Question 5 required the double entry to record goods taken for own use and perhaps surprisingly, only 37% of students were correct.

Question 8 involved the calculation of finance costs applying fractions and percentages, only 46% of students were correct.

Question 10 involved the calculation of the amount to be paid adjusting for trade and cash discount, this was a challenging question and perhaps not surprisingly the success rate was 49%

Question	Percentage students achieving the mark
1	66
2	74
3	74
4	57
5	37
6	56
7	70
8	46
9	81
10	49

Question 11

This was a short answer question focusing on marginal costing and break-even analysis.

The definitions in this question of stepped costs and break-even in units were disappointing with students not being sufficiently precise in their answers to be awarded the full marks.

11.2 and 11.3 were well answered with the vast majority of students able to calculate the fixed costs and contribution per unit.

11.4 was a little disappointing with a number of students either not knowing the formula for break-even or lacking precision, e.g. using contribution instead of contribution per unit. Students should also be made aware that a break-even answer must always be rounded up to the next unit.

Question 12

This question was not well answered. The majority of students knew what zero based budgeting is, and explained this, but did not answer the question and explain two benefits. Many explained the benefits of budgeting but did not relate this specifically to zero based budgeting and so could not be rewarded.

Question 13.1

This was a double entry question requiring students to record depreciation and the disposal of an asset. It was very disappointingly answered with only 3% of students gaining full marks and over 27% of students scoring 0 marks.

The main issues with the answers were:

- Poor labelling of entries. These should be the name of the other account involved in the transaction, but students often describe the transaction e.g. vehicle sold. Acceptable labels are part of the requirement to award marks for double entry.
- Not completing the double entry e.g. correctly making the entry in the provision for depreciation account but then not making the opposite entry in the disposal account
- Including cost figures in the provision for depreciation account.

Question 13.2

This question required the recording of opening and closing inventory in the inventory account. Students found this very difficult, with only 2% of them gaining full marks and over 26% scoring zero.

The main problem was the recording of the transfers to the income statement. The most common answer was to ignore the transfers and to record the opening inventory as a balance b/d and the closing inventory as a balance b/d with a made-up balancing figure usually called purchases. This scored 2 marks.

Question 14

This question in two parts required students to prepare a suspense account and then show the effect of the corrections of errors on the draft profit.

14.1 Suspense accounts are always challenging for students and this proved no exception with only 9% of them scoring full marks and 25% scoring zero.

The most common issues were:

- Not using the name of the account being corrected. Many students describe the errors or where they came from e.g. purchases journal and not the name of the account which was required to award a mark.
- Completing entries on the wrong side of the account. Students are probably correcting the suspense account rather than the individual accounts.
- Including all errors, so not identifying those that do not affect the trial balance.

The most common correct entry was the wages adjustment.

14.2 was slightly better answered. Again the most common error was to include the correction of error 5 despite the fact that this only affected the suppliers and suspense accounts.

Question 15

This question required the preparation of a statement of financial position from a list of balances and dealing with adjustments stemming from the additional information. This was very poorly answered with no students scoring maximum marks and only 2.5% scoring 10 or more out of 15.

The main issue was that students did not identify that a number of the adjustments that they made to the figures in the list of balances would impact on profit and hence mean that retained earnings had to be changed.

There were a number of basic errors which were seen often, for example showing the provision for doubtful debts as a current liability and showing the change in the provision for doubtful debts in the statement of financial position.

The workings for this question were often missing, poor or shown on the question rather than in the space provided. As stated above in general comments, the workings were often incomplete with a list of numbers but no total or resulted in figures which were not used in the final answer. Also some students show the effect of changes by using symbols such as \uparrow or \downarrow , which could be acceptable if the final answer is shown but when there is no final figure given they are very difficult to interpret and therefore should be discouraged.

Question 16

This question required the preparation of a budgeted income statement dealing with some complex changes. This question was generally well answered with over 36% of students scoring 10 or more out of 15.

Again there were issues with workings with students writing numbers and calculations all over the exam paper, without any clear reference to the answer.

Many students were able to calculate the sales revenue correctly and the purchases. The one main area of weakness was calculating closing inventory. Many students did not take into account the number of units they calculated for sales and purchases and ended up with a closing inventory of 2000 units. Others did make the adjustment but incorrectly adding sales and opening inventory or failing to include opening inventory.

Question 17

This was an extended response question which required students to evaluate the liquidity position of a company based on a number of ratios and also to suggest a short-term solution to an overdraft problem.

Students had clearly been prepared to tackle extended response questions and were able to write extensively and many had followed a structure in presenting their answers. As stated earlier, the use of structures is fine as long as students do not use them as a substitute for providing a conclusion.

In terms of exam technique the major failing was that students did not provide a reasoned conclusion. This should have covered both the evaluation of liquidity and the recommendation of a solution to the overdraft problem. Also student use of technical terms such as liquidity was very imprecise, this was often confused with liquidation making it difficult to understand exactly what the student was trying to convey.

As stated earlier, students should be prepared to select from the information given. In this case the question provided two profitability ratios and the vast majority of students wasted time discussing these rather than focusing on the ratios that measure, or impact on, liquidity. It was also evident from many answers that students did not really understand the difference between profit and cash (liquidity) with many assuming that increasing sales would automatically increase the liquidity of the business.

Students frequently quoted “ideal” ratios and it cannot be emphasised strongly enough that there are no ideal ratios, particularly when looking at liquidity ratios, and that good ratios will vary from industry to industry.

Students often make unrealistic assumptions, for example, if a company’s payable days ratio is 30 days then they will be receiving cash discounts. This may be true for some of the suppliers in that it is an average and some could be paid early which would lower the average. However, it is unlikely that a company would offer a cash discount for a 30 day payment when the credit period is also 30 days.

With regard to the recommendation for a short-term solution to the bank overdraft, too many students clearly were unable to distinguish between long and short term. The result was that many suggested issuing shares, debentures etc.

Overall there was a lack of evaluation both in terms of the assessment of liquidity and the recommendation for the source of finance. Students should be encouraged to think critically about the data they are given, for example how reliable are the ratios? Is there other information that would help with the evaluation, for example industry average ratio? With regard to the overdraft situation, students could question how certain the contract is, would it actually increase sales and more significantly would it generate cash immediately?

Question 18

This was a make or buy situation with the alternative being to continue manufacturing in the UK or to buy from Italy.

Most students did provide a recommendation although this was not always well supported. Overall there was a lack of evaluation with students accepting the data given and not questioning its reliability or validity.

Virtually all students attempted to calculate the costs of manufacturing currently, budgeted and the cost of buying-in from Italy. A large number provided correct calculations; the most common error when calculating the bought-in costs was to omit the remaining fixed costs and the design costs and so arriving at a much reduced overall cost.

Students should be prepared to question the data provided, for example how reliable were the accountants budget figures, how reliable were the rumours from Italy of discontented workers?

In many cases students asked financial question which they should have been able to answer from the data and their calculations. For example “how much extra profit will they get from buying-in from Italy?” “If the exchange rates change how much would the profit need to change to affect the decision?”

Students wrote extensively about non-financial factors but many simply repeated the information given in the question. Again there was little attempt to evaluate the information either by questioning its validity or by discussing how important it might be in terms of decision making. Also there was a failure to appreciate the size of the business and the numbers employed with many saying that making 20 workers redundant would have a significant impact on the image of the company and on the economy.

Mark Ranges and Award of Grades

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