

Principal Assessor Report 2002

Assessment Panel:

Financial Services and Accounting

Qualification area

**Subject(s) and Level(s)
included in this report**

**Accounting and Finance
Advanced Higher**

Statistical information: update

Number of entries in 2001	
Pre appeal	41
Post appeal	42

Number of entries in 2002	
Pre appeal	130
Post appeal	

General comments re entry numbers

It was encouraging to see the significant increase in the number of candidates undertaking this course.

General comments

While the quality of the candidates at the upper ability level was similar to last year there were a significant number of inappropriately presented and poorly prepared candidates.

Grade boundaries at C, B and A for each subject area included in the report

Grade boundaries agreed were as set out in the Arrangements documents.

Grade	2002
A	70%
B	60%
C	50%

General commentary on grade boundaries

Notional percentage cut-offs for each grade

Question papers and their associated marking schemes are designed to be of the required standard and to meet the assessment specification for the subject/level concerned.

For National courses the examination paper(s) are set in order that a score of approximately 50% of the total marks for all components merits a grade C (based on the grade descriptions for that grade), and similarly a score of 70 % for a grade A. The lowest mark for a grade B is set by the computer software as half way between the C and A grade boundaries.

Comments on candidate performance

General comments

Candidates' response to this paper varied greatly with percentage marks ranging from 93% to 10%. Some candidates demonstrated an excellent understanding of all topics but approximately 17 % of candidates scored under 40%.

Some questions proved more popular with candidates, particularly Question 2 in Section A and Question 7 in Section B. Very few candidates attempted Question 3 FRS 1 Statement. The standard of answer to the essay questions proved very disappointing.

Areas of external assessment in which candidates performed well

Question 2

This question proved popular with candidates and responses were of a good standard. The main areas of difficulty encountered by candidates were with:

- Creditors – calculation of discount; making entries in Realisation Account and Bank Account for payments;
- Loan repayment to Yeung entered in his Capital Account.

Question 7

This proved a popular question with candidates. The majority of them coped well with the Revenue (Sales), Material and Labour variances.

Question 8

This was again a popular question with candidates. The preparation of Process 1 and Process 3 accounts was well done by candidates.

Question 9

This essay question was the most popular of the 4 in the paper and in comparison to the other 3 essay questions produced the best answer.

Areas of external assessment in which candidates had difficulty

Question 1

(a) Calculation of Ratios

The majority of candidates were able to calculate the basic ratios for Comments 1-3 and 5-7, however many found the calculation of the Capital Gearing Ratio for comment 4 and Dividend Cover for Comment 8 problematic.

(b) Statement of whether ratios supported Chairman's comments

Although candidates were asked to clearly state whether their ratios supported the Chairman's comments many failed to do so and consequently lost marks.

(c) Justification of answer

Many candidates had problems explaining the significance of the ratio. Some answers were very simplistic, eg Gross Profit Percentage has decreased. For Advanced Higher, candidates must be able to give reasons for the increase/decrease in a ratio and be able to explain any inter-relationship between them.

Main areas of difficulty encountered by candidates were:

- Candidates did not understand the difference between an increase in profit and profitability (Comment 1);
- Very few candidates understood the effect issuing Debentures would have on the gearing of a company (Comment 4);
- Candidates were unable to explain the effect the increase or decrease of an individual current asset or liability would have on the overall Current or Acid Test Ratio (Comment 5);
- Some candidates failed to appreciate that a decrease in Debtors collection period was good for the company (Comment 7);
- Few candidates appreciated that the increase in dividends was due to the increase in share capital (Comment 8).

Question 3

Very few candidates attempted this question.

Question 4

Not a popular question with candidates and responses were generally very poor, particularly for part (a) of the question.

The answer to Part (b) required candidates to explain the basic accounting concepts which Advanced Higher candidates should have been familiar with from Higher.

Question 5

In part (a) candidates were asked to identify long term sources of finance and to describe their effect on the gearing of the plc. Many included government grants and leasing in their answer, not appreciating or understanding that these would have no effect on the gearing ratio of a plc.

A large number of candidates failed to explain the main features of Debentures, Preference and Ordinary Shares, again information they should have been familiar with from the Higher course.

Answers to part (b) were disappointing with many candidates linking the changes in profit to the changes in gearing instead of looking at the effect different levels of profit would have on the shareholders returns.

Question 6

Some candidates produced excellent answers to this question. However many found difficulty with:

- The calculation of the Production and Material Purchases Budgets. They tended to mix kilograms and units in their answers;
- Poor layout of their answer. Candidates were clearly asked for half-yearly and annual budget figures and many omitted the annual budget figures.

Question 7

Main areas of difficulty encountered by candidates in this question were:

- Failure to flex the budgeted figures for actual output;
- Theory answers poor and were based on adverse or favourable variances in general and not on the candidate's actual answer.

Question 8

Areas of difficulty encountered by candidates in the preparation of Process 5 Account were:

- The calculation of equivalent units produced. Many candidates did not attempt this part of the question and those that did had difficulty with calculating total material used and cost per equivalent unit for material. They failed to include the additional raw material added to Process 5.
- Some candidates did not use the Equivalent Production figure when calculating the cost per unit for Material, Labour and Overheads;
- Some candidates had clearly made an attempt to calculate the cost per equivalent unit figure but failed to show any workings resulting in no marks being awarded for their incorrect answer;
- Many candidates failed to show the cost per kg at each stage of production.

Question 10

There were a few good answers to this essay question but, generally, candidates' responses were very poor.

Given a practical question on Contract Accounts most candidates would have coped well with this but when asked to explain the problems of profit recognition and cash flow they could not.

Areas of common misunderstanding

- Failure to answer Question 1 (a) (ii) although the wording is quite clear in the question.
- Failure to show Annual Totals for budgets in Question 6.

Recommendations

Feedback to centres

In general candidates should be made aware of the importance of reading the question carefully and checking their answers to ensure they have answered all parts of the question.

Computational questions

- Candidates must show all workings, many candidates are losing marks because of the failure to include working notes in their answers.
- Need for candidates to be taught the reasons for changes in ratios and percentages and to be able to link these.
- Greater indepth teaching of Gearing and Investment Ratios.
- Use of columnar layouts for budgets should be emphasised.
- Need to flex budgeted costs for the actual quantities.
- Candidates need a better understanding of the calculation of Equivalent Units and the value of work in progress in process accounts.
- ***Essay questions***
- Candidates need to improve on their theoretical knowledge and to be taught strategies for answering essay questions.